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21 February 2022

Meetings of Council Committees are broadcast live through the [Mid Sussex District Council's YouTube channel](#). Owing to continuing public health restrictions, very limited space is available to observe proceedings in-person. Those wishing to do so must reserve a seat by completing a [Registration Form](#) by 4pm on the working day prior to the meeting.

Dear Councillor,

A meeting of **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER** at these offices on **TUESDAY, 1ST MARCH, 2022 at 5.00 pm** when your attendance is requested.

Yours sincerely,  
KATHRYN HALL  
Chief Executive

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

	<b>Pages</b>
1. To receive apologies for absence.	
2. To receive Declarations of Interest from Members in respect of any matter on the Agenda.	
3. To confirm the Minutes of the previous meeting held on 16 November 2021.	<b>3 - 6</b>
4. To consider any items that the Chairman agrees to take as urgent business.	
5. Internal Audit Progress Report.	<b>7 - 18</b>
6. External Audit - Audit Results Report 2020-21.	<b>19 - 62</b>
7. Financial Statements 2020-21.	<b>63 - 154</b>
8. Capital Strategy 2022-23 to 2025-26.	<b>155 - 164</b>

- |     |  |                  |
|-----|--|------------------|
| 9.  | Treasury Management Strategy Statement and Annual Investment Strategy 2022-23 to 2024-25.  | <b>165 - 198</b> |
| 10. | Procurement of an External Auditor.  | <b>199 - 202</b> |
| 11. | To consider whether to exclude the Press and Public from the meeting during consideration of the following items in accordance with Section 100A of the Local Government Act 1972 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 and 7 of Part 1 of Schedule 12A of the said Act. |                  |
| 12. | Creditors System Update  | <b>203 - 206</b> |
| 13. | Questions pursuant to Council Procedure Rule 10.2 due notice of which has been given.  |                  |

To: **Members of Audit Committee:** Councillors M Pulfer (Chair), R Cromie (Vice-Chair), A Boutrup, M Cornish, I Gibson, S Hicks and L Stockwell

**Minutes of a meeting of Audit Committee  
held on Tuesday, 16th November, 2021  
from 5.02 pm - 5.40 pm**

**Present:** M Pulfer (Chair)  
R Cromie (Vice-Chair)

A Boutrup  
M Cornish

S Hicks  
R Jackson

L Stockwell

**Also present:** Cllr J Llewellyn-Burke

**1. ROLL CALL AND VIRTUAL MEETING EXPLANATION.**

The Chairman introduced the meeting and took a roll call of Members in attendance. Peter Stuart, Head of Corporate Resources explained the meeting is being held virtually in the interests of public health due to the high number of Covid cases in the Mid Sussex area.

**2. TO RECEIVE APOLOGIES FOR ABSENCE.**

No apologies were received as all Members were present.

**3. TO RECEIVE DECLARATIONS OF INTEREST FROM MEMBERS IN RESPECT OF ANY MATTER ON THE AGENDA.**

None.

**4. TO CONFIRM THE MINUTES OF THE PREVIOUS MEETING HELD ON 27 JULY 2021.**

The Minutes of the meeting of the Committee held on 27 July 2021 were agreed as a correct record and electronically signed by the Chairman.

**5. TO CONSIDER ANY ITEMS THAT THE CHAIRMAN AGREES TO TAKE AS URGENT BUSINESS.**

None.

**6. REVIEW OF TREASURY MANAGEMENT ACTIVITY 1 APRIL - 30 SEPTEMBER 2021.**

Pamela Coppelman, Group Accountant at Adur-Worthing Councils introduced the report. She highlighted that the actual figure for Capital Financing Requirement (CFR) on page 20/21 was correct but the net movement for CFR should include £19.7m that was allocated as a capital receipt against The Orchard Shopping Centre expenditure.

Members asked for clarification on the assessment made when making a deposit for over one year, the reason for increasing the Council's counterparty investment limit,

the ability to independently assess the analysis of ethical investments and on access to the General Reserves.

The Group Accountant advised before investing funds a balanced view must be taken as there is no certainty with interest rates, for the last 18 months investments have been short term as it has been felt that interest rates may increase soon. The Council's policy allows 50% of the funds placed on the money market to be for more than one year, but most have been in short term deposits. The Council currently has £90M invested with counterparties and increasing the limit gives greater flexibility to take advantage of possibly higher interest rates. As the total funds available for investment have increased the Council's existing counterparty limit is low compared to another local authorities in the county. There is no standardised way to measure ethical investments, she noted the recommendation to add HSBC Environmental, Social and Governance Sterling Liquidity fund to the money market fund (MMF) counterparties list. More ethical investment opportunities are emerging, and the Council are trying to maximise these deposits, and are checking the institutions' policies before investing. Funds placed on the money market are liquid funds which the Council can access immediately or at short notice.

The Chairman confirmed at the current time it can be difficult to place funds on deposit. He asked for clarification on the Prudential Indicator figures for CFR.

The Group Accountant explained the CFR and how money must be set aside over a number of years to ensure the capital cost is spread over more years to make it fair to Council Tax payers. This is done when money is borrowed or internal funds are used. The purchase of The Orchards Shopping Centre was part of the CFR last year and the capital receipts from the sale of Hurst Farm were used to offset some of the capital costs of the purchase of the shopping centre.

As there were no further questions the Chairman took Members to the revised recommendation in the report which was agreed unanimously.

## **RESOLVED**

The Committee recommended the following to the full Council:

- (i) that no new borrowing has been necessary in the 6 months to 30<sup>th</sup> September 2021 and the outstanding borrowing has reduced from £7.556m at 31 March 2021 to £7.341.
- (ii) the increase in investments from £57.035m at 31 March 2021 to £78.254m at 30 September 2021 (both figures exclude the £6m investment in the CCLA Local Authorities' Property Fund).
- (iii) due to the increase in funds available for investment, and the requirement to keep significant liquidity, the Head of Corporate Resources recommends increases in the Council's counterparty investment limits as follows, subject to compliance with the approved ratings:
  - from £4m to £5m for UK banks: HSBC, National Westminster, Barclays, Santander, Handelsbanken, Goldman Sachs International Bank and Close Brothers
  - from £4m to £7m for the Council's banker, currently Lloyds Bank.

(iv) Add HSBC Environmental, Social and Governance Sterling Liquidity fund to the list of money market fund counterparties subject to confirmation of AAA rating. Further details are in section 10.6.

## **7. EXTERNAL AUDIT PROGRESS REPORT 2020 - 21.**

Kevin Suter, EY introduced the report noting the audit results are late as an objection has been received to the Council's accounts. He highlighted the public's statutory right to ask questions, raise objections and can ask for items to be considered for a public interest report, or for the auditor to consider applying to the courts a declaration that a transaction is unlawful. He confirmed he has been asked to consider both aspects for a number of items. The objection related to several material items in the accounts and to governance and decision making which are part of the auditor's value for money (VFM) responsibilities. The audit cannot be completed until the objection has been processed, he is waiting for a formal response from the Council to the objection, within the agreed timescales. He confirmed the audit is significantly complete and there are no other important items to raise.

A Member expressed concern over the impact of the objection and implications of the delay in completing the audit.

The External Auditor confirmed the objection did include material numbers within the accounts. Natural justice must be observed as a Judicial Review could be requested if the member of the public disagreed with the auditor's decision. The audit must be completed correctly. The Council's obligation is to publish their accounts by 30 September with an opinion if one has been given. As no opinion from the Council's external auditor has been received, the Council has met their statutory responsibilities, and accounts can be republished once an opinion has been given.

As there were no further questions the Chairman took Members to the recommendation in the report which was agreed unanimously.

### **RESOLVED**

The Committee received the report.

## **8. INTERNAL AUDIT UPDATE 2021-22.**

Peter Stuart, Head of Corporate Resources noted that the new audit contract started slowly. All audits are normally completed in the winter and spring months to get maximum sample size at end of the financial year. Mazars now have access to all files, the programme of work is underway, and Mr Fosco has spoken to all key contacts to finish planning the audits of the fundamental systems and to commence a cyber security audit.

Juan Fosco, Mazars advised he has met with Heads of Service and Business Unit Leaders for all the audits in the plan and the previous auditor to understand the earlier results and identify any key risks to focus on. Mazars senior auditors will work on the key finance audits, start dates have been agreed and will avoid periods of high work volume. The audit of Housing Benefits will commence 29 November and then Business Rates after that. Grants Assurance and Risk Management training audits are also planned, a date for the cyber security date has been agreed along with an IT needs assessment which will allow audits to concentrate on areas of significant risk. All remaining audits have been resourced with the latest start date of April 2022. A report will be available for the meeting in July 2022.

In response to a Member's enquiry about the impact of the delay in receiving the final report from the External Auditors, the Internal Auditor advised they are in communication with EY with the progress of the external audit and to determine any areas of work the internal audit should concentrate on.

A Member thanked the Internal Auditor for his comprehensive report.

As there were no further questions the Chairman took Members to the recommendation in the report which was agreed unanimously.

**RESOLVED**

The Committee received the report.

**9. COMMITTEE WORK PROGRAMME.**

Peter Stuart, Head of Corporate Resources introduced the Committee's Work Programme which noted the business for the remainder of the year. He advised an additional meeting may be scheduled before the 1<sup>st</sup> March meeting to review the External Audit Report and agree the Financial Statements. He confirmed the Grant Certification item relates to the Housing Benefit subsidy grant.

As there were no questions the Chairman took Members to the recommendation in the report which was agreed unanimously.

**RESOLVED**

The Committee noted the Work Programme for 2021/22.

**10. QUESTIONS PURSUANT TO COUNCIL PROCEDURE RULE 10.2 DUE NOTICE OF WHICH HAS BEEN GIVEN.**

None.

The meeting finished at 5.40 pm

Chairman

## INTERNAL AUDIT PROGRESS REPORT

REPORT OF: HEAD OF CORPORATE RESOURCES  
Contact Officer: Peter Stuart  
Email: [peter.stuart@midsussex.gov.uk](mailto:peter.stuart@midsussex.gov.uk) Tel: 01444 477315  
Wards Affected: None  
Key Decision: No  
Report to: Audit Committee  
1<sup>st</sup> March 2022

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### Purpose of Report

1. To present the work of our internal auditor for the year thus far; and set out the work still to be performed in order to conclude the programme.

### Recommendations

2. **The Committee is recommended to receive the report.**
- 

### Background

3. The work of internal audit is set out in the appendix. Whilst a number of audits have yet to start, inception dates have been arranged with key staff so that assurance can be given of the programme being completed.
4. The Internal Audit manager will join the meeting to present the report and respond to Members' questions on their work.

### Policy Context

5. The purpose of Internal Audit is to provide assurance on the control environment at the Council; the programme is assembled to provide that assurance.

### Other Options Considered

6. None.

### Financial Implications

7. None.

### Risk Management Implications

8. None.

### Equality and Customer Service Implications

9. None.

### Other Material Implications

10. None.

### Sustainability Implications

11. None

## **Background Papers**

- None





# Mid Sussex District Council - Internal Audit Progress Report

## Audit Committee

March 2022

Issued 21 February 2022

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### ***Disclaimer***

This report (“Report”) was prepared by Mazars LLP at the request of Mid Sussex District Council (MSDC), and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently, no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of MSDC, and to the fullest extent permitted by law, Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

## 01 Introduction

This report provides a summary of internal audit activity at Mid Sussex District Council (MSDC) since the last Audit Committee (Committee), including:

- An update on progress in delivering the 2021/22 internal audit plan;
- A summary of any Limited/Unsatisfactory Assurance reports issued and high priority recommendations raised; and
- An update on follow up activity and any recommendations outstanding for implementation.

The Committee approved the 2021/22 Internal Audit Plan (Plan) on 2 March 2021. This Plan was developed by the former Internal Auditor at Crawley Borough Council, with Mazars being appointed in July 2021 as the new Internal Audit team.

## 02 Current Progress

Since the last Committee, Covid continued to present challenges in late Q3 of the 2021/22 financial year, with MSDC staff becoming unavailable at very short notice. This meant that planned audits had to be delayed after the New Year. For this reporting period, there is work at draft report stage, in progress or with resources allocated to them with agreed start dates.

In addition, since the last Committee, management has requested to defer the audit of *Covid-19 Grant Assurance* from Q4 to the 2022/23 Plan. This is due to the Business Unit Leader for Benefits and Revenues advising that a key team member had unexpectedly become unavailable. This meant that the small team working in this area had increased workload pressures and would find it difficult to accommodate the audit until the next financial year. This was further discussed with the Head of Corporate Resources, and it is proposed that this will be re-scheduled to start in Q2 as part of the 2022/23 Plan.

Since the last meeting of the AC, the following progress has been made:

### Reports issued

- We have issued our draft report for the Council Tax audit, in which we raised a medium priority recommendation. However, the draft report is currently awaiting management responses.

### Work in progress

At the time of drafting this report:

- We have completed fieldwork on the Business Rates and Budgetary Controls audits. The Draft reports are at the final stages of the review process.
- The Income Collection (Cashiers) audit is currently in progress with aims to complete the fieldwork on the week commencing 28 February.

Further details of the Plan timetable and current status are detailed in Appendix A1.

## 03 Follow-Ups

There was no formal handover of previously raised recommendations from the former auditor at Crawley Borough Council nor a record listing these, including timescales for implementation. Although we have been given access to historical records from the former auditor, there is no indication of a follow-up record in the dedicated SharePoint.

However, we have considered this as part of the 2021/22 fieldwork. We will include relevant recommendations raised by the former Internal Auditor from the 2020/21 Internal Audit reports.

We will continue to monitor recommendations raised as part of the 2021/22 internal audits and create a centralised record capturing these, including agreed management actions and timescales for implementation.

Updates will be discussed with the Head of Corporate Resources and subsequently provided to this Committee in due course, including any outstanding actions (i.e., actions past their agreed implementation date).

Appendix A3 below.

## 04 Other Matters

A recurring monthly meeting had been agreed to be held with the Head of Corporate Resources, with the first session taking place in February 2022. During these meetings, progress against the plan is discussed among any other issues arising from our work or the Council's activities.

A three-year plan was formerly put together by the previous Internal Auditor and approved by the Committee. Following our appointment in July 2021, and alongside the 2021/22 work delivery, there will be a need to revisit its content for 2022/23 and 2023/24 to ensure this aligns with the key risks of MSDC.

With several 2021/22 reviews to be completed, it is proposed we present proposals around changes to the outline 2022/23 Internal Audit Plan in July 2022.

The main factors that will be taken into account in revisiting the 2022/23 Plan will consist of:

- Materiality and significance based upon budgets and volume of transactions;
- Changes to the control environment or legislative changes;
- A review of internal audit themes against the Council's strategic and corporate objectives;
- Other sources of assurance available to the Council;
- Concerns and emerging risks as identified by Chief Council Officers and Business Unit Leaders, and,
- Mazars Horizon Scanning of issues affecting all Local Authorities.

The Mazars Horizon Scanning document is updated annually and details some of the challenges and opportunities on the horizon that are faced by the Public Sector, including local authorities. The document also sets out proposed areas for internal audit coverage. Further detail is provided in

## A1 Current Progress – 2021/22 Plan

Audit area	Progress	Assurance Opinion	Recommendations		
			High	Medium	Low
Council Tax	Draft *	Substantial	-	1	-
Business Rates	Fieldwork Complete	-	-	-	-
Budgetary Control	Fieldwork Complete	-	-	-	-
Income Collection (Cashiers)	In Progress	-	-	-	-
Payroll	Starts 21/02/2022	-	-	-	-
NFI – Data Matching	Starts 21/02/2022	-	-	-	-
Payments (Creditors)	Starts 07/03/2022	-	-	-	-
Capital Accounting and Asset Management	Starts 17/03/2022	-	-	-	-
Treasury Management	Starts 17/03/2022	-	-	-	-
Risk Management Awareness and Training	Starts 21/03/2022	-	-	-	-
Sundry Debtors	Starts 25/04/2022	-	-	-	-
Financial Management System (FMS)	Starts 25/04/2022	-	-	-	-
Housing Benefits	Starts 10/05/2022	-	-	-	-
Grant Assurance (Covid-19)	Deferred to 2022-23	-	-	-	-
<b>IT</b>					
Cyber Security	Starts in March 2022	-	-	-	-
Audit Needs Assessment	Starts in March 2022	-	-	-	-
<b>Total</b>			<b>0</b>	<b>1</b>	<b>0</b>

\*Draft reports currently awaiting management responses, which may lead to changes in content, including assurance levels and/or recommendations

## A2 Definitions of Assurance

Definitions of Assurance Levels	
Level	Description
Substantial	The framework of governance, risk management and control is adequate and effective.
Moderate	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Definitions of Recommendations		
Priority	Definition	Action required
High (Fundamental)	Significant weakness in governance, risk management and control that, if unresolved, exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium (Significant)	Weakness in governance, risk management and control that, if unresolved, exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low (Housekeeping)	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.

## A3 Challenges and Opportunities for the Public Sector in 2022

As our economy and society move into an endemic state of virus management, local authorities have found themselves in an unenviable position. They must balance pre-COVID-19 service demand within a new normality that has exacerbated the need for public services, along with an emptying high street, hybrid working, environmental awareness, and increased personal debt.

Balancing the budget has never been more challenging, nor is internal audit so critical to an organisation's resilience. In this year's Horizon Scanning report, we have broken down the assurance requirements of a local authority into five categories: financial resilience, council services, IT, ESG, and fraud. Within these, we have broken down the detail and shared considerations for your internal audit plans.

Please note that this document was prepared at a point in time. Subsequent government announcements or changes should be considered when reading.

Download the full report below





## A4 Statement of Responsibility

We take responsibility to MSDC for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made.

Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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## Contacts

### **Graeme Clarke**

Director, Mazars

graeme.clarke@mazars.co.uk

### **Juan Fosco**

Manager, Mazars

juan.fosco@mazars.co.uk

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## EXTERNAL AUDIT: AUDIT RESULTS REPORT 2020/21

REPORT OF: Head of Corporate Resources  
Contact Officer: Peter Stuart  
Email: [peter.stuart@midsussex.gov.uk](mailto:peter.stuart@midsussex.gov.uk) Tel: 01444 477315  
Wards Affected: All  
Key Decision: No  
Report to: Audit Committee  
1 March 2022

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### Purpose of Report

1. This report introduces the auditors' provisional 'Audit Results Report' and provides some context for Members' consideration.

### Recommendations

2. **That the report be received.**
- 

### Background

3. The External Audit is progressing well and is finished save for one matter. The Auditors have prepared a Progress Report for the Committee's consideration. This is attached as an Appendix.
4. Members will appreciate that this year, audits across the sector are once again running late and at an increased cost due to the pandemic still having an effect. However, progress has been made (particularly around asset valuations where agreement has been reached) and all matters are now resolved save for the continued work on the Objection to the Accounts.
5. The External Auditor will attend the virtual meeting to present his report and answer Member's questions.

### Policy Context

6. Receiving the report enables the Council to fulfil its statutory obligations.

### Other Options Considered

7. None.

### Financial Implications

8. This report has no financial implications.

### Risk Management Implications

9. None.

### Equality and Customer Service Implications

10. This report has no such implications.

**Other Material Implications**

11. This report has no such implications.

**Sustainability Implications**

12. This report has no such implications.

**Background Papers**

None.

# **Mid Sussex District Council Audit Results Report**

Year ended 31 March 2021  
February 2022



18 February 2022



Dear Audit Committee Members

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee.

The audit is designed to express an opinion on the 20/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Mid Sussex District Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

As detailed in the report we have completed a substantial amount of the audit. However, as we reported to the Audit Committee in November 2021 we have received an objection to the 2020/21 accounts from a local elector. We are currently in the process of 'Considering and Deciding' on the matters raised in the objection, a process which can take a significant amount of time and resource.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 1 March 2022

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents

01 Executive Summary



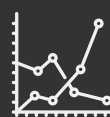
02 Areas of Audit Focus



03 Audit Report



04 Audit Differences



05 Other reporting issues



06 Assessment of Control Environment



07 Independence



08 Appendices



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This report is made solely to the Audit Committee and management of Mid Sussex District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Mid Sussex District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Mid Sussex District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





# 01 Executive Summary



# Executive Summary

## Scope update

In our audit planning report presented at the 27 July 2021 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. Below we have highlighted the changes to that scope:

### Changes in materiality

We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.64m (Audit Planning Report – £1.59m). This results in updated performance materiality, at 75% of overall materiality, of £1.22m, and an updated threshold for reporting uncorrected misstatements of £81,321.

We also identified areas where misstatement at a lower level than our overall materiality level might influence the reader and developed an audit strategy specific to these areas, including:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits. We audit these fully given their inherent sensitive nature.
- ▶ Related party transactions. We consider any related parties in terms of the underlying relationship and potential influence, and not simply the overall values disclosed.

## Status of the audit

We have substantially completed our audit of Mid Sussex District Council's financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Audit planning report. However we are yet to conclude on the following areas:

- ▶ We received an Objection to 2020/21 accounts. Work remains ongoing to conclude on this area;
- ▶ Final engagement partner review of the file;
- ▶ Completion of subsequent events review;
- ▶ Receipt of the response from Those Charged with Governance; and
- ▶ Receipt of the signed management representation letter.

## Audit differences

We identified a material difference on the investment property valuations which management have corrected.

Full details are available in section 4.



# Executive Summary

## Auditor responsibilities under the new Code of Audit Practice 2020

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

The specified reporting criteria are:

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

## Status of the audit - Value for Money

As we reported in our Audit Plan in July, we have not identified a VfM risk during our planning phase of the audit. At the time of writing we have also not identified a VfM risk through the course of our year end procedures.

However, as the audit remains ongoing we will continue to update our assessment. We will also consider the outcome of the Objection as part of our VfM assessment.

# Executive Summary

## 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 been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the 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 "Key Audit Issues" 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 Committee.

## Control observations

We have identified a deficiency in the design of internal controls in relation to property valuation. Please see section 6 for full details.

## Independence

We have no issues to report.

Please refer to Section 7 for our update on Independence.



## 02 Areas of Audit Focus



# Areas of Audit Focus

## Significant risk

### Misstatements due to fraud or error

#### What is the risk?

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

As identified in ISA (UK and Ireland) 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?

As part of our work we focused the key judgemental areas of financial statements, such as accounting policies, the model applied to the minimum revenue provision and unusual transactions.

We reviewed accounting estimates for evidence of management bias, and specifically focused on the following:

- ▶ IAS 19 disclosures;
- ▶ NDR appeals provision; and
- ▶ Valuation of land and buildings in Property, Plant and Equipment and Investment Properties.

#### What did we do?

We have performed the procedures described in our original audit plan. Please see the following page for full details.

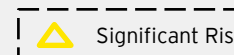
#### What are our conclusions?

Our audit work found no evidence that management had attempted to override internal controls.

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

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

This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation





## Areas of Audit Focus

# Significant risk



### Further details on procedures/work performed

We identified the key fraud risks at the planning stage of the audit and considered the effectiveness of management's controls that are designed to address the risk of fraud. We updated our understanding of the risks of fraud and the controls put in place to address them and made enquiries of Internal Audit, management and those charged with governance to support our understanding.

We have:

- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered of the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- ▶ Reviewed the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of the financial statements.
- ▶ Reviewed, discussed with management and challenged any accounting estimates on revenue or expenditure recognition for evidence of bias, specifically:
  - ▶ IAS 19 disclosures;
  - ▶ NDR appeals provision; and
  - ▶ Valuation of land and buildings in Property, Plant and Equipment and Investment Properties.

We found that the valuation method for each of the above has not changed from prior years.

- ▶ Reviewed the transactions in the financial statements for evidence of any significant unusual transactions.
- ▶ In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk related to the capitalisation of revenue expenditure as set out on the next slide.



# Areas of Audit Focus

## Significant risk

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

#### What is the risk?

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

From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

Capitalised revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid

#### What did we do?

Our approach will focus on:

- ▶ For significant additions we examined invoices, capital expenditure authorisations, leases and other data that support the additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16.
- ▶ We extended our testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.
- ▶ Journal testing - we used our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

#### What are our conclusions?

We are satisfied that capital additions made in the year met the requirements of IAS 16, and had been correctly capitalised





# Areas of Audit Focus

## Significant risk

### Risk of fraud in revenue recognition - sales, fees and charges income grant

#### What is the risk?

As one of the responses to the Covid-19 pandemic and its impact on Local Authority finances, the Government introduced a reimbursement scheme for lost fees and charges income. After an initial 5% reduction for annual variability, local authorities are funded for 75% of their claimed losses.

There is both incentive and opportunity for local authorities to inflate the returns to Central Government, and claim for funds that they are not entitled to under the scheme. There is also the potential for error.

The Council received £2.2m, and therefore, there is the potential this could be materially overstated.

#### What did we do?

Our approach focused on:

- ▶ Gain an understanding of the Council's process for completing the fees and charges reimbursement grants returns to Central Government
- ▶ Assess whether those returns appropriately follow the guidance
- ▶ Review whether the values included can be supported by relevant and appropriate evidence

#### What are our conclusions?

We are satisfied that the grant return was not materially misstated.







# Areas of Audit Focus

## Significant risk

### Valuation of investment property

#### What is the risk?

The Council holds a significant investment property portfolio. The valuation of property is complex and subject to several assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.

Difficulties in the retails sector in particular have led to many retailers, including well-known names, closing stores, going into administration, or otherwise looking to reduce their rental costs by renegotiating existing leases.

These difficulties have had a direct impact on the value of the retail units (high street shops, out of town retail parks and shopping centres) leased to retailers.

#### What did we do?

We have:

- ▶ Considered the work performed by the Council's valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ instructed our own Property valuation team (EY Real Estates) to review a sample of property valuations performed by the Councils Valuer
- ▶ Consider the annual cycle of valuations to ensure that investment properties are being revalued every year.
- ▶ Tested accounting entries have been correctly processed in the financial statements; and
- ▶ We also noted that the Council valuer attached a 'material uncertainty' clause to their valuation as a result of Covid. We reviewed the adequacy of the disclosure of this in the Council's accounts.

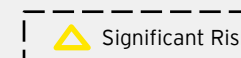
#### What are our conclusions?

We instructed our property valuation team to review a sample of the valuation performed by the Council. The review focuses on whether the valuation is based on reasonable and supportable assumptions.

From this review we identified three asset values were misstated. The key areas our valuation team identified differences on were;

- Where the current tenant has a short period remaining on their tenancy, the valuation should allow for a void and incentive period at the end of the current lease
- Purchase costs should be deducted on the valuation due to the UK market reporting yields on a net basis
- The valuer was unable to support their assumption on market rent
- One asset was valued on the incorrect basis

Following the correction of these misstatements, we conclude that the balance is fairly stated and do not modify our audit opinion in respect of this matter.





## Areas of Audit Focus

### other risk

#### Valuation of property, plant & equipment

##### What is the risk?

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and is subject to valuation changes and impairment reviews.

Management is required to make material judgements about key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

##### What did we do?

We have:

- ▶ Considered the work performed by the Council's valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
- ▶ Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation;
- ▶ Tested accounting entries have been correctly processed in the financial statements; and
- ▶ We also noted that the Council valuer attached a 'material uncertainty' clause to their valuation as a result of Covid. We reviewed the adequacy of the disclosure of this in the Council's accounts.

##### What are our conclusions?

We are satisfied that the valuation of property, plant and equipment is fairly stated and appropriately disclosed.



## Areas of Audit Focus

### Other risk

#### Net 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 net liability is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £21,247k.

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.

##### What did we do?

We have:

- ▶ Liaised with the auditors of West Sussex Pension Fund to obtain assurances over the information supplied to the actuary in relation to West Sussex County Council.
- ▶ Assess 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 Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19;
- ▶ In accordance with the new ISA540 (revised) standard, we tested the actuarial model to confirm it is appropriately designed, consistently applied and mathematically accurate. We involved our EY Pensions specialists to perform this work.

##### What are our conclusions?

We identified that the pension asset value at 31 March 2021 used by the actuary in their report was overstated by £293k.

As the difference is not material, we concluded that the net pension liability was fairly stated.



## Areas of Audit Focus

### Other risk

#### Accounting for Covid business grants

##### What is the risk?

Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements. The Council needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.

##### What did we do?

We have:

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

##### What are our conclusions?

We are satisfied that officers have appropriately accounted for and disclosed Covid Business grants received in year.



# Areas of Audit Focus

## Other risk

### Going Concern Disclosure

#### What is the risk?

The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor’s report failed to highlight concerns about the prospects of entities which collapsed shortly after. CIPFA’s Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that an authority’s financial statements shall be prepared on a going concern basis; the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future and can only be discontinued under statutory prescription.

However, ISA 570, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor’s report.

The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards, and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. To do this, the auditor must review management’s assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

#### What did we do?

We sought a documented and detailed consideration to support management’s assertion regarding the going concern basis. Our audit procedures to review these included consideration of:

- ▶ Current and developing environment;
- ▶ Liquidity (operational and funding);
- ▶ Mitigating factors;
- ▶ Management information and forecasting; and
- ▶ Sensitivities and stress testing.

#### What are our conclusions?

We have reviewed managements Going Concern assessment and confirm their conclusion that the Council remains a Going Concern is based on reasonable and supportable assumptions.

We have also reviewed managements updated Going Concern Disclosure and confirmed it sufficiently detailed, transparent and accurately reflects managements underlying Going Concern assessment.

Depending on the timescales to complete the objection, we may require management to update their assessment to ensure it continues to cover a period of 12 months after the final approval of the accounts.



# 03 Audit Report



# Audit Report

## Draft audit report - example only

Note this is an illustrative draft of the audit report. We cannot conclude our opinion on the financial statements, Other Information or Matters to report by exception until the objection is concluded.

### Our opinion on the financial statements

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

##### Opinion

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

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- and the related notes 1 to 40.
- Collection Fund and the related notes 1 to 4

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

In our opinion the financial statements:

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

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the 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

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

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

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

##### Other information

The other information comprises the information included in the Statement of Accounts for the Financial Year 2020/21, other than the financial statements and our auditor's report thereon. The Head of Corporate Resources 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.

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





# Audit Report

## Draft audit report - example only

### Our opinion on the financial statements

We have nothing to report in this regard.

#### Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

#### Responsibility of the Head of Corporate Resources

As explained more fully in the Statement of the Head of Corporate Resources Responsibilities set out on page 4, the Head of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Corporate Resources 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.

#### 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management





# Audit Report

## Draft audit report - example only

### Our opinion on the financial statements

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

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

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

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

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

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of fraud in revenue recognition – sales, fees and charges income grant we assessed whether the grant return appropriately followed the guidance, and whether the values included in the return were supported by relevant and appropriate evidence .

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

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



# Audit Report

## Draft audit report - example only

### Our opinion on the financial statements

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

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

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

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

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

#### Delay in certification of completion of the audit

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

#### Use of our report

This report is made solely to the members of Mid Sussex 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 Authority and the Authority'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 differences

### Corrected Misstatements:

We highlight the following misstatements greater than £1.22m which have been corrected by management that were identified during the course of our audit.

We have identified the following judgemental errors in the valuation of investment property:

- Investment Properties - We identified three investments properties which were overstated by a net total of £1.4m

### Uncorrected Misstatements:

We report to you any uncorrected misstatements greater than our nominal value of £81,321.  
We identified that the pension assets were understated by £293k.





# 05 Other reporting issues

## Other reporting issues

# Other reporting issues

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

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

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

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

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

### Whole of Government Accounts

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

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers.

### Other powers and duties

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

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

### Other matters

We have no other matters to report.





06

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the 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.

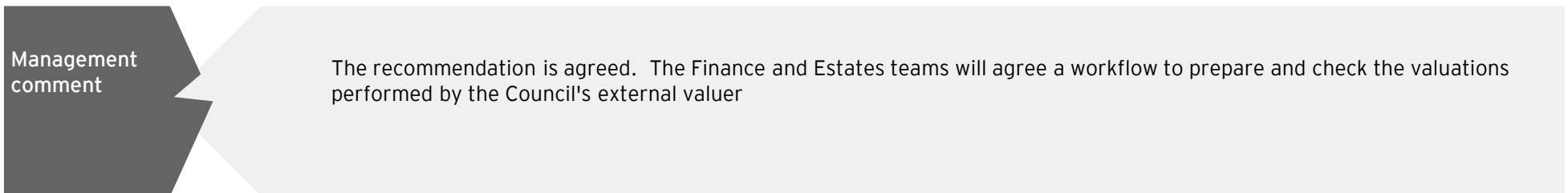
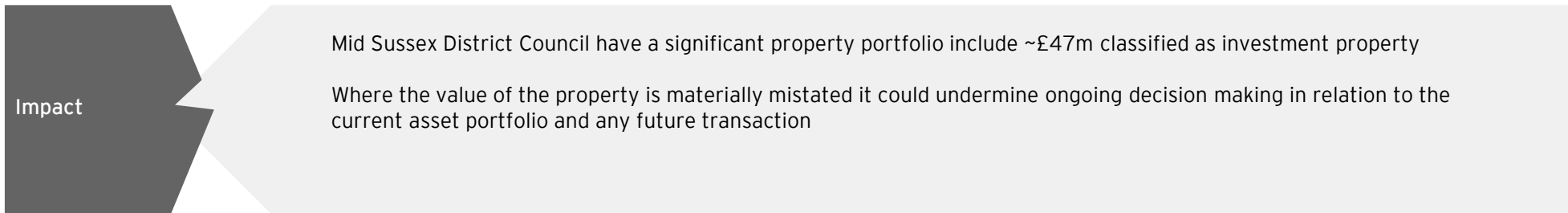
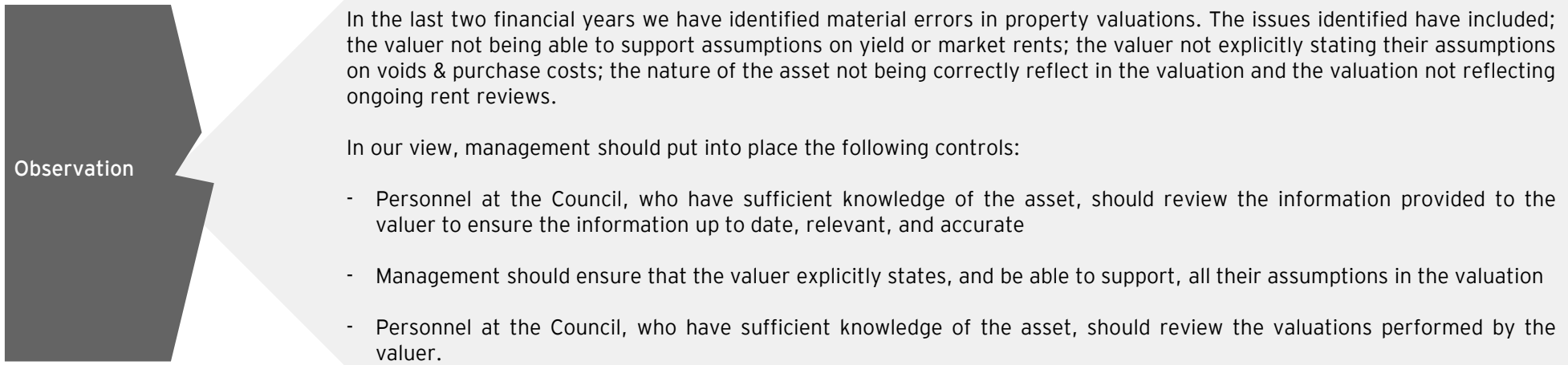
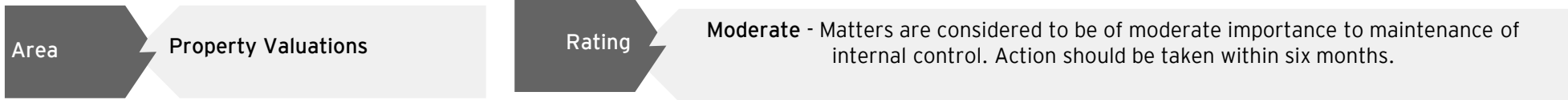
Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

The matters reported on the next slide are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.





# Assessment of Control Environment





07

# Independence

## Confirmation and analysis of Audit fees

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

There are no relationships from 01 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

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

	Planned fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£	£	£
Total Fee - Code work	38,917	38,917	38,917
Scale fee Rebasing: changes in the work required to address professional and regulatory standards (1)	25,314	25,314	26,360
Revised proposed scale fee	64,231	64,231	
Change in scope (1, 2)	TBC	-	
<b>Total audit fee</b>	<b>TBC</b>	<b>64,231</b>	<b>65,277</b>
Non-audit services (Housing Benefit subsidy certification) (4)	TBC	N/A	47,672
<b>Total fees</b>	<b>TBC</b>	<b>64,231</b>	<b>112,949</b>

All fees exclude VAT

Note:

(1) As detailed in our 2019/20 annual audit letter we submitted a proposed rebasing of the scale fee of £25,314. We also submitted a scale fee variation due to specific changes in risk in 2019/20 of £19,323. We therefore submitted a total scale fee variation of £44,637 to PSAA. PSAA determined the total scale fee variation for 2019/20 should be £26,360.

(2) As noted in the main section of this report we have identified new risks for 20/21, as well as a change in ISA 540, 570 and the requirements on VfM reporting. We have also received a objection to the 2020/21 accounts. Theses changes have impacted on the cost of delivering the 20/21 audit. We will assess this impact at the completion of the audit.

(4) The work to certify the 2020/21 Housing Benefit claim is currently ongoing.

All fees exclude VAT.

## Other communications

### EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

[EY UK Transparency Report 2021 | EY UK](#)









# 08 Appendices

## Appendix A

# Required communications with the Audit 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 Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report - July 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report - July 2021
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit planning report - July 2021

# 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>	No conditions or events were identified, either individually or together to raise any doubt about Mid Sussex District Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit results report
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council</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 Council, any identified or suspected fraud involving: <ul style="list-style-type: none"> <li>▶ Management;</li> <li>▶ Employees who have significant roles in internal control; or</li> <li>▶ Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </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 Committee responsibility.</li> </ul>	Audit results report

# 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 Council'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 Council</li> </ul>	Audit results report
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>	Audit planning report - April 2021 and Audit results report
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations



# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit results 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 committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
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>	Audit results report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
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>	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>	Audit planning report and Audit results report

# Management representation letter

## Management Rep Letter

Ernst & Young LLP  
Grosvenor House,  
Grosvenor Square,  
Southampton SO15 2BE,  
United Kingdom

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

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

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

### A. Financial Statements and Financial Records

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

We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.

2. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
3. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
4. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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

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



## Appendix B

# Management representation letter

### Management Rep Letter

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

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

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee held through the year to the most recent meeting on the following date: xx xxx xxx.
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 period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

#### **D. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 31 to the financial statements all guarantees that we have given to third parties

# Management representation letter

## Management Rep Letter

### E. Going Concern

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

### F. Subsequent Events

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

### G. Other information

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

### H. other information

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

### I. Use of the Work of a Specialist

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

### J. Estimates

1. We confirm that the significant judgments made in making the valuation of land and buildings and investment property, in the calculation of the NDR appeals provision, and in generating the IAS19 pension ("the accounting estimates") have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.
3. We confirm that the significant assumptions used in making the accounting estimate appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

### K. Retirement benefits

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

## EY | Assurance | Tax | Transactions | Advisory

### About EY

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

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ED None

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## FINANCIAL STATEMENTS 2020/21

REPORT OF: HEAD OF CORPORATE RESOURCES  
Contact Officer: Peter Stuart  
Email: [peter.stuart@midsussex.gov.uk](mailto:peter.stuart@midsussex.gov.uk) Tel: 01444 477315  
Wards Affected: None  
Key Decision: No  
Report to: Audit Committee  
1 March 2022

---

### Purpose of Report

1. This report presents the financial statements for the year ending 31 March 2021 for approval and seeks a delegation to make non-material amendments in the event that this is necessary post-audit.

### Recommendations

2. **The Committee is recommended to:**
    - a) **Approve the Financial Statements for the year ending 31<sup>st</sup> March 2021;**
    - b) **Authorise the Chair and Vice Chair of the Committee to sign the accounts when the audit has concluded, subject to any changes being immaterial to the accounts.**
- 

### Background

3. The audit of the Statements for the financial year 2020/21 has been extended this year partly due to the pandemic affecting both resourcing of the audit and creating uncertainty around asset valuations, and latterly, the need to investigate an objection to the accounts.
4. However, we are now in a position where the audit is complete save for the remaining work related to the objection.
5. That being so, the Committee is asked to approve the accounts in principle, having read the draft Audit Results Report elsewhere on the agenda, whilst being aware that further changes may be needed post-audit.
6. A delegation is therefore sought from the Committee to the Chair and Vice to sign the accounts in the event that the objection is resolved and no material changes are made to the Statements
7. Any further headings necessary in the report should be set out in this style, with a heading in bold and the paragraph numbers continuing in sequence.

### Policy Context

8. Approval of the accounts is a statutory duty.

### Other Options Considered

9. It would be possible to arrange another meeting of the Committee later in the year but this was considered unnecessary given the audit was very nearly complete.

### **Financial Implications**

10. None.

### **Risk Management Implications**

11. None.

### **Equality and Customer Service Implications**

12. None.

### **Other Material Implications**

13. None.

### **Sustainability Implications**

14. None

### **Background Papers**

- None.





# Statement of Accounts 2020–2021 (Audited Version)



Audit Committee  
1 March 2022





# Statement of Accounts for the Year Ended 31 March 2021

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**Statement of Responsibility  
and Narrative Report**

## Statement of Responsibilities for the Statement of Accounts

### 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 Head of Corporate Resources;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- to approve the Statement of Accounts.

### The Head of Corporate Resources' Responsibilities

The Head of Corporate Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Head of Corporate Resources 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 Head of Corporate Resources has also:

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

I declare that the Statement of Accounts presents a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2021. I confirm that the date of this declaration is the date up to which events have been considered for inclusion within the Authority's Statement of Accounts and are therefore authorised for issue.

P Stuart FCPFA  
Head of Corporate Resources  
1 March 2022

Approval for the Statement of Accounts

Cllr M Pulfer  
Chairman Audit Committee  
1 March 2022

## Narrative Report by the Head of Corporate Resources

### 1. Introduction

The purpose of this report is to provide an effective guide to the most significant matters reported in the accounts. Its aim is to be fair, balanced and understandable for the users of the financial statements. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS), and are in respect of the financial year ended 31 March 2021. Where appropriate we have commented on the impact of the Covid pandemic on the accounts even though the effect of this falls mainly in the new financial year. Other reports set out the effect in the new financial year and over the medium term.

The pages that follow are the Authority's Accounts for 2020/21. These comprise:

- Two years' statements of comprehensive income and expenditure (CIES)
- Two statements of changes in equity (MIRS)
- Two years' statements of financial position (Balance Sheet)
- Two statements of cash flows
- Two expenditure and funding analysis notes
- Related notes, including comparative information

Each of the main Financial Statements are explained further below:

**Comprehensive Income and Expenditure Statement (CIES)** – This 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. Authorities raise taxation 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.

**Movement in Reserves Statement (MIRS)** – This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

**Balance Sheet** – The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e., those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (e.g. the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is unusable reserves. This category includes reserves that hold unrealised gains and losses (e.g. 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 MIRS line 'Adjustments between accounting basis and funding basis under regulations'.

**Cash Flow Statement** – The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period using the indirect method. The statement shows how the authority 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 authority are funded by way of taxation and grant income, or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority'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 authority.

**Notes to the Accounts** - These explain the basis of the figures in the accounts. The order of the notes is not prescribed and they are presented in a systematic manner that is most effective for the understanding of readers of the Authority.

**Expenditure and Funding Analysis Note** – The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by the Authority in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Authority's head of service areas. Income and expenditure accounted for under

generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

**Collection Fund** - The Collection Fund 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.

**We appreciate that the accounts are becoming ever more complex, we will again be publishing summary accounts to help people understand the Authority's financial position. If any further information is required on any aspect of these documents please use our contact details below.**

I would now like to draw attention to the key features of these accounts and offer a brief financial overview of the year and comparison with the previous year.

## 2. Performance during the year and the position at the end of the year

This section of the report is intended to offer some information on the authority's key strengths and resources.

### Revenue

The revenue and capital outturn for 2020/21 was reported to Cabinet on 7 June 2021. During the year, Cabinet received five Budget Management reports (including the Outturn Report). Over the year the budget has been adversely affected as a direct result of the Covid pandemic which severely reduced all sources of income and in some areas, such as Leisure, also increased costs. Whilst the MHCLG Emergency Covid19 grants and the Income Compensation scheme grant for lost sales, fees and charges has helped fund some of these losses, many financial targets were not able to be achieved as planned and service performance was unavoidably affected. However, although the first three quarters of the year showed a forecast overspend of £1,925,000, this position improved in the last quarter and the reported Outturn for 2020/21 was an overspend of £1,400,000. This overspend has been funded from General Reserve. Members should note that this Budget Outturn Report links with the Service Performance Outturn Report which was separately reported to Cabinet on 7 June 2021.

The Outturn position is set out in the table overleaf. However, it should also be noted that this table includes a slight adjustment to the reported Outturn overspend total of £1,400,000 as an additional £4k expenditure has since been recoded to revenue relating to a Termination Benefits cost. This has been funded from General Reserve resulting in a reconciling item between the Outturn Report and the Statement of Accounts 2020/21.

### Interest

Interest receipts for the year totalled £170,306; being £185,694 less than the original estimate. No interest was used to support the revenue budget overspend position. Therefore, a net total of £170,031 was transferred to General Reserve, after allowing for the annual transfer to Specific Reserve in line with existing practice to part-pay employees' professional qualification subscriptions.

### Specific Items and Reserves

At Outturn it was reported that Specific items financed from the Specific Reserves and General Reserve totalled £11,181,000. Since reporting, this has increased to £11,397,000 due to the increase in the Revenue Overspend explained above and as a result of further adjustments that have been made to the Rate Retention Scheme Equalisation Specific Reserve as part of the completion of the NNDR3.

The largest utilisation of General Reserve amounted to £1,435,000 to finance the Capital Programme (including £449,000 for the financing of Revenue projects within the Programme). Following the post Outturn amendments to Specific Reserves outlined above, the largest utilisation of Specific Reserve amounted to £1,669,000 relating to the Rate Retention Scheme Equalisation Specific Reserve which included £214,000 for the current year NNDR3 levy adjustment and £1,455,000 for Revenue Budget financing.

After allowing for the post Outturn adjustments detailed above, the Statement of Accounts shows that just over £21,000,000 has been transferred into Reserves, (£15,365,000 to Specific Reserve and £5,818,000 to General Reserve). The largest contribution to Specific Reserves is £11,349,000 to the Rate Retention Scheme Equalisation of which £11,293,000 relates to MHCLG grants for Business Rates Reliefs that were paid by Central Government as compensation for the loss of Business Rates Income that would have been received as part of the Collection Fund accounting (refer to Section 4), due to the COVID-19 pandemic. Further details are contained within the Transfers to /from Earmarked Specific Reserves, Note 7 to the accounts. The largest contributions to General Reserve in the year include:

- £3,267,000 grant relating to New Homes Bonus allocation.
- £1,851,000 transfer from Specific Reserves for monies no longer needed and available to support the Revenue overspend in 2020/21.
- £302,000 being the annual contribution budgeted to be paid to General Reserve, to fund the Authority's Major Capital Renewals programme.
- £171,000 interest receipts generated mainly from treasury management activity.



Overall, there has been a net increase of £9,786,000 in the level of the General Fund Reserves as at 31 March 2021.

Revenue Expenditure 2020/21	Outturn Summary			Reconciliation of Outturn to Statement of Accounts		
	Estimate*	Actual	Variation**	Transfer to/from Reserves	Other Adjustments #	Total Net Cost of Services (CIES EFA Note 1)
	2020/21 £'000	2020/21 £'000	2020/21 £'000	2020/21 £'000	2020/21 £'000	2020/21 £'000
<b>Service Area</b>						
Housing	1,544	1,514	(30)	(2)	380	1,892
Planning Policy & Economic Development	1,154	973	(181)	1,033	46	2,052
Development Management	830	1,114	284	(60)	(26)	1,028
Cleansing Services	4,012	4,041	29	(124)	(345)	3,572
Parking Services	(1,196)	78	1,274	75	68	221
Landscapes and Leisure	1,254	5,397	4,143	40	411	5,848
Community Services Policy and Performance	1,486	1,423	(63)	106	(3)	1,526
Corporate Estates and Facilities	(2,673)	(2,456)	217	(132)	2,619	31
Finance Accountancy	0	0	0	(13)	0	(13)
Finance Corporate	1,119	1,127	8	57	0	1,184
Revenues & Benefits	2,492	2,556	64	(395)	490	2,651
Customer Services and Communications	0	(36)	(36)	0	0	(36)
Digital and Technology Services	(23)	1	24	0	76	77
Human Resources & Payroll	0	(84)	(84)	0	0	(84)
Legal Services	0	(15)	(15)	0	0	(15)
Democratic Services	1,013	893	(120)	(15)	12	890
Land Charges	156	44	(112)	2	10	56
Planning & Building Control Support	0	(38)	(38)	0	38	0
Environmental Health	1,156	1,145	(11)	(141)	43	1,047
Building Control	340	388	48	0	(17)	371
Strategic Core	1,319	1,430	111	0	(7)	1,423
Benefits	(119)	(119)	0	8	0	(111)
Drainage levies	1	1	0	0	0	1
Balance Unallocated	28	0	(28)	0	0	0
<b>Corporate Pressures/savings:</b>						
Covid 19 Emergency Funding	0	(1,808)	(1,808)	38	1,770	0
Income Compensation Scheme grant due (SFC)	0	(2,161)	(2,161)	0	2,161	0
<b>Council Net Expenditure</b>	13,893	15,408	1,515	477	7,726	23,611
less: Drainage levies				0	(1)	(1)
<b>Total excluding drainage levies</b>	13,893	15,408	1,515 ***	477	7,725	23,610
Contribution to Development Plan Reserve	436	365	(71)			
Contribution to Job Evaluation Reserve	267	267	0			
Contribution to Waste Reserve	40	0	(40)			
<b>Total</b>	14,636	16,040	1,404 ****			23,610

\* Includes approved variations including utilisation of Balance Unallocated

\*\* Variations are explained in Outturn Report to Cabinet 7 June 2021. Statement of Accounts includes an additional £4k cost in Corporate Finance compared to Outturn.

\*\*\* Before reductions in budgeted transfers to Specific Reserves approved during 20/21 (£40k & £71k).

\*\*\*\* Total overspend after reductions in transfers to Specific Reserves approved during 20/21 (£40k & £71k).

# Other adjustments are items that were included in Outturn but need to be excluded from Net Cost of Service (NCS) in the CIES as these items are shown below NCS in the Statement of Accounts e.g Investment Property income, non-ringfenced grants, and external interest. In addition finance leases and recharged salaries to front line services have to be adjusted as the shown as fully recharged services in the Statement of Accounts.

Figures are subject to roundings to nearest £'000

## Capital and Revenue Projects

Capital expenditure usually generates an asset that has a useful life of more than one year. Actual Capital Spending for the year amounted to £11,419,000 with an additional £670,000 spent on Revenue Projects within the approved programme. The Capital Spending included £4,728,000 on projects that came forward during the year which were unbudgeted at the time. In total, the spend on both Capital and Revenue projects was £12,089,000 which was £3,455,000 more than the updated 2020/21 programme of £8,634,000. Included in this year's variation, is slippage of projects totalling £1,556,000. Of this slippage, £98,000 relates to Corporate Estates and Facilities projects, £408,000 relates to Planning Policy for Burgess Hill Place and Connectivity Programme, £378,000 for Commercial Services and contracts - Landscapes and Leisure, £108,000 on Digital and Technology Services, £135,000 relates to Disabled Facilities Grants and £429,000 on Revenue Projects. These amounts have been rolled over and added to the Programme of Capital and Revenue Projects for 2021/22.

<b>Capital Expenditure 2020/21</b>	<b>2020/21</b>
<b>Property, Plant and Equipment</b>	<b>£000</b>
<b>Land and Buildings</b>	
Temporary Accommodation Properties	1,596
Oaklands Office	751
Other Buildings	240
Leisure Centres	3
<b>Land and Buildings</b>	<b>2,590</b>
<b>Asset Under Construction</b>	<b>2,122</b>
<b>Plant / Vehicles / Equipment</b>	
Playground and Skatepark Equipment	190
Digital & Technology Hardware	102
Green Waste Wheeled Bins	30
<b>Plant / Vehicles / Equipment</b>	<b>322</b>
<b>Total Property, Plant and Equipment, Asset Under Construction (Note 12)</b>	<b>5,034</b>
<b>Intangible Assets (Note 15)</b>	
Software and software licences	16
<b>Investment Property (Note 14)</b>	<b>0</b>
<b>Revenue Expenditure funded from Capital Under Statute</b>	
Other expenditure	5,239
Housing - Disabled Facilities Grants (DFG)	1,030
Housing - Affordable Housing	100
<b>Total REFCUS Expenditure</b>	<b>6,369</b>
<b>Total Capital Expenditure</b>	<b>11,419</b>
<b>Financed by:</b>	
General Reserve	986
Earmarked Specific Reserve	417
<b>Total General Fund Balances</b>	<b>1,403</b>
<b>Government Grants, Contributions &amp; Section 106s RIA</b>	<b>5,600</b>
<b>Capital Grants Unapplied Account</b>	<b>2,726</b>
<b>Usable Capital Receipts</b>	<b>1,690</b>
<b>Total</b>	<b>11,419</b>

Usable capital receipts for 2020/21 totalled £26,121,000 (Note 6). Other contributions receivable in 2020/21 totalled £9,645,000 (Note 11 Grant Income – Capital Grants and Contributions Receipts in Advance), as shown below:





Time Limited Section 106 agreements & Local Authority contributions	£8,419,000
Disabled Facilities Grant (contribution from WSCC)	£1,226,000

The available year-end balance of Usable Capital Receipts is £5,641,000 (MIRS), Capital Grants Unapplied Account is £5,635,000 (MIRS) and Section 106 Contributions and Capital Grants Receipts in Advance is £10,293,000 (Note 11).

### 3. The Performance of the Authority

#### Service Performance

The outturn 2020/21 report to Cabinet shows that performance has continued to be good across the Council, with a small number of exceptions. The outturn position in comparison with the previous financial year is summarised below. This level of performance is particularly noteworthy given the challenges arising in the last year from the pandemic in the delivery of Council services and contributing to the District's recovery. These include the changes to working arrangements required to allow Council staff and contractors to carry out their roles safely and in line with government guidance. Some parts of the Council have also had to take on additional responsibilities arising from the pandemic, while continuing to deliver their day to day services. These include Revenues and Benefits in administering Test and Trace Support and Exceptional Hardship payments, as well as providing grants to local businesses. Environmental Health are involved in Local Outbreak Plans and have taken on additional responsibilities for COVID-19 preventative interventions.

Year	 Green	 Amber	 Red	 Health check	Total
2020/21	32 (74%)	7 (16%)	4 (9%)	23	66
2019/20	38 (70%)	12 (22%)	4 (7%)	19	60

#### Employees

The number of employees has remained stable compared to last year with 283 full time equivalents. Turnover reduced from 10% to 8% and was positive to the annual target. No particular trends emerged that required intervention. The pandemic required a large number of the workforce to work from home for the majority of the year, with a skeleton presence being represented in the office within socially distanced guidelines. Staff sickness reduced dramatically compared to previous years, which may be linked to more staff working at home and not travelling to the offices. A hybrid/blended working pattern is likely to be proposed in the future.

#### Strategic Risks

Each year the Cabinet agrees the risks that may prevent or slow the achievement of the strategic objectives. For 2020/21 these were agreed by Cabinet on 16 March 2020

1. Capacity of West Sussex County Council to support Mid Sussex District Council's ambitions.
2. Impact of Fair Funding Review

These were monitored through the year by both Management Team and Cabinet and controlled such that the risks did not materialise. An amended set of risks was adopted for 2020/21 by the September meeting of Cabinet with the Covid pandemic affecting the financial stability of the council and its ability to finance service delivery in the same way.

### 4. Impact of COVID-19 on Provision of Services, Financial Performance and Financial Position

A great deal has been written about the effect of the pandemic on this and other councils' finances. It has been regularly described in every Budget Management report as 'unprecedented' and its impact will be felt for years to come.

In short, the effect has been to significantly reduce income across the business units, push up costs in some others, and temporarily eliminate some forms of income.

The government response has been to engage with the sector and offer support such the worst effects were mitigated. The "Income Compensation Scheme" replaced roughly 75% of that income so as to share the losses between central and local government. At the same time, lump sum grants went some way towards helping with the increased costs of operating, and a leisure-specific grant helped with the costs of reopening centres prior to the third lockdown.

However, the pandemic pushed the council into supporting its revenue budget with the use of general reserve as described above, and whilst the 2021/22 budget has managed to be balanced with no forecast

use of reserves, the outlook over the medium term is difficult and unsustainable on current projections, i.e. if income does not return similar to previous levels.

The strategy proposed for the council having reviewed the Corporate Plan is to achieve efficiency savings from adopting new ways of working, targeted and tested changes in services and taking some restructure opportunities whilst filling the remaining deficit with some use of General Reserve over the medium term.

Taking a longer term view would be most welcome but this is simply not possible at the present time with so many variables still not able to be firmed up. We have no clear trajectory for Business Rates Reform, or its simpler to action Reset, the Fair Funding Review or any of the lump sum grants that were awarded for the 2021/22 Budget.

That being so we are remaining cautious and prudent in our outlook and reporting regularly on finance matters to the Cabinet.

One area of cost where we remain most concerned is around our leisure offer where we contract with a private sector, albeit not for profit, partner. In addition to not being able to pay the contracted concession fee, the contractor was incurring significant costs in keeping centres open with very reduced income and those costs were being met by the Client under the terms of the contract, being a material change in law.

These costs are not compensated and it is therefore imperative that the position returns to some normality if we are not to perpetuate the financial deficit over the medium term. Modelling over the summer of 2021 should give us a view on this and other income streams to enable Cabinet to set budget guidelines.

### Administration of various grants and reliefs

The authority in common with all others has taken an active role in the payment of grants in order to inject finance into the economy. This was all financed from central government, with the first receipt being £26m on 6 April 2020. Since that time we have paid some £40m of grants to the year end, as the table below shows:

#### Revenue Grants Received

	2020/21 £000	2020/21 £000	2020/21 £000
	Grant Received	Grant Paid to Business	Balance
<b>Grants for Businesses - acting as Principal</b>			
BEIS Covid-19 Discretionary Grant	(1,454)	1,454	0
Track and Trace (Self Isolation) Discretionary	(67)	12	(55)
<b>Grants for Businesses - acting as Agent for BEIS</b>			
BEIS Covid-19 Discretionary Small Business Grant	(26,355)	26,355	0
Local Restrictions Support Grant (Closed) 2nd Tranche	(2,212)	1,159	(1,053)
Additional Restrictions Grant (Discretionary)	(4,362)	3,692	(670)
Tier 2 Local Restrictions Support Grant (Open)	(296)	53	(243)
Tier 2 Local Restrictions Support Grant (Wet Led Pubs)	(90)	30	(60)
LRSG Closed National 20/12/20 to 25/12/20	(9)	8	(1)
LRSG Open Local Restrictions Support Grant 20/12 to 04/01	(122)	22	(100)
LRSG Closed National Tier 4 26/12/20 to 4/01/21	(800)	377	(423)
Tier 5 Grants National 05/01/21 to 15/02/21	(3,317)	1,710	(1,607)
Closed Business Lockdown Payment Tier 4 from 05/01/21	(6,601)	3,419	(3,182)
Local Restrictions Support Grant (Closed) 16/2/21 to 31/3/21	(3,475)	1,787	(1,688)
Track and Trace (Self Isolation) National	(41)	25	(16)
Tier 2 Local Restrictions Support Grant (closed)	(22)	25	3
	<b>(49,223)</b>	<b>40,128</b>	<b>(9,095)</b>

We continue to pay grants in the 2021/22 financial year. Part of this sum could be repaid to Central Government in 2021/22 following reconciliations of additional Covid-19 restriction grants that the Authority paid to businesses on behalf of Central Government.

## 5. Local Taxpayers

During the year, the Authority collected £116,798,000 in Council Tax on behalf of West Sussex County Council, the Sussex Police and Crime Commissioner and Mid Sussex District Council and its towns and parishes. All but £10,519,000 of this was passed on to the other authorities. The collection rate for the year was 98.0% of the total amount due and most of the remainder will be collected in the first few months of 2021/22.

## 6. Pensions

The Authority is required to show in the Statement of Accounts the costs, assets and liabilities associated with its share of the pension fund which is administered by West Sussex County Council. The surplus or deficit on the Authority's Pension Fund is shown within the Balance Sheet.

The pension liability has increased to £21,247,000 as at 31 March 2021, from £15,081,000 the previous year. This is mainly due to the change in financial assumptions used by the actuary particularly the fall in the discount rate and the increase in the Pension Increase Rate (CPI) impacting liabilities. These assumptions are determined by the Actuary and represent the market conditions at the reporting date. The Authority relies and places assurance on the professional judgement of the Actuary and the assumptions used to calculate this actuarial valuation. Full details of the movement in the liability are shown in the Notes to the Accounts, Note 34.

## 7. Other Significant items

Other items are disclosed in the Notes to the Accounts, Note 3.

## 8. Changes in accounting policy

For this year's accounts, there are no changes in accounting policy.

## 9. Borrowing

As part of the Orchards Shopping Centre head-lease purchase, the authority entered into £13m of borrowing with other local authorities at various rates and maturity dates. This strategy was agreed by the Audit Committee and the actual loans were described in the papers received by Audit Committee in January 2017 <http://mid-sussex.cmis.uk.com/mid-sussex/MeetingsCalendar/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1752/Committee/29/Default.aspx>

While the actual loans were paid from working cashflow, the purchase was not adequately financed for the long term until £20m of the receipt from the sale of Hurst Farm was applied at 31 March 2021. The remaining £5m is being amortised over 46 years pending further receipts becoming available.

## 10. Provisions

### NNDR Provision for Appeals

At 31 March 2021 there is a provision of £7,755,000 relating to outstanding appeals to the Rateable Value, as detailed in the Collection Fund Section 4. The Authority's share of this is £3,102,000 as detailed in Note 23.

### Termination Benefits Provision

At 31 March 2021 a provision is not required, as detailed in the Exit Package Note 30.

### Employee Benefits Accrual

Under the Code, the council is required to accrue for any annual leave earned but not taken at 31 March each year. At 31 March 2021 this amounts to a £289,000 provision.

### Municipal Mutual Insurance (MMI)

Municipal Mutual Insurance (MMI) is an insurance company established by a group of local authorities in 1903. The Company suffered substantial losses between 1990 and 1992. These losses reduced MMI's net assets to a level below the minimum regulatory solvency requirement. In September 1992 MMI ceased to write new, or to renew, general insurance business. MMI has been in run-off since 1992 and the Council, like many other local authorities, is a Scheme Creditor of MMI. Under the terms of MMI's Scheme of Arrangement, if MMI cannot complete a solvent run-off, Scheme Creditors may have to pay back part of all claims for which they have received settlements since 1992.

Whilst the Scheme of Arrangement has not been triggered it remains "held in reserve". However, following a recent judgement by the Supreme Court regarding Employers' Liability cover for Mesothelioma claims there is the potential for the scheme of arrangement to be triggered. As at 31 March 2021, there is a remaining provision for £10,000.

## 11. Material Events after the reporting date

There are no such material events.

## 12. Level of Financial Reserves

The level of reserves increased during 2020/21. The Authority' level of General Fund Balances held at 31 March 2021 stands at £7,811,000, being an increase of £1,679,000 in 2020/21 which is largely due to the receipt of New Homes Bonus (NHB) grant (£3,267,000). The main utilisation relates to financing the Programme of Revenue and Capital Projects (£1,435,000), and the financing of the Revenue Overspend (£1,404,000).

The Authority's level of Specific Reserves held at 31 March 2021 stands at £23,816,000, being an increase of £8,107,000 in 2020/21. This was largely due to the s31 grants received for business rates reliefs in 2020/21 which were not anticipated when NNDR1 set business rate shares for 2020/21 but were paid to the General Fund later in the year as Government responded to Covid19 pandemic. These reliefs therefore sit in Earmarked Reserves at year end having been credited to the CIES. However, it should be noted that where Business Rates income has reduced giving rise to a deficit on the Collection Fund, the Collection Fund Adjustment Account carries authorities share of the deficit which will be funded from the s31 grants held in Reserve. Therefore, this increase in Reserves is expected to reduce next year due to the timing of the Collection Fund adjustments for 2020/21.

As stated above, it is felt that the authority has sufficient reserves to weather the financial storm created by the pandemic. While the use of General Reserve is not a long-term solution, it is felt that some temporary and prudent use of the reserve to fill the deficit is warranted and over the medium term. The reports mentioned above anticipate that up to £9.2m could be used over the next four years and until the economy recovers, although this will not be without its own impact on the capital programme which will need to be assessed at the appropriate time.

## 13. Business Rates Retention Scheme (RRS)

The income from Business Rates is part of our core funding and while there are signs that the scheme will change in the future, it is presently a reliable source of finance. The authority has also benefitted from the Rampion Windfarm substation being situated in Bolney as this rateable income is kept directly by Mid Sussex (by way of it being derived from renewable energy) rather than being shared with either the government or the other preceptors. This position should not change even when the system is reset to remove the rates growth and distribute that to other parts of the sector.

## 14. Council Tax Support Scheme (CTSS)

This has become business as usual now and has been updated to be administratively less cumbersome. During Covid there has been some increased uptake but not to a significant degree. We have also been able to offer a one-off top up through the year amounting to £200 per claimant. This top-up was funded from MHCLG Covid-19 Council Tax Hardship Fund received of £696,000.

## 15. Further Information

Interested members of the public have a statutory right to inspect the accounts from 2 August 2021 to 13 September 2021. The Notice was placed on the MSDC website, under the Finance Publications section. Further information about any aspect of the accounts is available from both the Head of Corporate Resources, Peter Stuart 01444 477315 ([Peter.Stuart@midsussex.gov.uk](mailto:Peter.Stuart@midsussex.gov.uk)), and the Chief Accountant, Cathy Craigen 01444 477384 ([Cathy.Craigen@midsussex.gov.uk](mailto:Cathy.Craigen@midsussex.gov.uk)), at Mid Sussex District Council, Oaklands Road, Haywards Heath, RH16 1SS. It is our intention to be open with the information that we hold and we encourage local stakeholder enquiries.









## Movement In Reserves Statement

	General Fund Reserves	Usable Capital Receipts	Capital Grants Unapplied Account	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 2020</b>	<b>(21,841)</b>	<b>(1,145)</b>	<b>(5,669)</b>	<b>(28,655)</b>	<b>(128,245)</b>	<b>(156,900)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>2,493</b>	<b>0</b>	<b>0</b>	<b>2,493</b>	<b>372</b>	<b>2,865</b>
Adjustments between accounting basis and funding basis under regulation (Note 6)	(12,279)	(4,496)	34	(16,741)	16,741	0
<b>Increase / Decrease in Year</b>	<b>(9,786)</b>	<b>(4,496)</b>	<b>34</b>	<b>(14,248)</b>	<b>17,113</b>	<b>2,865</b>
<b>Balance at 31 March 2021</b>	<b>(31,627)</b>	<b>(5,641)</b>	<b>(5,635)</b>	<b>(42,903)</b>	<b>(111,132)</b>	<b>(154,035)</b>
General Fund Balances	(7,811)					
Earmarked Specific Reserves	(23,816)					
<b>General Fund Reserves balance at 31 March 2021 (Note 7)</b>	<b>(31,627)</b>					

	General Fund Reserves	Usable Capital Receipts	Capital Grants Unapplied Account	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 2019</b>	<b>(19,938)</b>	<b>(1,061)</b>	<b>(5,674)</b>	<b>(26,673)</b>	<b>(112,528)</b>	<b>(139,201)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>4,522</b>	<b>0</b>	<b>0</b>	<b>4,522</b>	<b>(22,221)</b>	<b>(17,699)</b>
Adjustments between accounting basis and funding basis under regulation (Note 6)	(6,425)	(84)	5	(6,504)	6,504	0
<b>Increase / Decrease in Year</b>	<b>(1,903)</b>	<b>(84)</b>	<b>5</b>	<b>(1,982)</b>	<b>(15,717)</b>	<b>(17,699)</b>
<b>Balance at 31 March 2020</b>	<b>(21,841)</b>	<b>(1,145)</b>	<b>(5,669)</b>	<b>(28,655)</b>	<b>(128,245)</b>	<b>(156,900)</b>
General Fund Balances	(6,132)					
Earmarked Specific Reserves	(15,709)					
<b>General Fund Reserves balance at 31 March 2020 (Note 7)</b>	<b>(21,841)</b>					

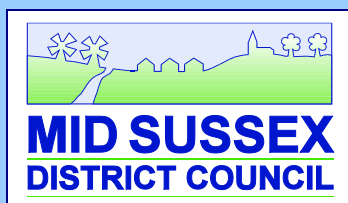
## Balance Sheet

31 March 2020 £000		31 March 2021 £000
86,549	Land and Buildings	91,543
3,349	Vehicles, Plant & Equipment	3,112
2,022	Infrastructure Assets	1,877
20	Community Assets	20
0	Assets Under Construction	2,122
0	Surplus Assets	0
91,940	<b>Property, Plant &amp; Equipment</b>	98,674
825	Heritage Assets	825
50,779	Investment Properties	47,094
445	Intangible Assets	299
5,755	Long Term Investments	5,714
22	Long Term Debtors	20
149,766	<b>Long Term Assets</b>	152,626
19,171	Short Term Investments	38,070
3,778	Short Term Debtors	16,878
27,208	Assets Held For Sale	0
9,790	Cash & Cash Equivalents	20,831
59,947	<b>Current Assets</b>	75,779
0	Bank Overdraft	0
(17,066)	Creditors	(31,834)
(1,577)	Provisions	(3,401)
(283)	Finance Lease Payable Less 1 Year	(288)
(189)	Borrowing Payable Less 1 Year	(5,185)
(19,115)	<b>Current Liabilities</b>	(40,708)
(9,061)	Capital Grants & Contributions Receipts In Advance	(10,293)
(2,258)	Finance Lease Payable Longer 1 Year	(1,970)
(7,298)	Borrowing Payable Longer 1 Year	(152)
(15,081)	Liability related to Defined Benefit Pension Scheme	(21,247)
(33,698)	<b>Long Term Liabilities</b>	(33,662)
156,900	<b>Net Assets</b>	154,035
(6,132)	General Fund Balances	(7,811)
(15,709)	Earmarked Specific Reserve	(23,816)
(1,145)	Usable Capital Receipts Reserve	(5,641)
(5,669)	Capital Grants Unapplied Account	(5,635)
(28,655)	<b>Usable Reserves</b>	(42,903)
(71,898)	Revaluation Reserve	(49,339)
(71,721)	Capital Adjustment Account	(90,218)
(16)	Deferred Capital Receipts Reserve	(15)
271	Financial Instruments Revaluation Reserve	311
15,081	Pensions Reserve	21,247
(108)	Collection Fund Adjustment Account	6,593
146	Accumulated Absences Account	289
(128,245)	<b>Unusable Reserves</b>	(111,132)
(156,900)	<b>Total Reserves</b>	(154,035)

  
 P Stuart, FCPFA  
 Head of Corporate Resources  
 1 March 2022

## Cash Flow Statement

2019/20 £000		Note	2020/21 £000
(4,522)	<b>Net surplus / (deficit) on the provision of services</b>	CIES	<b>(2,493)</b>
13,787	Adjustments to net surplus or deficit on the provision of services for non cash movement	27	<b>39,737</b>
(6,368)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	27	<b>(35,817)</b>
<u>2,897</u>	<b>Net cash flows from Operating Activities</b>	27	<b>1,427</b>
	<b>Investing Activities</b>		
(3,814)	Purchase of property, plant and equipment, investment property and intangible assets		<b>(4,828)</b>
(24,000)	Purchase of short-term and long-term investments		<b>(65,005)</b>
208	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		<b>26,122</b>
25,000	Proceeds of short-term and long-term investments		<b>45,991</b>
7,268	Capital grants and S106 contributions received		<b>10,928</b>
<u>4,662</u>	<b>Net Cash flows from Investing Activities</b>		<b>13,208</b>
	<b>Financing Activities</b>		
0	Cash receipts of short-term and long-term borrowing		<b>0</b>
(277)	Cash payments for the reduction of the outstanding liabilities relating to finance leases		<b>(283)</b>
(6,133)	Repayments of short-term and long-term borrowing		<b>(2,139)</b>
3,443	Other payments for financing activities		<b>(1,172)</b>
<u>(2,967)</u>	<b>Net Cash flows from Financing Activities</b>		<b>(3,594)</b>
<u>4,592</u>	<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>11,041</b>
5,198	Cash and cash equivalents at 1 April	20	<b>9,790</b>
<u>9,790</u>	Cash and cash equivalents at 31 March	20	<b>20,831</b>
<u>4,592</u>	Movement in year increase / (decrease)		<b>11,041</b>



## Notes to the Accounts

## 1. Expenditure and Funding Analysis

	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21
	Net Expenditure Chargeable to the General Fund Balances	Adjustments for Capital purposes (Note a)	Net change for the Pensions adjustments (Note b)	Other Differences (Note c)	Total Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
Business Unit	£000	£000	£000	£000	£000	£000
Housing	1,892	1,060	58	13	1,131	3,023
Planning Policy & Economic Development	2,052	33	47	4	84	2,136
Development Management	1,028	0	115	24	139	1,167
Cleansing Services	3,572	434	25	2	461	4,033
Parking Services	221	64	60	2	126	347
Landscapes & Leisure	5,848	1,435	55	6	1,496	7,344
Community Services, Policy & Performance	1,526	0	72	10	82	1,608
Corporate Estates & Facilities	31	1,130	37	5	1,172	1,203
Finance Accountancy	(13)	0	47	13	60	47
Finance Corporate	1,184	0	(950)	0	(950)	234
Revenues & Benefits	2,651	13	124	27	164	2,815
Customer Services & Digital & Technology Services	(36)	0	36	3	39	3
Human Resources & Payroll	77	181	71	5	257	334
Legal Services	(84)	0	20	(1)	19	(65)
Democratic Services	(15)	0	35	3	38	23
Land Charges	890	3	23	5	31	921
Environmental Health	56	37	9	1	47	103
Building Control	1,047	0	87	17	104	1,151
Strategic Core	371	0	52	4	56	427
Benefits	1,423	0	115	0	115	1,538
	(111)	0	0	0	0	(111)
<b>Net Cost of Services</b>	<b>23,610</b>	<b>4,390</b>	<b>138</b>	<b>143</b>	<b>4,671</b>	<b>28,281</b>
Town & Parish Precepts and Levies	4,591	0	0	0	0	4,591
Net (gain)/loss on disposal of non current assets	118	1,235	0	0	1,235	1,353
Payment to Housing Capital Receipts Pool	0	215	0	0	215	215
Net interest receivable	(282)	0	0	0	0	(282)
Net interest on pension net defined benefit liability	0	0	349	0	349	349
Investment Properties	(2,636)	3,685	0	0	3,685	1,049
Financial Instruments Valuation Adjustment	0	0	0	40	40	40
Capital grants and contributions unapplied credited to the CIES	(14)	(2,692)	0	0	(2,692)	(2,706)
Council Tax Income	(15,271)	0	0	88	88	(15,183)
Business Rates Income	(1,788)	0	0	6,613	6,613	4,825
Non-ringfenced government grants	(20,039)	0	0	0	0	(20,039)
Capital Expenditure financed from revenue balances	1,403	(1,403)	0	0	(1,403)	0
Statutory provision for payment of debt, Minimum Revenue Provision	522	(522)	0	0	(522)	0
<b>Other Income and Expenditure (Notes 8, 9, 10)</b>	<b>(33,396)</b>	<b>518</b>	<b>349</b>	<b>6,741</b>	<b>7,608</b>	<b>(25,788)</b>
<b>(Surplus)/Deficit for year</b>	<b>(9,786)</b>	<b>4,908</b>	<b>487</b>	<b>6,884</b>	<b>12,279</b>	<b>2,493</b>
<b>Opening General Fund Reserves</b>	<b>(21,841)</b>					
<b>Plus/ less Surplus or Deficit on General Fund Balance in Year</b>	<b>(9,786)</b>					
<b>Closing General Fund Reserves</b>	<b>(31,627)</b>					

The Net Expenditure Chargeable to the General Fund Balances shown above is listed by Business Unit. This can be referenced back to the Narrative Report Note 2 table on page 7 which is a summary of the Outturn reported to Cabinet on 7 June 2021 with columns showing transfers to reserves and other adjustments. The columns showing the Adjustments between the Funding and Accounting Basis give details of the adjustments to reach the total Net Expenditure in the CIES. These adjustments are also shown in Note 6.

#### Adjustments for Capital Purposes

- (a) Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:
- **Other operating expenditure**- adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
  - **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
  - **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

#### Net Change for the Pensions Adjustments

- (b) Net change for the removal of pension contributions and the addition of IAS19 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

- (c) 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 the Accumulated Absences Account accrual for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March.
  - For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for statutory override for pooled investments.
  - 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.
  - This also includes the net transfer to Earmarked Specific Reserves.



	2019/20	2019/20	2019/20	2019/20	2019/20	2019/20
	<b>Net Expenditure Chargeable to the General Fund Balances</b>	Adjustments for Capital purposes (Note a)	Net change for the Pensions adjustments (Note b)	Other Differences (Note c)	<b>Total Adjustments between the Funding and Accounting Basis</b>	<b>Net Expenditure in the Comprehensive Income and Expenditure Statement</b>
<b>Business Unit</b>	£000	£000	£000	£000	£000	£000
Housing	1,660	49	155	4	208	1,868
Planning Policy & Economic Development	856	0	144	6	150	1,006
Development Management	657	0	306	0	306	963
Cleansing Services	2,567	326	78	1	405	2,972
Parking Services	(1,170)	5	170	2	177	(993)
Landscapes & Leisure	1,112	1,507	144	3	1,654	2,766
Community Services, Policy & Performance	1,443	0	179	(3)	176	1,619
Corporate Estates & Facilities	(52)	528	109	3	640	588
Finance Accountancy	40	0	54	(3)	51	91
Finance Corporate	1,637	0	(1,304)	0	(1,304)	333
Revenues & Benefits	2,448	15	385	0	400	2,848
Customer Services & Communications	26	0	101	2	103	129
Digital & Technology Services	337	184	196	8	388	725
Human Resources & Payroll	98	0	76	5	81	179
Legal Services	(25)	0	78	3	81	56
Democratic Services	1,042	3	64	1	68	1,110
Land Charges	88	41	31	1	73	161
Environmental Health	1,098	0	237	(1)	236	1,334
Building Control	369	0	150	(2)	148	517
Strategic Core	1,342	0	315	19	334	1,676
Benefits	(109)	0	0	0	0	(109)
<b>Net Cost of Services</b>	<b>15,464</b>	<b>2,658</b>	<b>1,668</b>	<b>49</b>	<b>4,375</b>	<b>19,839</b>
Town & Parish Precepts and Levies	4,213	0	0	0	0	4,213
Net gain/loss on disposal of non current assets	0	(170)	0	0	(170)	(170)
Payment to Housing Capital Receipts Pool	0	38	0	0	38	38
Net interest receivable	(436)	0	0	0	0	(436)
Net interest on pension net defined benefit liability	0	0	875	0	875	875
Investment Properties	(2,747)	5,764	0	0	5,764	3,017
Financial Instruments Valuation Adjustment	0	0	0	213	213	213
Capital grants and contributions unapplied credited to the CIES	(33)	(558)	0	0	(558)	(591)
Council Tax Income	(14,363)	0	0	(82)	(82)	(14,445)
Business Rates Income	(2,248)	0	0	(279)	(279)	(2,527)
Non-ringfenced government grants	(5,504)	0	0	0	0	(5,504)
Capital Expenditure financed from revenue balances	3,241	(3,241)	0	0	(3,241)	0
Statutory provision for payment of debt, Minimum Revenue Provision	510	(510)	0	0	(510)	0
<b>Other Income and Expenditure (Notes 8, 9, 10)</b>	<b>(17,367)</b>	<b>1,323</b>	<b>875</b>	<b>(148)</b>	<b>2,050</b>	<b>(15,317)</b>
<b>(Surplus)/Deficit for year</b>	<b>(1,903)</b>	<b>3,981</b>	<b>2,543</b>	<b>(99)</b>	<b>6,425</b>	<b>4,522</b>
<b>Opening General Fund Reserves</b>	<b>(19,938)</b>					
<b>Plus/ less Surplus or Deficit on General Fund Balance in Year</b>	<b>(1,903)</b>					
<b>Closing General Fund Reserves</b>	<b>(21,841)</b>					

## 2. Expenditure and Income analysed by nature

The Authority's expenditure and income is analysed as follows:

	2020/21 £000	2019/20 £000
<b>Expenditure</b>		
Employee benefits expenses (includes Pensions adjustments in Note 1)	14,500	16,594
Benefits (CIES)	26,337	28,759
Premises, Transport, Supplies & Services, Third Party Payments	20,323	14,186
REFCUS (Narrative Report Note 2) and Revenue Projects	6,706	6,150
Investment Property operating expenditure (Note 14)	1,327	1,423
Investment property revaluations (net decreases) (Note 14)	3,685	5,764
Financial Instrument Valuation Adjustment (Note 9)	40	213
Support service recharges	(114)	(86)
Depreciation, amortisation (Note 12, Note 15)	2,056	2,112
Impairment (Note 17)	1,565	159
Interest payments (Note 9)	137	156
Precepts and levies (Note 8)	4,591	4,213
Payments to Housing Capital Receipts Pool (Note 8)	215	38
Net (Gain)/Loss on the disposal of assets (Note 8)	1,353	(170)
<b>Total Expenditure</b>	<b>82,721</b>	<b>79,511</b>
<b>Income</b>		
Fees, charges and other service income	(8,386)	(12,370)
Interest and dividend income (Note 18)	(419)	(592)
Investment property income (Note 14)	(3,963)	(4,170)
Investment property revaluations (net increases) (Note 14)	0	0
Income from council tax and non-domestic rates (Note 10)	(10,358)	(16,972)
Housing Benefit Gross Income (CIES)	(26,448)	(28,868)
Government grants and contributions (Note 10, Note 11)	(30,654)	(12,017)
<b>Total Income</b>	<b>(80,228)</b>	<b>(74,989)</b>
<b>(Surplus) / deficit on the Provision of Services</b>	<b>2,493</b>	<b>4,522</b>

## 3. Material Items of Income and Expense

For the purposes of this note, the Authority considers materiality as £1,590,000, based on 2% of prior year gross service expenditure. Where material items are not disclosed on the face of the Comprehensive Income and Expenditure Statement, the nature and amount of these items would be separately disclosed. For 2020/21 the material items are:

- The receipt of New Homes Bonus of £3,267,000, Business Rates Grant of £11,293,000, Sales, Fees and Charges Support Grant of £2,161,000 and Covid-19 Emergency Funding Grant of £1,941,000 as detailed in Note 10 Taxation and Non-Specific Grant Income and Expenditure.
- The receipt of Business Rates Renewable Energy Scheme of £2,552,000 is part of the Business Rates Income shown in Note 10.
- The receipt of £2,636,000 relating to the net rental income from Investment Property as detailed in Note 14 Investment Properties.

## 4. Events After The Reporting Period

The Statement of Accounts was authorised for issue by the Head of Corporate Resources on 1 March 2022. Events taking place after the reporting period are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### Impact of Covid19

The Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404) have extended the statutory audit deadline for 2020/21 for all local authorities, apart from health service bodies. The publication date for audited accounts will move from 30 November in 2019/20 to 30 September 2021.

### Asset Valuations

The valuations that are detailed in Note 12 and Note 14 have been provided by Wilkes Head Eve LLP, who have issued the following statement with their report:

- “The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.
- Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.
- Our valuation(s) / market review(s) are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation/review than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of asset/portfolio under frequent review.”

### McCloud Judgement June 2019

The UK Government requested leave to appeal to the Supreme Court in respect of the McCloud Judgement but this was denied at the end of June 2019. IAS19 values were therefore been updated to reflect actuarial assumptions subsequent to this decision in the 2018/19 accounts. A more detailed disclosure is included under Note 34 Defined Benefit Pension Schemes.

## 5. Prior Period Adjustments

There are no prior period adjustments.

## 6. 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 Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure, as shown in the Movement In Reserves Statement.

The following sets out a description of the reserves that the adjustments are made against.

### General Fund Balance

The General Fund is a statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Authority is required to recover) at the end of the financial year.

### Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

### Capital Grants Unapplied Account

The Capital Grants Unapplied Accounts holds the grants and contributions received towards capital projects for which the Authority has met the conditions that would otherwise require repayment for the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and /or the financial year in which this can take place.

2020/21	Usable Reserves		
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000
<b>Adjustments to the Revenue Resources</b>			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pension costs (transferred to/from the Pensions Reserve, Note 25(f))	(487)	0	0
Council tax and NDR (transfers to or from Collection Fund Adjustment Account (Note 25(g)))	(6,701)	0	0
Holiday pay (transferred to the Accumulated Absences Account (Note 25 (h)))	(143)	0	0
Financial Instruments Valuation Adjustments (transferred to the Financial Instruments Valuation Reserve (Note 25 (d)))	(40)	0	0
Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account:			
Charges for depreciation and impairment of non current assets	(1,915)	0	0
Revaluation losses on Property Plant and Equipment, and Heritage Assets	(1,565)	0	0
Movements in the fair value of Investment Properties	(3,685)	0	0
Amortisation of intangible assets	(141)	0	0
Capital grants and contributions applied for REFCUS	5,600	0	0
Revenue expenditure funded from capital under statute	(6,369)	0	0
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(27,356)	0	0
Capital grants and contributions unapplied credited to the CIES	2,692	0	(2,692)
<b>Total Adjustments to Revenue Resources</b>	<b>(40,110)</b>	<b>0</b>	<b>(2,692)</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	26,121	(26,121)	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(215)	215	0
Statutory provision for the payment of debt (transfer to the Capital Adjustment Account)	522	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,403	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>27,831</b>	<b>(25,906)</b>	<b>0</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	0	21,411	0
Application of capital grants to finance capital expenditure	0	0	2,726
Cash payments in relation to deferred capital receipts	0	(1)	0
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>21,410</b>	<b>2,726</b>
<b>Total Adjustments on MIRS</b>	<b>(12,279)</b>	<b>(4,496)</b>	<b>34</b>

2019/20

## Usable Reserves

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000
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**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 costs (transferred to/from the Pensions Reserve, Note 25(f))	(2,543)	0	0
Council tax and NDR (transfers to or from Collection Fund Adjustment Account (Note 25(g)))	361	0	0
Holiday pay (transferred to the Accumulated Absences Account (Note 25 (h)))	(49)	0	0
Financial Instruments Valuation Adjustments (transferred to the Financial Instruments Valuation Reserve (Note 25 (d)))	(213)	0	0
Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account:			
Charges for depreciation and impairment of non current assets	(1,959)	0	0
Revaluation losses on Property Plant and Equipment, and Heritage Assets	(159)	0	0
Movements in the fair value of Investment Properties	(5,764)	0	0
Amortisation of intangible assets	(153)	0	0
Capital grants and contributions applied for REFCUS	5,602	0	0
Revenue expenditure funded from capital under statute	(5,990)	0	0
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(36)	0	0
Capital grants and contributions unapplied credited to the CIES	558	0	(558)
<b>Total Adjustments to Revenue Resources</b>	<b>(10,345)</b>	<b>0</b>	<b>(558)</b>

**Adjustments between Revenue and Capital Resources**

Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	207	(207)	0
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(38)	38	0
Statutory provision for the payment of debt (transfer to the Capital Adjustment Account)	510	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	3,241	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>3,920</b>	<b>(169)</b>	<b>0</b>

**Adjustments to Capital Resources**

Use of the Capital Receipts Reserve to finance capital expenditure	0	86	0
Application of capital grants to finance capital expenditure	0	0	563
Cash payments in relation to deferred capital receipts	0	(1)	0
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>85</b>	<b>563</b>
<b>Total Adjustments on MIRS</b>	<b>(6,425)</b>	<b>(84)</b>	<b>5</b>

## 7. Transfers To/From Earmarked Specific Reserves

This note sets out the amounts set aside from the General Fund balance in earmarked specific reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2020/21. The net movement in the year is shown on the Movement In Reserves Statement. Further explanation of each item included in Specific Reserve is set out in the Outturn Report 2020/21, to Cabinet on 7 June 2021.

Specific Reserve	Balance at 1 April 2019 £000	Transfers In 2019/20 £000	Transfers Out 2019/20 £000	Balance at 31 March 2020 £000	Transfers In 2020/21 £000	Transfers Out 2020/21 £000	Balance at 31 March 2021 £000
Housing	(2,364)	(333)	1,687	(1,010)	(606)	1,008	(608)
Planning Policy & Economic Development	(3,202)	(673)	806	(3,069)	(831)	2,241	(1,659)
Development Management	(21)	0	0	(21)	0	21	0
Parking	(114)	0	20	(94)	0	74	(20)
Cleansing Services	(176)	0	35	(141)	(80)	173	(48)
Landscapes & Leisure	(425)	(278)	296	(407)	(518)	132	(793)
Community Services, Policy & Performance	(447)	(76)	148	(375)	(561)	155	(781)
Corporate Estates & Facilities	(5,345)	(738)	515	(5,568)	(93)	292	(5,369)
Finance Accountancy	(11)	(17)	14	(14)	(22)	2	(34)
Finance Corporate	(404)	(137)	408	(133)	(567)	259	(441)
Revenues & Benefits	(192)	(132)	40	(284)	(471)	376	(379)
Digital & Technology Services	(199)	(405)	530	(74)	0	23	(51)
Human Resources & Payroll	(2)	(6)	7	(1)	(6)	7	0
Democratic Services	(207)	(70)	129	(148)	(57)	119	(86)
Land Charges	(2)	0	0	(2)	0	2	0
Planning Service Support	(25)	0	25	0	0	0	0
Environmental Health	0	(5)	0	(5)	(204)	63	(146)
Corporate Funds	(3,704)	(1,415)	756	(4,363)	(11,349)	2,311	(13,401)
<b>Specific Reserve Total</b>	<b>(16,840)</b>	<b>(4,285)</b>	<b>5,416</b>	<b>(15,709)</b>	<b>(15,365)</b>	<b>7,258</b>	<b>(23,816)</b>
<b>General Fund Balances</b>	<b>(3,098)</b>	<b>(4,636)</b>	<b>1,602</b>	<b>(6,132)</b>	<b>(5,818)</b>	<b>4,139</b>	<b>(7,811)</b>
	<b>(19,938)</b>	<b>(8,921)</b>	<b>7,018</b>	<b>(21,841)</b>	<b>(21,183)</b>	<b>11,397</b>	<b>(31,627)</b>

**Earmarked Specific Reserves** – These reserves comprise amounts for particular purposes and for which Member authorisation has been obtained as to how these may be applied.

- The transfers out of the Housing Specific Reserve included £346,000 utilised from the Temporary Accommodation Reserve to help secure better accommodation for vulnerable families and £387,000 spent from the Flexible Homelessness Specific Reserve to further support Temporary Accommodation associated costs.
- The transfers out of the Planning Policy and Economic Development Specific Reserve included £1,477,000 for the transfer to Wealden District Council of SAMM contributions as part of the Joint SAMM strategy and the pooled funding of the shared service this year.
- The transfers to Corporate Funds Specific Reserve included £11,349,000 to the Rate Retention Scheme Equalisation of which £11,293,000 relates to MHCLG grants for Business Rates Reliefs that were paid by Central Government as compensation for the loss of Business Rates Income that would have been received as part of the Collection Fund accounting (refer to Section 4), due to the COVID-19 pandemic. The year end balance of this reserve will be used to fund the Authority's Collection Fund deficit in future years. £1,669,000 has been utilised including £214,000 for current year NNDR3 levy adjustment and £1,455,000 for Revenue Budget financing.

**General Fund Balances** – This includes amounts earmarked for the Capital Programme, amounts provided by developers as commuted sums in lieu of future maintenance, and resources available to meet future running costs for services.



**8. Other Operating Expenditure**

	2020/21 £000	2019/20 £000
Town and Parish Council precepts	4,590	4,212
Levies	1	1
Payments to Government Housing Capital Receipts Pool (Note 6)	215	38
Net (gains)/losses on the disposal of non-current assets	1,353	(170)
<b>Total</b>	<b>6,159</b>	<b>4,081</b>

**9. Financing and Investment Income and Expenditure**

	2020/21 £000	2019/20 £000
Net interest on the net defined benefit liability/(asset) (Note 34)	349	875
Interest payable and similar charges (Note 18)	137	156
Interest receivable and similar income (Note 18)	(419)	(592)
Income and expenditure for Investment Properties (Note 14)	(2,636)	(2,747)
Movement in fair value of Investment Properties (Note 14)	3,685	5,764
Movement in valuation of Financial Instruments (Note 25(d))	40	213
<b>Total</b>	<b>1,156</b>	<b>3,669</b>

**10. Taxation and Non-Specific Grant Income and Expenditure**

	2020/21 £000	2019/20 £000
Housing Benefits Administration Grant	(235)	(224)
New Homes Bonus	(3,267)	(3,444)
Business Rate Relief Grants *	(11,293)	(1,179)
Covid-19 Emergency Funding Grant *	(1,771)	(38)
Sales, Fees and Charges Support Grant *	(2,161)	0
Sports England Leisure Recovery Fund	(301)	0
Discretionary Self Isolation Payments Funding *	(67)	0
Homelessness Grants	(373)	(309)
Various DWP New Burden Grants	(89)	(104)
New Burden Council Tax Reform & Business Rates Scheme	(91)	(99)
Local Council Tax New Burdens	(23)	(18)
Other New Burdens Grants	(317)	(29)
Neighbourhood Planning Grant	(40)	0
Individual Electoral Registration Grant	(11)	(25)
EU Exit Preparation Grant	0	(35)
Non-ringfenced government grants	(20,039)	(5,504)
Council Tax Income (Collection Fund)	(15,183)	(14,445)
Retained Business Rates (Collection Fund)	4,825	(2,527)
Capital Grants and S106 Receipts	(2,706)	(591)
<b>Total credited to Taxation and Non Specific Grant Income</b>	<b>(33,103)</b>	<b>(23,067)</b>

\* Further information detailing the Covid-19 grants received is explained in the Narrative Report, Note 4.



## 11. Grant Income

The authority credited the following grants and contributions within the Net Cost of Service in the Comprehensive Income and Expenditure Statement in 2020/21. The non-ringfenced grants that have been credited to the Taxation and Non-Specific Grant Income and Expenditure line on the CIES are detailed in Note 10.

	2020/21 £000	2019/20 £000
DWP Housing Benefit Subsidy	(25,060)	(27,266)
Disabled Facilities Grant Contribution from WSCC	(1,226)	(1,013)
DWP Employment Project Coordinator	(106)	(15)
Cabinet Office Voter Pilot ID	0	(267)
WSCC Contribution- Civil Parking Enforcement/Controlled Parking Zone	(342)	(200)
WSCC Contribution- Recycling Credits	(2)	(791)
WSCC Contribution - Microbusiness Grant	(20)	(46)
WSCC Partnerships	(67)	(78)
WSCC Sustainability	(61)	0
WSCC Public Health	(379)	(387)
WSCC Covid 19 Prevention	(150)	0
WSCC Flood Risk	(13)	(13)
BEIS Covid 19 Discretionary Grant	(1,454)	0
CDC Independence Retail Programme	(80)	0
MHCLG Reopening High Streets Safely	(72)	0
MHCLG Next Steps Accommodation	(38)	0
MHCLG Covid 19 Council Tax Hardship Fund	(696)	0
MHCLG Local Authority Compliance and Enforcement	(49)	0
NNDR Cost of Collection contribution	(172)	(172)
Other	(3)	(13)
<b>Total Credited to Services</b>	<b>(29,990)</b>	<b>(30,261)</b>

The revenue grants that have yet to be recognised as income, as they have conditions attached to them that will require the monies to be returned to the giver, are held as Receipts In Advance within Creditors. The balances at the year-end are as follows: Mid Sussex Partnership £14,000 (£86,000 2019/20).

Additional grants of £47,701,000 were received from the Government as part of their response to the Covid-19 pandemic, where the Authority was deemed to be acting as an agent and so passing these funds onto the eventual beneficiaries. These transactions do not have an impact on the Statement of Accounts, except where they pass through the Cash Flow Statement. Further details are given in the Narrative Report, Note 4.

### Capital Grants and Contributions - Receipts In Advance

The Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver, including Section 106s, which are time limited.

Section 106 receipts are monies paid to the Council by developers as a result of the grant of planning permission where works are required to be carried out or new facilities provided as a result of that permission (e.g. playgrounds and equipment). The sums are restricted to being spent only in accordance with the agreement concluded with the developer.

	2020/21 £000	2019/20 £000
Balance at 1 April	(9,061)	(7,954)
Received in year	(9,645)	(7,230)
Applied to Comprehensive Income and Expenditure Statement	8,413	6,123
Balance at 31 March	<b>(10,293)</b>	<b>(9,061)</b>

The year-end balance is for £9,994,000 Time Limited Section 106 receipts and £299,000 Local Authority contributions.

## 12. Property, Plant and Equipment

Non-current assets are included in the balance sheet at their current value, determined as the amount that would be paid for the asset in its existing use (existing use value-EUV), except for infrastructure and community assets which are included at historical cost or £1 value. The current value measurement base for surplus assets is fair value, estimated at highest and best use from a market participant's perspective.

### Depreciation

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

- Buildings: straight line allocation over the useful life of the property as estimated by the valuer  
Component Parts of the Leisure Centres, Council Offices, Woodside Pavilion and East Court Pavilion are Structure-Externals 60 years life, Roof-Electrical 35 years life, Services 20 years life
- Vehicles, Plant and Equipment: straight line  
Computer equipment 5 year life, Playground equipment 5 year life, Wheeled Bins 10 year life, Car Parking Machines 7 year life, Mobile Seating Unit 10 year life
- Infrastructure: straight line over the life of the asset

The main elements of the depreciation charge are for Leisure Centres and Community Halls, £984,000 (£1,059,000 in 2019/20), for Other Buildings, £242,000 (£206,000 in 2019/20), and for Digital & Technology and Playground Equipment, £261,000 (£256,000 in 2019/20).

### Capital Commitments

At 31 March 2021, the Authority has authorised expenditure for the construction or enhancement of Property, Plant and Equipment which in 2021/22 - 2024/25 is budgeted to cost £4,466,000. Similar commitments at 31 March 2020 were £2,721,000. The commitments are as follows:

Scheme	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Total £000
Temporary Accommodation	2,800	0	0	0	2,800
Oaklands Window Replacement	149	0	0	0	149
Heating works Phase 3	106	0	0	0	106
Major Capital Renewals	33	162	130	146	471
Digital and Technology	258	50	50	50	408
Other Schemes including playground equipment & infrastructure	532	0	0	0	532
<b>Total</b>	<b>3,878</b>	<b>212</b>	<b>180</b>	<b>196</b>	<b>4,466</b>

At 31 March 2021 the Authority's outstanding contractual commitments for the construction or enhancement of Property, Plant and Equipment were £131,000 (£134,000 at 31 March 2020).

### Assets Under Construction

The Assets Under Construction are for the Local Full Fibre Scheme and the Rural Connectivity Programme.

## Section 3

2020/21	Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total	Finance Leased Assets included in Vehicles, Plant & Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>								
At 1 April 2020	88,175	7,707	4,100	20	0	0	<b>100,002</b>	3,089
Additions	2,590	322	0	0	2,122	0	<b>5,034</b>	0
Revaluation increase/(decrease) recognised in the Revaluation Reserve	3,881	0	0	0	0	0	<b>3,881</b>	0
Revaluation increase/(decrease) recognised in the Surplus/Deficit on the Provision of Services	(1,602)	0	0	0	0	0	<b>(1,602)</b>	0
Derecognition - disposals	(116)	(329)	0	0	0	0	<b>(445)</b>	0
Other movements in cost or valuation	0	0	0	0	0	0	<b>0</b>	0
<b>At 31 March 2021</b>	<b>92,928</b>	<b>7,700</b>	<b>4,100</b>	<b>20</b>	<b>2,122</b>	<b>0</b>	<b>106,870</b>	<b>3,089</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2020	(1,626)	(4,358)	(2,078)	0	0	0	<b>(8,062)</b>	(548)
Depreciation Charge	(1,227)	(543)	(145)	0	0	0	<b>(1,915)</b>	(283)
Depreciation written out to the Revaluation Reserve	1,426	0	0	0	0	0	<b>1,426</b>	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	37	0	0	0	0	0	<b>37</b>	0
Derecognition - disposals	5	313	0	0	0	0	<b>318</b>	0
<b>At 31 March 2021</b>	<b>(1,385)</b>	<b>(4,588)</b>	<b>(2,223)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(8,196)</b>	<b>(831)</b>
<b>Net Book Value At 31 March 2021</b>	<b>91,543</b>	<b>3,112</b>	<b>1,877</b>	<b>20</b>	<b>2,122</b>	<b>0</b>	<b>98,674</b>	<b>2,258</b>
<b>Net Book Value At 31 March 2020</b>	<b>86,549</b>	<b>3,349</b>	<b>2,022</b>	<b>20</b>	<b>0</b>	<b>0</b>	<b>91,940</b>	<b>2,541</b>

## Section 3

2019/20	Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total	Finance Leased Assets included in Vehicles, Plant & Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>								
At 1 April 2019	88,182	7,723	4,110	20	117	386	<b>100,538</b>	3,089
Additions	2,200	145	0	0	81	0	<b>2,426</b>	0
Revaluation increase/(decrease) recognised in the Revaluation Reserve	(1,963)	0	0	0	0	0	<b>(1,963)</b>	0
Revaluation increase/(decrease) recognised in the Surplus/Deficit on the Provision of Services	(230)	0	0	0	0	0	<b>(230)</b>	0
Derecognition - disposals	(14)	(359)	(10)	0	0	0	<b>(383)</b>	0
Other movements in cost or valuation	0	198	0	0	(198)	(386)	<b>(386)</b>	0
<b>At 31 March 2020</b>	<b>88,175</b>	<b>7,707</b>	<b>4,100</b>	<b>20</b>	<b>0</b>	<b>0</b>	<b>100,002</b>	<b>3,089</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2019	(1,592)	(4,166)	(1,937)	0	0	0	<b>(7,695)</b>	(271)
Depreciation Charge	(1,281)	(533)	(145)	0	0	0	<b>(1,959)</b>	(277)
Depreciation written out to the Revaluation Reserve	1,176	0	0	0	0	0	<b>1,176</b>	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	71	0	0	0	0	0	<b>71</b>	0
Derecognition - disposals	0	341	4	0	0	0	<b>345</b>	0
<b>At 31 March 2020</b>	<b>(1,626)</b>	<b>(4,358)</b>	<b>(2,078)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(8,062)</b>	<b>(548)</b>
<b>Net Book Value At 31 March 2020</b>	<b>86,549</b>	<b>3,349</b>	<b>2,022</b>	<b>20</b>	<b>0</b>	<b>0</b>	<b>91,940</b>	<b>2,541</b>
<b>Net Book Value At 31 March 2019</b>	<b>86,590</b>	<b>3,557</b>	<b>2,173</b>	<b>20</b>	<b>117</b>	<b>386</b>	<b>92,843</b>	<b>2,818</b>

## Revaluations

The Authority has a rolling programme for revaluation that ensures all Property, Plant and Equipment required to be measured at current value or fair value is re-valued at least every five years, as detailed in the Narrative Report. The valuations of land and buildings are carried out externally by the Chartered Surveyors at Wilkes Head & Eve LLP, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). The sources of information and assumptions made in producing the various valuations for 1 April 2020 are set out in a valuation certificate and report.

Operational assets are defined as being held, occupied and used by the Authority in the direct delivery of services for which there is a statutory or discretionary responsibility, and valued as Existing Use Value (EUV). For specialised operational properties, depreciated replacement cost (DRC) is used. Further information is in the Statement of Accounting Policies Note 37(q) Property, Plant and Equipment and Note 37(y) Fair Value Measurement.

An impairment review was conducted for 31 March 2021, by a RICS qualified chartered surveyor at Wilkes Head & Eve LLP, with no further adjustments needed to the asset values.

	Land and Buildings £000	Vehicles, Plant, Equipment £000	Infrastructure £000	Community Assets £000	Assets Under Construction £000	Surplus Assets £000	Total £000
Valued at historical cost	0	7,700	4,083	20	2,122	0	13,925
Valued at fair value in:							
<b>2020/21</b>	<b>70,818</b>	<b>0</b>	<b>17</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>70,835</b>
2019/20	2,976	0	0	0	0	0	2,976
2018/19	7,905	0	0	0	0	0	7,905
2017/18	8,519	0	0	0	0	0	8,519
2016/17	2,710	0	0	0	0	0	2,710
Cost or Valuation	92,928	7,700	4,100	20	2,122	0	106,870

The increases in valuation of £1,303,000 for Pavilions is due to the change in valuation method from EUV to DRC. Also, the War Memorial Playing Field, East Court has been increased in value by £2,685,000 and other recreation grounds increased by £1,769,000. The Triangle Leisure Centre has decreased in value by £1,509,000. These movements are shown in the Unusable Reserves Note 25 (a) Revaluation Reserve.

## Impact of Covid-19

The valuations that are detailed in this Note and Note 14 have been provided by Wilkes Head Eve LLP, who have issued the following statement with their report:

- “The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.
- Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.
- Our valuation(s) / market review(s) are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation/review than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of asset/portfolio under frequent review.”

## 13. Heritage Assets

### Reconciliation of the carrying Value of Heritage Assets Held by the Authority

	Historic Buildings £000	Art Collection and furniture £000	Civic Regalia £000	Total Assets £000
<b>Cost or valuation</b>				
At 1 April 2019	700	115	10	825
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment Losses / (reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses (reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0
<b>At 31 March 2020</b>	<b>700</b>	<b>115</b>	<b>10</b>	<b>825</b>
<b>Cost or valuation</b>				
At 1 April 2020	700	115	10	825
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment Losses / (reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses (reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0
<b>At 31 March 2021</b>	<b>700</b>	<b>115</b>	<b>10</b>	<b>825</b>

#### Historic Buildings

The Authority's historic building is Jill Windmill. Jill Windmill was first built in 1821 on another site on the South Downs and was moved to its present position at Clayton in 1852. It is currently a fully working, functioning windmill grinding corn. The volunteers from the Jack and Jill Windmills Society, a registered charity, [www.jillwindmill.org.uk](http://www.jillwindmill.org.uk), meet on a regular basis and have carried out the vast majority of the restoration work of the timber construction, and the ongoing maintenance of Jill Windmill. The main renovation took place in 1989 after the structure suffered considerable damage in the storms of 1987.

The windmill is reported in the Balance at replacement cost value. This specialised valuation was updated on 23 January 2012 for the restated balances by a RICS qualified valuer.

#### Art Collection and Furniture

The Authority's external valuer for its art work (Gorrings, Lewes) carried out a full valuation of the collection of 11 paintings as at 23 October 2018. The valuations were based on commercial markets including recent transaction information from auctions where similar types of paintings are regularly being purchased. The paintings have been dated from as early as 1831 and are a mixture of portraits, still life and views of the River Thames. In addition there is a map of Sussex dated 1795.

The Authority's collection of Heritage Assets also includes an Edwardian writing desk, which is housed in the Chairman's office at the Council Offices at Oaklands.

#### Civic Regalia

The Authority's external valuer for its art work (Gorrings, Lewes) carried out a full valuation of the Authority's civic regalia as at 23 October 2018. The items are the Chairman's Chain of Office, the Vice-Chairman's silver gilt chain, and a silver gilt and enamel elliptical badge.

#### Additions / Disposals of Heritage Assets

The Authority has not purchased any Heritage assets in 2020/21.

## 14. Investment Properties

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The main income received is ground rent for shopping centres and industrial estates.

	2020/21 £000	2019/20 £000
Rental income from investment property	(3,963)	(4,170)
Direct operating expenses arising from investment property	1,327	1,423
Net (gain) / loss	(2,636)	(2,747)

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority 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:

	2020/21 £000	2019/20 £000
Balance at 1 April	50,779	55,446
Additions:		
Purchases	0	361
Subsequent expenditure	0	350
Disposals	0	0
Net gains/(losses) from fair value adjustments	(3,685)	(5,764)
Transfers to/from Property, Plant and Equipment	0	386
Balance at 31 March	47,094	50,779

### Purchases and Subsequent Expenditure

There have been no purchases in 2020/21. In 2019/20 the main purchases made by the Authority were the leasehold interest in two Flats in The Orchards Shopping Centre for £177,000 and £181,000. The Authority is the freeholder of these properties.

### Revaluations

All the Authority's Investment Properties have been value assessed as Level 2 on the fair value hierarchy for valuation purposes, (Accounting Policies Note 37(y) contains an explanation of the fair value levels) as detailed in the Narrative Report. The fair value of investment property has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions for these asset types are such that the levels of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

The annual valuations are carried out by an external RICS qualified chartered surveyor from Wilkes Head Eve LLP, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The sources of information and assumptions made in producing the valuations for 1 April 2020 are set out in a valuation report. In estimating the fair value of the Authority's investment properties, the highest and best use is their current use. The impact of Covid-19 has led to the valuer including the following statement regarding the valuation techniques used during the year for investment properties.



- “Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.
- Our valuation(s) / market review(s) are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation/review than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of asset/portfolio under frequent review.”

The main downward revaluation changes are for The Orchards Shopping Centre, downwards by £2,890,000, which is mainly due to a decrease in reversion rent for a large unit. Other changes are for 255-269 London Road, Burgess Hill downwards by £331,000, The Martlets Shopping Centre downwards by £613,000 and the Market Place Car Park downwards by £1,079,000. The main upward revaluation changes are for 29 Paddockhall Road revalued upwards by £573,000 and Sheddingdean Industrial Estate by £940,000.

An impairment review was conducted for 31 March 2021, by Wilkes Head Eve LLP, with no further adjustments needed to the asset values.

There were no disposals recorded for 2020/21 or for 2019/20.

## 15. Intangible Assets

The Authority 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 include both purchased licenses and internally generated software. All software is given a 5 year useful life. The carrying amount of intangible assets are amortised on a straight line basis. The amortisation of £141,000 charged to revenue in 2020/21 (£153,000 in 2019/20) was charged to the appropriate Business Unit in the Net Cost of Services.

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

	2020/21	2019/20
	£000	£000
Balance at 1 April		
Gross carrying amounts	<b>1,059</b>	880
Accumulated amortisation	<b>(614)</b>	(647)
Net carrying amount at 1 April	<b>445</b>	233
Purchases	<b>16</b>	365
Disposals (NBV)	<b>(21)</b>	0
Amortisation for the year	<b>(141)</b>	(153)
Net carrying amount at end of year	<b>299</b>	445
Comprising:		
Gross carrying amounts	<b>1,011</b>	1,059
Accumulated amortisation	<b>(712)</b>	(614)
Balance at 31 March	<b>299</b>	445

## 16. 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2020/21 £000	2019/20 £000
Opening Capital Financing Requirement	<b>27,438</b>	27,948
<b>Capital Investment</b>		
Operational Assets and Assets Under Construction (Note 12)	<b>5,034</b>	2,426
Investment Assets (Note 14)	<b>0</b>	711
Intangible Assets (Note 15)	<b>16</b>	365
Revenue expenditure funded from capital under statute (Note 6)	<b>6,369</b>	5,990
<b>Source of Finance</b>		
Capital Receipts (Note 6)	<b>(21,411)</b>	(86)
Government Grant, WSCC Contribution, Sect 106 receipts in advance (Note 6)	<b>(5,600)</b>	(5,602)
Capital Grants Unapplied Account (Note 6)	<b>(2,726)</b>	(563)
Capital expenditure financed from revenue balances (Note 6)	<b>(1,403)</b>	(3,241)
Statutory provision for the payment of debt-MRP from revenue (Note 6)	<b>(522)</b>	(510)
<b>Closing Capital Financing Requirement</b>	<b>7,195</b>	27,438
<b>Explanation of Movement in Year</b>		
Increase / (Decrease) in underlying need to borrow (unsupported by Government financial assistance)	<b>(20,243)</b>	(510)
<b>Increase/ (Decrease) in Capital Financing Requirement</b>	<b>(20,243)</b>	(510)

As part of the purchase of the head lease of The Orchards Shopping Centre the Authority entered into borrowing in November 2016. Further details are given in the Narrative Report Note 9. Following the capital receipt for sale of land at Hurst Farm on 31 March 2021, £19,722,000 has been utilised to show as financing for The Orchards, leaving £4,600,000 to be financed in the future.

### Capitalisation of Borrowing Costs

At 31 March the Authority has no capitalised borrowing costs.

## 17. Impairment Losses

During 2020/21, the Authority has recognised impairment losses of £2,344,000 and credits of £779,000 to give a net loss of £1,565,000 as part of the revaluation for 1 April 2020, completed by the external valuer, Wilks Head & Eve LLP, RICS qualified chartered surveyors. The losses are mainly on Temporary Accommodation Buildings of £1,005,000 and £751,000 on Oaklands Offices.

Details of the revaluation are consolidated in Note 37(q), and Property, Plant and Equipment Note 12.

## 18. Financial Instruments

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

	Long Term		Short Term	
	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000
Investments at amortised cost	25	25	38,070	19,171
Fair value through profit or loss	5,689	5,730	0	0
<b>Total Investments</b>	<b>5,714</b>	<b>5,755</b>	<b>38,070</b>	<b>19,171</b>
Fair value through profit or loss	0	0	20,831	9,790
<b>Total Cash and Cash Equivalents</b>	<b>0</b>	<b>0</b>	<b>20,831</b>	<b>9,790</b>
Long Term Debtors at amortised Cost	20	22	0	0
Trade Debtors at amortised Cost	0	0	1,370	1,026
<b>Total Financial Assets</b>	<b>5,734</b>	<b>5,777</b>	<b>60,271</b>	<b>29,987</b>
Borrowing at amortised cost	(152)	(7,298)	(5,185)	(189)
Bank Overdraft	0	0	0	0
<b>Total Borrowings</b>	<b>(152)</b>	<b>(7,298)</b>	<b>(5,185)</b>	<b>(189)</b>
Creditors -Finance lease liabilities at amortised cost	(1,970)	(2,258)	(288)	(283)
Trade Creditors at amortised cost	0	0	(4,221)	(3,204)
<b>Total Financial Liabilities</b>	<b>(2,122)</b>	<b>(9,556)</b>	<b>(9,694)</b>	<b>(3,676)</b>

### Borrowings

Borrowing was arranged with Public Works Loan Board (PWLB) on 4 March 2008 at a fixed interest rate of 4.55% with repayments of £158,000 per year for 15 years.

For the purchase of the head lease of The Orchards Shopping Centre, Haywards Heath, long term borrowing of £7,000,000 and short term borrowing of £15,000,000 was arranged at interest rates between 0.35% and 1.00% with other local authorities. The loans commenced on 21 November 2016. £2,000,000 of the long term borrowing matured on 20 November 2020. The remaining £5,000,000 matures on 22 November 2021 which is now shown as short term borrowing. Further detail is given in the Narrative Report Note 9.

**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:

	Financial Liabilities measured at Amortised Cost 2020/21 £000	Financial Assets: measured at Amortised Cost 2020/21 £000	Financial Assets: Fair Value through profit or loss 2020/21 £000	Total 2020/21 £000
Interest expense (Note 9)	137	0	0	137
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>137</b>	<b>0</b>	<b>0</b>	<b>137</b>
Interest income, dividend income (Note 9)	0	(170)	(249)	(419)
(Gain)/Loss on revaluation of financial instrument (Note 25 (d))	0	0	40	40
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(170)</b>	<b>(209)</b>	<b>(379)</b>
<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net (gain)/loss for the year</b>	<b>137</b>	<b>(170)</b>	<b>(209)</b>	<b>(242)</b>

	Financial Liabilities measured at Amortised Cost 2019/20 £000	Financial Assets: measured at Amortised Cost 2019/20 £000	Financial Assets: Available-for-Sale 2019/20 £000	Total 2019/20 £000
Interest expense (Note 9)	156	0	0	156
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>156</b>	<b>0</b>	<b>0</b>	<b>156</b>
Interest income, dividend income (Note 9)	0	(335)	(257)	(592)
(Gain)/Loss on revaluation of financial instrument (Note 25 (d))	0	0	213	213
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(335)</b>	<b>(44)</b>	<b>(379)</b>
<b>Net (gain)/loss for the year</b>	<b>156</b>	<b>(335)</b>	<b>(44)</b>	<b>(223)</b>
<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net (gain)/loss for the year</b>	<b>156</b>	<b>(335)</b>	<b>(44)</b>	<b>(223)</b>

**Financial Instruments -Fair Values**

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the financial instruments, using the following assumptions:

- For Public Works Loans Board (PWLB) loans, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB redemption procedures
- For loans receivable prevailing benchmark market rates have been used to provide the fair value
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade or other receivables is taken to be the invoiced or the billed amount.

The fair values are calculated as follows:

	Amortised Cost 31 March 2021 £000	Fair Value 31 March 2021 £000	Amortised Cost 31 March 2020 £000	Fair Value 31 March 2020 £000
<b>Financial Liabilities</b>				
Borrowing	(5,337)	(5,337)	(7,487)	(7,410)
Other liabilities	(6,480)	(6,480)	(5,744)	(5,744)
<b>Financial Assets</b>				
Investments greater than 1 year	25	25	25	25
Fair value through profit & loss ( CCLA Property Fund)	5,689	5,689	5,730	5,730
Money market investments less than 1 year	38,070	38,070	19,171	19,171
Cash Equivalents	20,831	20,831	9,790	9,790
Other assets	3,001	3,001	1,373	1,373

Assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument. The valuation technique to measure the money market investments and the CCLA Property Fund is in the category, Level 1, as explained in the Accounting Policy Note 37 (y). There has been no change in the valuation technique used during the year for the financial instruments.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value. Debtor and Creditor amounts relating to such things as council tax, non-domestic rates, general rates etc. are outside the scope of the accounting provisions as they are statutory debts and do not arise from contracts.

#### Nature and Extent of Risks Arising From Financial Instruments

The Authority's activities expose it to a variety of financial risks. The key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Authority
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- Re-financing risk – the possibility that the Authority might need to renew a financial instrument on maturity at disadvantageous interest rates or terms
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates movements.

#### Overall procedures for managing risk

The Authority'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 the Adur-Worthing shared service, under policies approved by the Authority in the annual Treasury Management Strategy Statement and Annual Investment Strategy. The Authority 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 exposure to the Authority's customers.

This risk is minimised through the Annual Investment Strategy, which is available on the Authority's website.

#### Credit Risk Management Practices

The Annual Investment Strategy requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Standard & Poor's and Moody's Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located within each category. There is particular regard to determining whether the credit risk of financial instruments has increased significantly since initial recognition.

The main credit criteria in respect of financial assets held by the Authority are summarised below:

- Credit ratings of Short Term of F1, Long Term A-, (Fitch or equivalent rating), with the lowest available rating being applied to the criteria. Except for the UK, a minimum sovereign credit rating of AA- will be used
- UK institutions provided with support from the UK Government
- Building Societies with assets in excess of £1 billion

Limits on the size and length of time of deposits are:

- Banks - £4,000,000 (up to £5,000,000 for group) for a maximum of 5 years;
- Buildings Societies - £4,000,000 for the Nationwide, Yorkshire and Coventry Building Societies and £3,000,000 for the others on the approved list, for a maximum of 3 years;
- Money Market Funds (MMF) - £3,000,000 (for any one MMF) for short term operational cash flow purposes. Total investments in MMFs shall not exceed £9,000,000 or 25% of the total investment portfolio, whichever is the higher, for more than one week at any one time;
- Local Authorities - £3,000,000 for a maximum of 5 years

The full investment strategy for 2020/21 was approved by the Authority on 22 July 2020 and is available on the Authority's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Authority.

The Authority's maximum exposure to credit risk in relation to its investments of £57,010,000 in banks, building societies and money market funds 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 with which the Authority holds investments to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, there was no evidence at the 31 March 2021 that this was likely to crystallise.

### Amounts Arising from Expected Credit Losses

An analysis of the Authority's Expected Credit Losses (ECL) on its fixed term deposit investments in banks, building societies and money market funds shows that the ECL is not material.

### Credit Risk Exposure

The Authority has the following exposure to credit risk at 31 March 2021:

Financial Institutions	Credit Risk Rating	Gross Carrying Amount £000
Money Market Funds	AAA	15,000
UK Banks	AA-	4,000
UK Banks	A+	3,010
UK Banks	A	7,000
UK Banks	A-	4,000
Building Societies	BBB	3,000
Building Societies	BB-	3,000
Building Societies	Unrated	16,000
Local Authorities	AA-	2,000
<b>Total</b>		<b>57,010</b>

During the year 2020/21 the Authority wrote off financial assets with a contractual amount outstanding of £127,000 (£27,000 in 2019/20).

The following analysis summarises the Authority's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31 March 2021 £ 000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2021 %	Estimated maximum exposure to default and uncollectability at 31 March 2021 £000	Estimated maximum exposure at 31 March 2020 £000
Customers *	1,089	3	3	36	10
<b>Total</b>	<b>1,089</b>	<b>3</b>	<b>3</b>	<b>36</b>	<b>10</b>

\* excludes statutory debtors for Council Tax and NNDR

The Authority received large Covid Business Support Grants on 1 April 2020, with additional funding received subsequently. It was necessary to keep these funds liquid in order to distribute them to local businesses as quickly

as possible. Consequently the Authority's counterparty investment limits were breached on several occasions. The credit risk was mitigated by spreading the additional funds across counterparties with high ratings, using the usual criteria of "security, liquidity then yield". The breaches were reported to the Authority and no losses were incurred.

The Authority does not generally allow credit for customers, such that £1,070,000 is past its due date for payment (£1,009,000 at 31 March 2020) and is analysed by age as follows:

	31 March 2021 £000	31 March 2020 £000
Less than three months	428	520
Three to six months	83	122
Six months to one year	175	152
Greater than one year	384	215
<b>Total</b>	<b>1,070</b>	<b>1,009</b>

### Collateral

During the reporting period the Authority held no collateral as security.

### Liquidity risk

The Authority manages its liquidity positions through the risk management procedures above (the setting and approval of prudential indicators and the approval of the Treasury Management Strategy Statement and Annual Investment Strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Treasury Management Code of Practice. This seeks to ensure that cash is available when needed.

The Authority has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Authority is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is, therefore, no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets, excluding sums due from customers, is as follows:

	31 March 2021 £ 000	31 March 2020 £ 000
Less than one year	57,010	28,465
Between one and two years	0	0
Between two and three years	0	0
Total	57,010	28,465
Local Authority Property Fund	6,000	6,000
<b>Total</b>	<b>63,010</b>	<b>34,465</b>

### Refinancing and Maturity Risk

The Authority maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedure, longer-term risk to the Authority relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Authority approved treasury and investment strategies address the main risks and the central treasury team addresses the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Authority's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by the Authority in the Treasury Management Strategy, available on the Authority's website):



	Approved minimum limits	Approved maximum limits	Actual at 31 March 2021	Actual at 31 March 2021	Actual at 31 March 2020	Actual at 31 March 2020
	%	%	%	£ 000	%	£ 000
Less than 1 year	0	80	72	5,458	25	2,462
Between 1 and 2 years	0	70	6	447	54	5,434
Between 2 and 5 years	0	80	12	920	10	1,054
Between 5 and 10 years	0	80	10	756	11	1,068
More than 10 years	0	60	0	0	0	0
<b>Total</b>			100	<b>7,581</b>	100	10,018

## Market risk

### a) Interest Rate Risk

The Authority is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall (no impact on revenue balances)
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure will rise
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure Statement.

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Authority's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

According to this assessment strategy, at 31 March 2021, if interest rates had been 1% higher with all other variable held constant, the financial effect would be:

	£000
Increase in Interest payable on variable borrowings	n/a
Increase in Interest receivable on variable investments	170
Impact on Surplus or deficit on the Provision of Services	170
Decrease in fair value of fixed rate investment assets	n/a
Impact on Other Comprehensive Income and Expenditure	n/a
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	35

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the paragraph – Fair Value of Assets and Liabilities carried at Amortised Cost.

### b) Price Risk

The Authority, excluding the pension fund, does not generally invest in equity shares or marketable bonds and does not have shareholdings in joint ventures or local industry. The Authority holds £6,000,000 in the Local Authorities'

Property Fund and the value varies. However any movements in price will not impact on the General Fund Balance as regulations are in force to ameliorate the impact of fair value movements.

### c) Foreign Exchange risk

The Authority has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

## 19. Debtors

	31 March 2021 £000	31 March 2021 £000	31 March 2020 £000	31 March 2020 £000
<b>Amounts falling due within one year</b>				
Central Government Departments		10,834		633
Other Local Authorities		3,197		432
Other Entities and Individuals	7,259		6,110	
less Allowance for general Bad Debts	(2,979)		(2,747)	
less Allowance for Collection Fund Bad Debts	(1,433)		(650)	
Net Debtors for Other Entities and Individuals		2,847		2,713
<b>Total</b>		<b>16,878</b>		<b>3,778</b>

The year end balance of Central Government Department Debtors is mainly for the year end deficit balance of the Collection Fund accounting for Business Rates of £7,397,000 as detailed in Section 4. The Other Local Authorities balance is mainly £2,407,000 due from West Sussex CC to fund a capital project.

## 20. Cash and Cash Equivalents

The balance of Cash, Cash on hand and demand deposits, and Cash equivalents, short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, is made up of the following elements:

	31 March 2021 £000	31 March 2020 £000
Bank current accounts	1,831	325
Cash Equivalents	19,000	9,465
Cash & Cash Equivalents (Cashflow Statement)	<b>20,831</b>	<b>9,790</b>

## 21. Assets Held for Sale

A Community Asset, Hurst Farm, was transferred from Property, Plant and Equipment and classified as Asset Held for Sale at 31 March 2019 with a value of £27,208,000. This asset was sold on 31 March 2021 to Homes England for £30,250,000 with the Authority's share being 81.982% of this sum, £24,799,555. This was subject to a Red Book Valuation by Carter Jonas LLP. The decrease in book value from that held previously arises because the early figure reflected a previous offer which failed to materialise at that higher sum.

	31 March 2021 £000	31 March 2020 £000
<b>Balance outstanding at start of year</b>	27,208	27,208
Assets newly classified as held for sale transferred from Property, Plant and Equipment		
Disposals	(27,208)	0
<b>Balance outstanding at year-end</b>	<b>0</b>	<b>27,208</b>

## 22. Creditors

	31 March 2021 £000	31 March 2020 £000
Government Departments	(22,877)	(4,053)
Other Local Authorities	(2,626)	(8,129)
Other entities and individuals	(6,331)	(4,884)
	<b>(31,834)</b>	<b>(17,066)</b>

The year end balance for outstanding payments due to Government Departments comprises the Business Rates Accounting adjustments for Covid-19 Business Rate Reliefs of £13,370,000. The grants were paid in advance during the year to assist the Authority's cashflow and are due to be repaid in 2021/22. Also in the Government Departments total is £9,041,000 for Receipts in Advance of additional Covid-19 grants. Part of this sum could be repaid to Central Government in 2021/22 following reconciliations of additional Covid-19 restriction grants that the Authority paid to businesses on behalf of Central Government.

## 23. Provisions

The provisions held at 31 March 2021 are as follows:

- £289,000 for Employee Benefits Accrual. Employees build up an entitlement to be paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the Authority is required to accrue for any annual leave earned but not taken at 31 March each year.
- £10,000 is in relation to MMI, further details are set out in the Narrative Report.
- £0 for Termination Benefits Provision. Further details are set out in Note 30.
- £3,102,000 NNDR Appeals Outstanding Provision, MSDC share, further detail is in the Collection Fund Section 4.

	31 March 2019 £000	Movement in Year £000	31 March 2020 £000	Movement in Year £000	31 March 2021 £000
Employee Benefits Provision	(97)	(49)	(146)	(143)	<b>(289)</b>
MMI Provision	(10)	0	(10)	0	<b>(10)</b>
Termination Benefits Provision	0	(77)	(77)	77	<b>0</b>
Business Rates Appeals Provision	(2,216)	872	(1,344)	(1,758)	<b>(3,102)</b>
	<b>(2,323)</b>	<b>746</b>	<b>(1,577)</b>	<b>(1,824)</b>	<b>(3,401)</b>

## 24. Usable Reserves

All movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and Note 6. Also, full details of the movements in Earmarked Specific Reserve and General Fund Balances are shown in Note 7.

## 25. Unusable Reserves

### (a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment, Intangible Assets and Heritage Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2019/20 £000	2019/20 £000	<b>Revaluation Reserve</b>	2020/21 £000	2020/21 £000
	(73,303)	<b>Balance at 1 April</b>		<b>(71,898)</b>
(512)		Upward revaluation of assets	<b>(8,354)</b>	
1,299		Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	<b>3,047</b>	
	787	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		<b>(5,307)</b>
607		Difference between fair value depreciation and historical cost depreciation	<b>571</b>	
11		Accumulated gains on assets sold or scrapped	<b>27,295</b>	
	618	Amount written off to the Capital Adjustment Account		<b>27,866</b>
	<b>(71,898)</b>	<b>Balance at 31 March</b>		<b>(49,339)</b>

### (b) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangement for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties.

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

Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2019/20 £000	2019/20 £000	Capital Adjustment Account	2020/21 £000	2020/21 £000
	(75,162)	<b>Balance at 1 April</b>		<b>(71,721)</b>
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
1,959		Charges for depreciation and impairment of non-current assets	<b>1,915</b>	
159		Revaluation losses/(gains) on Property, Plant and Equipment	<b>1,565</b>	
153		Amortisation of intangible assets	<b>141</b>	
5,990		Revenue expenditure funded from capital under statute	<b>6,369</b>	
36		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	<b>27,356</b>	
	8,297			<b>37,346</b>
	(618)	Adjusting amounts written out of the Revaluation Reserve		<b>(27,866)</b>
	7,679	Net written out amount of the cost of non-current assets consumed in the year		<b>9,480</b>
		Capital financing applied in the year:		
(86)		Use of the Capital Receipts Reserve to finance new capital expenditure	<b>(21,411)</b>	
(3,241)		Capital expenditure charged against the General Fund balances	<b>(1,403)</b>	
(5,602)		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	<b>(5,600)</b>	
(563)		Application of grants to capital financing from the Capital Grants Unapplied Account	<b>(2,726)</b>	
(510)		Statutory provision for the financing of capital investment charged against the General Fund balance	<b>(522)</b>	
	(10,002)			<b>(31,662)</b>
	5,764	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		<b>3,685</b>
	<b>(71,721)</b>	<b>Balance at 31 March</b>		<b>(90,218)</b>

### (c) Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. They consist of the principal outstanding from mortgage loans on sales of Council houses, advances to Housing Associations, Housing Advances and other miscellaneous loans.

Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

**(d) Financial Instruments Revaluation Reserve**

The Financial Instruments Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its investments that are measured at fair value through profit and loss (Note 9). The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

2019/20 £000	2019/20 £000		2020/21 £000	2020/21 £000
	58	<b>Balance at 1 April</b>		<b>271</b>
0		Transfer from Available for Sale Financial Instruments Reserve	0	
213		Financial Instruments held under Fair Value through Profit & Loss subject to MHCLG Statutory over-ride*	40	
	213			40
	0	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income		0
	<b>271</b>	<b>Balance at 31 March</b>		<b>311</b>

\* The Ministry for Housing, Communities and Local Government (MHCLG) introduced a statutory over-ride to protect the General Fund balance from any fluctuations in fair value movements in quoted investment funds. For the Authority this relates to its investment in the Local Authorities Property Fund (CCLA). The over-ride expires on 31 March 2023 and unless extended, all fair value movements will then impact on the General Fund balance.

**(e) Pensions Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2019/20 £000		<b>Pensions Reserve</b>	2020/21 £000
35,546		<b>Balance at 1 April</b>	<b>15,081</b>
(23,008)		Actuarial gains or losses on pensions assets and liabilities	5,679
5,691		Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	3,677
(3,148)		Employer's pensions contributions and direct payments to pensions payable in the year	(3,190)
15,081		<b>Balance at 31 March</b>	<b>21,247</b>

**(f) Collection Fund Adjustment Account**

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

2019/20 £000	<b>Collection Fund Adjustment Account</b>	2020/21 £000
253	<b>Balance at 1 April</b>	<b>(108)</b>
(82)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements.	88
(279)	Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements.	6,613
<u>(108)</u>	<b>Balance at 31 March</b>	<u><b>6,593</b></u>

The Business Rates Income adjustment amount comprises of the year end deficit of £9,165,000 and the Renewable Energy Scheme Income received of £2,552,000. The Renewable Energy Scheme Income amount will be transferred into the Business Rates Equalisation Reserve in 2021/22 and used to finance the deficit in future years.

**(h) Accumulated Absences Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2019/20 £000	2019/20 £000	<b>Accumulated Absences Account</b>	2020/21 £000	2020/21 £000
	97	<b>Balance at 1 April</b>		<b>146</b>
(97)		Settlement or cancellation of accrual made at the end of the preceding year	(146)	
<u>97</u>		Amounts accrued at the end of the current year	146	
	49	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		143
	<u>146</u>	<b>Balance at 31 March</b>		<u><b>289</b></u>

**26. Trust Funds**

The Authority is the sole trustee of and administers a number of Trust Funds which have been consolidated within Service Net Expenditure as follows. The accounts for these charities are subject to independent examination. The Trust Fund Assets are not consolidated within the Authority's Assets.



Total Assets Less Current Liabilities 31 March 21 £000	Trust Fund	2020/21 Gross Expenditure £000	2020/21 Gross Income £000	2020/21 Net Expenditure £000	2019/20 Net Expenditure £000
2,846	Beech Hurst Gardens	158	(130)	28	(47)
386	St.Johns Park	46	(41)	5	1
231	Fairfield Road Recreation Ground	9	(7)	2	2
162	Richard Worsley Recreation Ground	20	(19)	1	1
0	Lucastes Avenue Open Space	0	0	0	0
0	West Common Open Space	1	(1)	0	0
141	Ashurst Wood Recreation Ground	13	(11)	2	2
0	Brooklands Park	7	(7)	0	0
662	John Pears Recreation Ground	20	(8)	12	1
<b>4,428</b>		<b>274</b>	<b>(224)</b>	<b>50</b>	<b>(40)</b>

## 27. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2019/20 £000		2020/21 £000
(303)	Interest received	(285)
(258)	Dividends received	(254)
161	Interest paid	148

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

2019/20 £000		2020/21 £000
(1,959)	Depreciation	(1,915)
(159)	Impairment and downward valuations	(1,565)
(153)	Amortisation of Intangible Assets	(141)
70	(Increase) / decrease in impairment for bad debts	(1,015)
(213)	Adjustment for movements in fair value of investments classified as Fair Value through Profit and Loss Account	(40)
54	(Increase) / decrease in interest creditors	49
(2,243)	(Increase) / decrease in creditors	(7,921)
31	Increase / (decrease) in interest and dividend debtors	(120)
(1,570)	Increase / (decrease) in debtors	6,321
(48)	Adjustments for effective interest rates	(38)
(2,543)	Movement in pension liability	(487)
746	Contributions (to)/from Provisions	(1,824)
(36)	Carrying amount of non-current assets sold or de-recognised	(27,356)
(5,764)	Movement in Investment Property values	(3,685)
<b>(13,787)</b>		<b>(39,737)</b>

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

2019/20 £000		2020/21 £000
6,161	Capital grants credited to the surplus or deficit on the provision of services	<b>9,696</b>
207	Proceeds from the sale of non-current assets	<b>26,121</b>
<u>6,368</u>		<u><b>35,817</b></u>

## 28. Agency Services

The Authority provides a Civil Parking Enforcement Service (CPE) and Controlled Parking Zone Service (CPZ) on behalf of West Sussex County Council (WSCC). West Sussex County Council fund any deficit incurred in the operation by the Authority of these services. Commencing from 2016/17, MSDC is also allowed to retain 30% of any budgeted surplus. The cost includes non-cash accounting entries in respect of IAS19 Retirement Benefits.

The Authority, as the billing authority, also acts as agent for the Government in collecting National Non-Domestic Rates (NNDR). The Government paid an allowance for the cost of this collection of £172,000 in 2020/21 (£172,000 in 2019/20).

	2020/21 £000	2019/20 £000
Expenditure incurred in providing a CPE/CPZ service to WSCC	<b>768</b>	828
Fees and charges	<b>(309)</b>	(477)
Management fee payable by WSCC	<b>(343)</b>	(200)
<b>Net (Surplus) / Deficit arising on the agency arrangement</b>	<b>116</b>	151
Government contribution for cost of collection of NNDR	<b>172</b>	172
<b>Net (Surplus) / Deficit arising on the agency arrangement</b>	<b>172</b>	172

## 29. External Audit Costs

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

	2020/21 £000	2019/20 £000
Fees payable to Ernst & Young LLP with regard to external audit services carried out by the appointed auditor for the year	<b>39</b>	49
	<b>39</b>	49

## 30. Members' Allowances

The Authority paid the following amounts to Members of the council during the year.

	2020/21 £000	2019/20 £000
Allowances	<b>407</b>	394
Expenses	<b>1</b>	13
<b>Total</b>	<b>408</b>	407

### 31. Officers' Remuneration

The remuneration paid to the Authority's senior employees is as follows:

		Salary (including fees & Allowances)	Expenses Allowances	Compensation for Loss of Office	Pension contributions	Total
		£	£	£	£	£
Chief Executive	2020/21	142,520	2,675	0	31,072	176,267
Chief Executive	2019/20	138,706	2,675	0	26,297	167,678
Assistant Chief Executive	2020/21	92,770	1,101	0	20,088	113,959
Assistant Chief Executive	2019/20	87,658	1,101	0	16,509	105,268
Head of Digital and Customer Services	2020/21	90,068	0	0	19,275	109,343
Head of Digital and Customer Services	2019/20	85,104	0	0	15,829	100,933
Head of Corporate Resources (and S151 Officer)	2020/21	90,188	2,081	0	19,746	112,015
Head of Corporate Resources (and S151 Officer)	2019/20	85,225	2,082	0	16,239	103,546
Head of Regulatory Services (and Monitoring Officer)	2020/21	80,084	0	0	17,138	97,222
Head of Regulatory Services (and Monitoring Officer)	2019/20	75,674	0	0	14,075	89,749

(Expenses allowances comprise BUPA Medical Insurance payments only)

#### Banding Note

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions), were paid the following amounts (this includes posts disclosed in the senior employees table unless specifically excluded within the notes):

Remuneration Band	Number of Employees	
	2020/21	2019/20
£145,000 - £149,999	1	0
£140,000 - £144,999	0	1
£135,000 - £139,999	0	0
£130,000 - £134,999	0	0
£125,000 - £129,999	0	0
£120,000 - £124,999	0	0
£115,000 - £119,999	0	0
£110,000 - £114,999	0	0
£105,000 - £109,999	1	0
£100,000 - £104,999	0	0
£95,000 - £99,999	0	0
£90,000 - £94,999	3	0
£85,000 - £89,999	0	3
£80,000 - £84,999	1	0
£75,000 - £79,999	2	1
£70,000 - £74,999	0	3
£65,000 - £69,999	0	1
£60,000 - £64,999	5	1
£55,000 - £59,999	2	5
£50,000 - £54,999	6	7

#### 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 Bands (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	
	(a)		(b)		(a + b)		2020/21	2019/20
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	£000	£000
£100,001 - £150,000	-	1	-	-	-	1	0	100
£80,001 - £100,000	-	-	-	-	-	-	0	0
£60,001 - £80,000	-	-	1	2	1	2	61	142
£40,001 - £60,000	-	-	-	-	-	-	0	0
£20,001 - £40,000	-	1	3	2	3	3	94	92
£0,000 - £20,000*	1	2	6	4	7	6	34	38
	<b>1</b>	<b>4</b>	<b>10</b>	<b>8</b>	<b>11</b>	<b>12</b>	<b>189</b>	<b>372</b>
Provision	-	1	-	-	-	1	0	77
Total	<b>1</b>	<b>5</b>	<b>10</b>	<b>8</b>	<b>11</b>	<b>13</b>	<b>189</b>	<b>449</b>

\* For 19/20, this banding only totals £38,000 as it contains a credit of £16,000 that relates to 1 employee who left in 2018/19, but whose cost was adjusted in 2019/20. Therefore, a cost of £53,000 within this net total of £38,000, relates to the remaining 5 officers who left in 2019/20. For 20/21, this banding totals £34,000 as it contains costs totalling £10,000 that relate to 2 employees who were included as 19/20 exit packages/ provisions, but whose costs have since been adjusted in 2020/21. Therefore, the balance of £24,000 relates to the 5 employees who left in 2020/21.

The table above includes £189,000 (£449,000 in 2019/20) for exit packages in the current year. For 2019/20 this includes a provision £77,000 for 1 officer who was not included in the bands and therefore an additional line has been added to reconcile the total cost of termination benefits reported in the Comprehensive Income and Expenditure Statement and Debtors. There is no provision for 2020/21.

### Termination Benefits

The Authority terminated the contracts of a number of employees in 2020/21, incurring gross liabilities of £189,000 (compared to £449,000 in 2019/20).

## 32. Related Parties

The Authority 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 Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority 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 Authority. In this context, related parties include Central Government, Members, Chief Officers, and other partners.

We have sent a letter for confirmation of any related party transactions to all members and senior officers, and all but two declarations have been returned.

Related Parties for the Authority include the following:

### Central Government

Central government has significant influence over the general operations of the Authority. It is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grant receipts outstanding at 31 March 2021 are shown in Note 11.

### Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2020/21 is shown in Note 30. A list of organisations that have received grant funding has also been reviewed. Discounting town and parish councils, only minor (<£500) sums have been advanced to any that have a Councillor interest. No disclosures have been received for the larger grants and there is no reason to suspect that any individual has failed to declare the appropriate interest. A review of the Register of Members' Interests has been undertaken to ascertain if any related party interests exist. No material disclosures have been identified. The Register of Members' Interest is open to public inspection at the council office during office hours, on application, and is also available on the Council's website.

**Officers**

Senior Officers have not disclosed any material transactions with related parties.

**33. Leases****Lessee - Finance Leases**

The Authority has a contract with SERCO for the provision of waste collection. The new fleet of vehicles used to provide the service are shown as Property, Plant and Equipment in the Balance Sheet, with a vehicle life of 10 years 4 months which ends 30 July 2028.

	31 March 2021 £000	31 March 2020 £000
Vehicles, Plant, Equipment	<b>2,258</b>	<b>2,541</b>
	<b>2,258</b>	<b>2,541</b>

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

	31 March 2021 £000	31 March 2020 £000
Finance Lease liabilities (net present value of minimum lease payments)		
Current	<b>332</b>	<b>332</b>
Non- current	<b>2,102</b>	<b>2,434</b>
Less finance costs payable in future years	<b>(176)</b>	<b>(225)</b>
Minimum lease payments	<b>2,258</b>	<b>2,541</b>

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

	<b>Minimum Lease Payments</b>		<b>Finance Lease Liabilities</b>	
	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000
Not later than one year	<b>288</b>	283	<b>288</b>	283
Later than one year and not later than five years	<b>1,214</b>	1,190	<b>1,214</b>	1,190
Later than five years	<b>756</b>	1,068	<b>756</b>	1,068
	<b>2,258</b>	2,541	<b>2,258</b>	2,541

**Lessee - Operating Leases**

The Authority has operating lease agreements covering equipment, photocopiers and vehicles (for pest control, car parking and leisure). The expenditure charged to the Business Units in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £43,000 (£25,000 in 2019/20) and the total commitments at 31 March 2021 amounted to £113,000 (£63,000 in 2019/20).

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

	2020/21 £000	2019/20 £000
Not later than one year	<b>35</b>	20
Later than one year and not later than five years	<b>74</b>	43
Later than five years	<b>4</b>	0
	<b>113</b>	63

**Lessors - Finance Leases**

The Authority does not lease out assets under a finance lease.

### Lessor – Operating Leases

The Authority leases out a range of properties under operating leases for community services and commercial rents. The future minimum lease payments receivable under non-cancellable leases in future years are:

	2020/21 £000	2019/20 £000
Not later than one year	3,711	3,752
Later than one year and not later than five years	12,482	11,965
Later than five years	64,739	67,355
	<b>80,932</b>	<b>83,072</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. The Authority received contingent rent of £211,000 in 2020/21 (£259,000 in 2019/20).

### 34. Defined Benefit Pension Schemes

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

The Authority contributes to the Local Government Pension Scheme which is administered by West Sussex County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund calculated at a level intended to balance the pension liabilities with investment assets.

#### Freedom Leisure/Places for People

In July 2009 Leisure Services Staff were transferred to Freedom Leisure under TUPE Regulations. Freedom Leisure were admitted to the LGPS under a 'pass through' arrangement whereby there was a sharing of Pension risks with the Authority (as scheme Employer) as detailed below. This arrangement ceased on 30 June 2014, following a retender of Leisure Services.

New contractors, Places for People, were appointed following a retender of the Leisure Services Contract on 1 July 2014. Places for People have been admitted to the LGPS under a 'cap and collar' arrangement whereby there is a sharing of Pension risks with the Authority (as scheme Employer) as detailed below.

- Places for People are responsible for paying the employers contribution rate in line with the triennial valuation. The increase is capped at 1% every three years. Places for people are also responsible for paying any strain on the pension fund caused by granting early retirements and exercising discretions such as giving members added years, which are not covered by the contribution rate agreed. These contributions of £252,500 are included within the total Employers' contribution estimated by the actuary for 2017/18.
- The Authority is responsible for paying the differential between the capped contribution rate and the revised employer's contribution rate following the valuation of the fund as a whole. The Authority is also liable for any surplus / deficits on exit that are not met by increased employer contribution payments. As such, the Authority retains the net liability for the transferred staff as reflected in the statements.

#### Transactions relating to Post-employment Benefits

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 actually paid as pensions. However, the charge we are required to make against council tax is based on cash payable in year, so the real cost of post employments/retirement benefits is reversed out of the General Fund 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:

	2020/21 £000	2019/20 £000
<b>Cost of Services:</b>		
Current Service Cost	3,328	4,778
Past Service Cost/Gain	0	53
Losses/(Gains) on Curtailment and Settlements	0	(15)
Effect of Business Combinations and Disposals	0	0
<b>Financing and Investment Income and Expenditure:</b>		
Net Interest Expense (Note 9)	349	875
<b>Total Post Employment Benefit Charges to the Surplus or Deficit on the Provision of Services</b>	<b>3,677</b>	<b>5,691</b>

**Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:**

**Remeasurements**

Return on plan assets (excluding the amount included in the net interest expense)	(27,658)	3,643
Actuarial (Gains)/Losses arising on changes in demographic assumptions	159	(7,262)
Actuarial (Gains)/Losses arising on changes in financial assumptions	34,702	(13,099)
Other experience (Gains)/Losses	(1,524)	(6,290)
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>5,679</b>	<b>(23,008)</b>

**Movement in Reserves Statement**

Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code

	3,677	5,691
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	2020/21 £000	2019/20 £000
<b>Actual amount charged to the General Fund Balance for pensions in the year:</b>		
Employers' contributions payable to the scheme	3,190	3,148

The total contributions expected to be paid to the Local Government Pension Scheme by the Authority in the year to 31 March 2022 is £2,793,000.

**Pensions Assets and Liabilities recognised in the Balance Sheet**

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

	31 March 2021 £ 000	31 March 2020 £ 000
Present value of defined benefit obligation	(165,791)	(129,356)
Fair value of plan assets	144,544	114,275
<b>Net Liability arising from defined benefit obligation</b>	<b>(21,247)</b>	<b>(15,081)</b>



**Reconciliation of the present value of the Scheme Liabilities (Defined Benefit Obligation):**

<b>Year ended:</b>	31 March 2021 £ 000	31 March 2020 £ 000
<b>Opening Defined Benefit Obligation</b>	<b>129,356</b>	150,936
Current service Cost*	3,328	4,778
Interest Cost	2,975	3,647
Contributions by Members	687	588
<b>Remeasurement</b>		
Actuarial Gains/(Losses) arising on changes in demographic assumptions	159	(7,262)
Actuarial Gains/(Losses) arising on changes in financial assumptions	34,702	(13,099)
Other experience	(1,524)	(6,290)
Past Service Costs/(Gains)	0	53
Liabilities Extinguished on Settlements	0	0
Liabilities Assumed in a Business Combination	0	0
Estimated Unfunded Benefits Paid	(107)	(123)
Estimated Benefits Paid	(3,785)	(3,872)
<b>Closing Defined Benefit Obligation</b>	<b>165,791</b>	129,356

**Reconciliation of the movements in the Fair Value of Scheme (Plan) Assets:**

<b>Year ended:</b>	31 March 2021 £ 000	31 March 2020 £ 000
<b>Opening Fair Value of Employer Assets</b>	<b>114,275</b>	115,390
Interest income	2,626	2,772
Effect of Settlements	0	15
<b>Remeasurement</b>		
Return on plan assets (excluding the amount included in the net interest expense)	27,658	(3,643)
Contributions by Members	687	588
Contributions by the Employer	3,083	3,025
Contributions in respect of Unfunded Benefits	107	123
Assets Distributed on Settlements	0	0
Assets Acquired in a Business Combination	0	0
Benefits Paid	(3,785)	(3,872)
Unfunded Benefits Paid	(107)	(123)
<b>Closing Fair Value of Employer Assets</b>	<b>144,544</b>	114,275

\*The service cost figures include an allowance for administration expenses of 0.5% of payroll. This is recognised within Cost of services along with other Current Service costs.

**McCloud Judgement:**

IAS19 values were updated in the Accounts to 31 March 2019 to reflect the actuarial assumptions following the Judgement on McCloud. The ruling, made on 20 December 2018, found that when public service pension schemes changed in 2014 and 2015, they had discriminated on the grounds of age, by only providing protection for older members. In the LGPS, these protections were applied in 2014 when the scheme changed from a Final Salary scheme to a Career Average Revalued Earnings (CARE) scheme. All members were automatically moved across to the new scheme, but older members, closer to retirement, were given additional protections, called the Underpin. These protections were set up to ensure members do not receive less pension in the new scheme, than they would have in the old scheme. As the protections were only applied to members of a certain age, the court decided that it was 'unlawful on the grounds of age discrimination'. The West Sussex County Council Pension Fund's actuary estimated this would result in around a 1% increase in active member liabilities as at 31 March 2019, an increase of approximately £658,000.

On 16<sup>th</sup> July 2020 MHCLG published consultations to remedy the age discrimination in schemes. The proposed remedy intended to limit protections to all individuals who were members of the legacy scheme immediately prior to 1<sup>st</sup> April 2012 and to close legacy schemes to future accrual on 31<sup>st</sup> March 2022. Those members remaining in service from 1<sup>st</sup> April 2022 would do so as members of the respective reformed scheme. A further report produced by our actuaries in September 2020 following the consultation, identified a betterment on the net liability, as a result of these limitations of £157,000 at 31<sup>st</sup> March 2020, including a past service gain of £173,000, however, due to the value being less than 1% of net liabilities, the accounts for 2019/20 were not amended on the basis of materiality. The change is instead reflected in the service costs for 2020/21. No explicit further additional adjustment for McCloud has been added to the current service cost for 2020/21 (or projected service cost for 2021/22).

**Guaranteed minimum pension (GMP):**

IAS19 values were updated in the Accounts to 31<sup>st</sup> March 2019 to reflect actuarial assumptions in respect of Guaranteed minimum pension (GMP). 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 carried out calculations in order to estimate the impact that the GMP indexation changes would have on the pension fund liabilities. The estimate assumed that the permanent solution eventually agreed would 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 was to increase the total liabilities by approximately £43,000.

**Local Government Pension Scheme Assets comprised:**

Year ended:	Fair value of	Percentage of	Fair value of	Percentage of
	scheme assets	Total Assets	scheme assets	Total Assets
	31 March	31 March	31 March	31 March
	2021	2021	2020	2020
	£ 000	%	£ 000	%
Cash and cash equivalents	<b>6,408</b>	<b>4%</b>	4,531	4%
<b>Equity Instruments:</b>				
<i>By industry type:</i>				
Consumer	<b>15,016</b>	<b>10%</b>	10,150	9%
Manufacturing	<b>8,438</b>	<b>6%</b>	7,838	7%
Energy and Utilities	<b>2,214</b>	<b>2%</b>	2,778	2%
Financial Institutions	<b>13,096</b>	<b>9%</b>	12,711	11%
Health and Care	<b>9,666</b>	<b>7%</b>	7,667	7%
Information Technology	<b>20,060</b>	<b>14%</b>	12,189	11%
Other	<b>4,790</b>	<b>3%</b>	3,157	3%
<b>Sub-total equity</b>	<b>73,280</b>		56,490	
<b>Bonds:</b>				
Government	<b>1,836</b>	<b>1%</b>	2,594	2%
<b>Sub-total Bonds</b>	<b>1,836</b>		2,594	
<b>Private Equity:</b>				
All*	<b>2,303</b>	<b>2%</b>	2,615	2%
<b>Sub-total private Equity</b>	<b>2,303</b>		2,615	
<b>Property:</b>				
Uk Property	<b>9,808</b>	<b>7%</b>	8,832	8%
Overseas property	<b>0</b>	<b>0%</b>	0	0%
<b>Sub-total Property</b>	<b>9,808</b>		8,832	
<b>Investment funds and Unit Trusts:</b>				
Bonds	<b>48,642</b>	<b>33%</b>	37,848	33%
Other	<b>2,267</b>	<b>2%</b>	1,365	1%
<b>Sub-total Investment Funds</b>	<b>50,909</b>		39,213	
<b>Totals</b>	<b>144,544</b>	<b>100%</b>	114,275	100%

\*All scheme assets have quotes prices in active markets except those relating to private equity which have quoted prices not in active markets.

**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 pension scheme is assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates being based on the latest full valuation of the scheme as at 31 March 2019.

**Financial Assumptions**

The assumptions used by the Actuary in preparing the pensions information are:

Year ended:	MSDC	MSDC
	31 March	31 March
	2021	2020
Pension Increase Rate	<b>2.9%</b>	1.9%
Salary Increase Rate	<b>3.4%</b>	2.3%
Discount rate	<b>2.0%</b>	2.3%

## Mortality

Life expectancy is based on actuarial tables, which now show a reduction over earlier years' assumptions. The average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners	23.1 years	26.1 years

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax free cash for post-April 2008 service.

Further information can be found in the West Sussex County Council Pension Fund's Annual Report, which is available on request from County Hall, Chichester, West Sussex.

## 35. Contingent Liabilities

A contingent liability is a potential liability which depends on the occurrence or non-occurrence of one or more uncertain future events. The Council has identified the following contingent liabilities as at 31 March 2021 that might result in an obligation on the Council.

There are no contingent liabilities as at 31 March 2021.

## 36. Contingent Assets

There are no contingent assets as at 31 March 2021.

## 37. Accounting Policies

### (a) General Principles

The Statement of Accounts summarises the Authority's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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.

### Going Concern

#### Underlying principle

These accounts have been prepared on a going concern basis that the authority will continue in operational existence for the foreseeable future. The provisions in the Code of Audit Practice in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government).

If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

### Current & historical financial position

The Authority recognises that the financial position over the medium term is difficult having reported an overspend for 2020/21, but this deterioration is only due to the impact of Covid-19 on income, and expenditure on support to the leisure contract.

### Impact of Covid

The 2020/21 budget was set in March 2020 and set a balanced budget after transfers to specific reserves. The Medium Term Financial Plan (MTFP) at that time showed modest savings being necessary to 2023/24.

However, since the budget was set, and as amply described elsewhere, the emergence of Covid-19 fundamentally changed the financial regime for the sector for some time to come. Mid Sussex is as affected as any other body but

does have adequate reserves to enable it cope with the downturn over a period beyond the financial year. However without some means to either reduce expenditure or increase income, the position will be unsustainable over the medium term and reserves will be reduced to below minimum acceptable levels.

The Corporate Plan was recast in September 2020 and an outline plan (within Appendix C of the report) put in place to identify savings across the Business Units although it is recognised that this is inadequate to deal with savings needed in the £millions in the worst case.

There are a number of factors that have yet to be finalised when preparing the corporate plan over the medium term; Business Rate income and the Fair Funding Review being the two most important, but subject to these being resolved the authority continues to be solvent and capable of being described as a going concern.

### **Cash position**

The Council had a general reserve cash balance of £7.811m at the end of March 2021. Whilst there is uncertainty on income, the Council remains confident in its ability to maintain sufficient cash for its services throughout the medium term. The Council is of course also able to borrow short term for cash management purposes if ever needed.

In a 'stressed' case scenario whereby income is constrained further in the event of a second wave, and income recovering only very slowly, the Council has sufficient levels of reserves and investments that it would not run out of cash.

Furthermore, the Council has a modest capital programme and could postpone non-essential capital projects that would further protect the levels of cash and useable reserves. The programme focuses on projects that produce a positive financial revenue return as well as those where there are health and safety requirements or were already in progress and could not be postponed without incurring significant costs.

### **Conclusion**

These accounts have been confidently prepared on a going concern basis, following an overspend in 2020/21 that is well within the level of general useable reserves and a plan to produce a balanced budget over the medium term.

### **(b) Accruals of Income and Expenditure**

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.
- 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.
- 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. Interest payable on £1.7 million borrowing is at a fixed rate over the life of the 15 year loan from Public Works Loan Board (PWLB). Interest payable has also been accrued on the long term borrowing for The Orchards Shopping Centre.
- 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.

Exceptions to this principle relate to:

- Quarterly and monthly payments for utilities are charged at the date of billing each year rather than being apportioned between financial years, with allowances made to ensure a full years expenditure in any given year;
- Council Taxpayers, where no account is taken for possible changes arising from new entries, late notification from Council Taxpayers and amendments to the valuation list until the transaction is actioned. This means late changes in the year may not be accounted for until the following year.
- Housing Benefit payments, where payments are made in conformity with the legislative requirements.
- Members Allowances, where payments are made in the year claims from councillors are processed.
- Employee overtime and car mileage claims, where payments are made in the year claims are processed following overtime worked or mileage incurred.

- Garden Waste, where annual fee income is accounted for in the year received, although renewal dates vary throughout the year and service is provided for a year from renewal.
- Car Park Penalty Notice income is recorded as income on the date the cash is received.
- Mobile phone payments are charged monthly allowing for 12 payments each year. This covers the period March 2020 to February 2021 rather than April 2020 to March 2021.
- Refunds relating to Sports pitch bookings fee income for the year are accounted for in May of the following year, being the end of the season.
- Council tax and Non Domestic Rate billing and the associated housing benefit and CTRS notifications where although the printing and despatch of bills is carried out within the accounting year, the cost clearly relates to the billing year and is matched thereto.
- Car park income is recorded as income on the date the cash is banked, not the date it is collected by the third party.

These policies are consistently applied each year and therefore do not have a material effect on the year's accounts.

### **(c) 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. We have applied this approach in our accounting policy since 2012/13, which ensures we are compliant with IAS7.

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 Authority's cash management.

### **(d) Prior Period Adjustments, Changes in Accounting Policies and Estimates and 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 Authority'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.

### **(e) Charges to Revenue for Non- Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

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

The Authority 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 authority in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision (MRP)) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **(f) 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, 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 Authority. 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 entitlements 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 Authority 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, or where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority 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 Authority 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 West Sussex Local Government Pension Scheme

The West Sussex Local Government Pension Scheme is accounted for as a defined benefit scheme.

The liabilities of the West Sussex County Council pension scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method, that is, 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, and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, using a nominal discount rate of 2.4% (based on the indicative rate of return on a high quality corporate bond).

The assets of the West Sussex County Council pension scheme attributable to the Authority are included in the Balance Sheets 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 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 costs – 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 as part of Non Distributed Costs
  - Net interest on the net defined benefit (asset), i.e. net interest expense for the Authority – 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 in 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.
- Re-measurements 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 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 Authority 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 (MIRS) 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 earned by employees.

### **Discretionary Benefits**

The Authority also has restricted powers to make discretionary awards of retirement benefits in the events of early retirements. It is not the Authority’s policy to make such payments.

### **(g) Events After the Reporting Period**

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.

### **(h) Financial Instruments**

#### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and 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.

Annual charges to the Comprehensive Income and Expenditure Statement for interest payable on borrowing are at a fixed rate over the life of a 15 year loan from Public Works Loan Board (PWLB). Annual charges are also payable for borrowing on The Orchards Shopping Centre. The amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

#### **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 Cashflow characteristics. There are three main classes of financial assets measured at:

- Amortised cost
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income (FVOCI).

The authority’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 authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the

carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

#### **Expected Credit Loss Model**

Expected credit losses for all of financial assets held at amortised cost are recognised either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables, and contract assets and trade receivables.

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 of assessing losses. Where risk has increased significantly since an instrument was 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 Measured at Fair Value through Profit or Loss**

Fair values are shown in Note 18 Financial Instruments. The measurement techniques are detailed in Note 37 (y).

#### **Fair Value Through Other Comprehensive Income**

The Authority has no Financial Assets classed as FVOCI.

#### **(i) 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 Authority when there is reasonable assurance that

- The Authority 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 acquired using 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 Unapplied Grants and Contributions Receipts In Advance. 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 Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

#### **(j) Heritage Assets**

##### **Tangible and intangible Heritage Assets (described in this summary as heritage assets)**

The Authority's Heritage Assets are held in the Council offices, and on the South Downs at Clayton, West Sussex. These heritage assets are held in support of the primary objective of increasing the knowledge, understanding and appreciation of the Authority's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Authority's heritage assets are accounted for as follows:

- **Historical Buildings**

The historic building is Jill Windmill. This item is reported in the Balance sheet at replacement cost value. The War Memorial is in Ardingly.

- **Art Collection and Civic Regalia**

The works of art includes oil paintings and these are reported in the Balance Sheet on the basis of an insurance valuation undertaken 23 October 2018. The items are valued by an external valuer. The assets are deemed to

have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.

Acquisitions are made by donation, which are recognised at valuation with valuations provided by the external valuers and with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.

### **Heritage Assets – General**

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets. E.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment (see note 37(q)) in this summary of significant accounting policies. The Authority will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for display. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see notes 37(t) and 37(q)).

### **(k) Intangible Assets**

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority 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. This has been set as 5 years. 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 in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal 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 £10,000) the Capital Receipts Reserve.

### **(l) Inventories and Long Term Contract**

Inventories are valued at actual cost. This is a departure from the requirements of the code and IAS 2, which require stocks to be shown at the lower of actual cost or net realisable value, but the impact is not material.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

### **(m) 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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually 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 sales proceeds greater than £10,000) the Capital Receipts Reserve.

### **(n) Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

### **(o) Leases**

Leases are classified as finance leases where the terms of the lease in substance transfers 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 Authority as Lessee**

##### **Finance Leases**

Property, plant and equipment held under finance leases are 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.

Lease payments are apportioned between

- A charge for the acquisition of the payments made to the lessor 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 authority at the end of the lease period).

The Authority 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 the 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, even if this does not match the pattern of payments (e.g. there is rent free period at the commencement of the lease).

#### **The Authority as Lessor**

##### **Finance Leases**

The Authority has not granted any finance leases over a property, or item of plant or equipment.

### Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### (p) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principle of the CIPFA Service Reporting Code of Practice 2020/21 (SeRCOP). The total absorption costing principle is used - the budgeted cost of over heads and support services are shared between users in proportion to the benefits received with the exception of:

- Corporate and Democratic Core – costs relating to the council's status as a multi-functional, democratic organisation. These costs are reported within the Strategic Core Business Unit totals within Net Cost of Services
- Non Distributed Cost – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on Assets Held for Sale. These costs are reported within the Finance Corporate Business Unit within Net Cost of Services.

### (q) Property, Plant and Equipment

Assets that have physical substance and are held for use in the provision of services 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 costs of £10,000 or more, on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority 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.

**Measurement:** assets are initially measured at cost, comprising

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

- Infrastructure, community assets and assets under construction – depreciated historical cost. Open spaces (community assets) have been included at a nominal value of £1 per item.
- Surplus assets, the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.
- 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 fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair 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 fair value.

Assets included in the Balance Sheet at fair value are revalued on a five year rolling programme, to ensure that their carrying amount is not materially different from their fair value at the year-end. The asset valuations, as at 1 April 2020, were carried out by an external RICS qualified chartered surveyor employed by Wilkes Head Eve LLP. 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 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 in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line 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 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 bases:

- Dwellings and other buildings - straight line allocation over the useful life of the property as estimated by the valuer
- Vehicles, plant, and equipment - Computer equipment and new playground equipment is depreciated using the straight - line method over 5 years; for Wheelie Bins and Skate Park Equipment straight line over 10 years and 7 year straight line for the Car Parking Machines.
- Infrastructure - straight line allocation over the life of the asset

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.

**Componentisation:** The Code required the Authority to adopt new accounting policies in respect of componentisation and de-recognition of components from 1 April 2010, and to apply these policies prospectively from that date. For the Authority, the basis of componentisation of Assets and limits are set out below:

- All assets with values of over £500,000 before depreciation have been deemed to be material and considered for componentisation. i.e. It has been considered whether any part of these assets should have a different useful life or method of depreciation.
- Each asset has been reviewed individually. The assets that are required to be componentised in line with our policy are the Leisure Centres, Clair Hall, 'Oaklands' Council Offices, Woodside Pavilion and East Court Pavilion. These assets have been split into the following relevant components:
  - Land,
  - Structure/externals with 60 year life,
  - Roof/electrical with 35 year life, and
  - Services (including boilers, heating systems, lifts) with 20 year life
  - Allweather pitch and Padel Tennis court with 26 year life.

The leisure centres, halls and pavilion are valued on a Depreciated Replacement Cost (DRC) basis, and the council offices valued on Existing Use Value (EUV) basis. For the Authority, pavilions are valued individually on a EUV or DRC basis. In relation to componentisation, they have similar characteristics and have been considered collectively for their impact on depreciation calculations. (total value around £3million). To explain further, apart from Woodside Pavilion and East Court Pavilion, the remaining Pavilions are valued less than £500,000, and therefore fall below the trigger value for componentisation. In addition, examination of individual Pavilions has identified that the land value forms an insignificant part of the asset, and there are no parts of the building of a value significant enough to warrant separate componentisation.

**Disposals:** 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 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 previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged in 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 are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie 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 £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. 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 Authority's underlying need to borrow –the capital financing requirement-). 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.

### **(r) Provisions, Contingent Liabilities and Contingent Assets**

**Provisions:** Provisions are made where an event has taken place that gives the Authority 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 Authority 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 in the year that the Authority becomes aware of the 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 an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

**Contingent Liabilities:** A contingent liability arises where an event has taken place that gives the Authority 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 authority. 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 measure 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 Authority 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 authority. 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.



**(s) Reserves and Balances**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. 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 appropriated back into the General Fund Balance in the Movement in Reserves Statement 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, and retirement and employee benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies.

**(t) 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 Authority 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.

**(u) 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.

**(v) Officer Personal Loan Scheme**

Balances held are shown as long term debtors in the Balance Sheet. Loans in their last year are still shown as long term debtors with the exception of season ticket loans which are included as sundry debtors in the Balance Sheet as the maximum period allowed is twelve months.

**(w) Borrowing Costs**

The Authority charges borrowing costs to the Comprehensive Income and Expenditure Statement in the period to which the borrowing relates. It does not capitalise any borrowing costs against its assets.

**(x) Redemption of Debt**

There is a legal requirement to make a charge to the Comprehensive Income and Expenditure Statement to contribute towards reducing the overall borrowing. The Authority's policy is to charge this Minimum Revenue Provision (MRP) on an annuity basis over the life of the loans.

**(y) Fair Value Measurement**

The Authority measures some of its assets and liabilities at fair value at the 31 March 2021. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- Without a principal market, in the most advantageous market for the asset or liability.

The Authority uses external Valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

Inputs to the valuation techniques in respect of the Authority's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority 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.

**38. Accounting Standards That Have Been Issued But Have Not Yet Been Adopted**

The Code of Practice on Local Council Accounting in the United Kingdom 2020/21 (the Code) requires an authority to disclose information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. The Code also

requires that changes in accounting policy are to be applied retrospectively unless transitional arrangements are specified, and this would result in an impact on disclosures spanning two financial years.

Accounting changes that are introduced by the 2021/22 code are:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7;
- Interest Rate Benchmark Reform -Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

These changes are not expected to have a material impact on the Council's Statement of Accounts.

Adoption of IFRS 16 Leases has been postponed until at least the 2022/23 CIPFA Accounting Code of Practice. Where the Authority is a lessee it will require the majority of leases to be recognised on the balance sheet as right-of-use assets with corresponding lease liabilities.

### 39. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 37, the Authority 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:

#### Funding

There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

#### Leases

The Authority has examined its leases, and classified them as either operational or finance leases. The Authority uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership. In reassessing the leases the Authority has estimated the implied interest rate within each lease to calculate the present value of the minimal lease payment.

#### Joint arrangements

IFRS 12 requires that the accounts disclose the judgements made to assess the type of Joint Arrangement to determine the Authority's correct accounting treatment. The Authority is not part of a Joint Venture or a Joint Operation.

#### Investment Properties

Investment properties have been assessed using the identifiable criteria under the international accounting standards as being held for rental income or for capital appreciation. Properties have been assessed using this criteria, which is subject to interpretation to determine if there is operational service potential.

**Provisions:** Provisions are made where an event has taken place that gives the Authority 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. The impact of the McCloud judgement and the decision not to give the government leave to appeal at the end of June 2019, has led to an update of the IAS19 assumptions and values. 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. 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 £658,000.

### 40. 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 Authority 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 Authority's Balance Sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

**Property, Plant and Equipment:** Asset valuations are detailed in Note 12 and Note 14 with a detailed statement from the valuer Wilkes Head Eve LLP regarding the outbreak of Covid-19 and the impact this will have on those valuations. In addition, assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relations to individual assets. The current economic climate

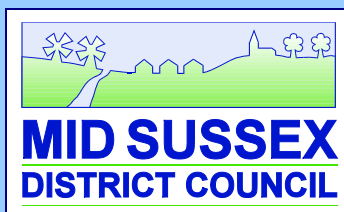
makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £38,000 if the life of the assets was reduced by one year.

**Business Rates:** Since the introduction of Business Rates Retention Scheme effective from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in earlier financial years in their proportionate share. Therefore, a provision for the Authority's share of £3,102,000 (2019/20 £1,344,000) has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2021. The estimate has been calculated using the Valuation Office (VAO) ratings list of appeals and the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2021.

**Pension Liability:** Estimation of the net liability to pay pensions depends on a number of complex judgements 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 Authority 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 discount rate assumption would result in an increase in the pension liability of £16,748,000. In addition, a 0.5% increase in the Pension Increase Rate would increase liabilities by £14,870,000. However, the assumptions interact in complex ways. During 2020/21, the Authority's actuaries advised that the net pension liability had decreased by £27,171,000, as a result of estimates being corrected as a result of experience and increased by £33,337,000 attributable to updating of the assumptions.

**Pension Liability (IAS19 disclosures):** In terms of the pension liability, the substance of the arrangement with Places for People (from 1 July 2014) who run our leisure services contract, is that the transferred staff are being treated as though they are employees of the Authority and are included as part of IAS19 disclosures.

**Arrears:** The Authority has provided within its financial statements an impairment of doubtful debts of £4,412,000 (2019/20 £3,397,000) as set out in Note 19. This allowance is considered adequate to cover future bad debts, but is by its nature an estimate. If collection rates were to deteriorate an increase in the amount of the impairment of doubtful debts would be required.



**Collection Fund  
Statement**

## Collection Fund Statement

### Income and Expenditure Account

2019/20 £000	2019/20 £000	2019/20 £000		2020/21 £000	2020/21 £000	2020/21 £000
	<b>Business</b>		<b>Income</b>		<b>Business</b>	
<b>Council Tax</b>	<b>Rates</b>	<b>Total</b>	<b>Council Tax</b>	<b>Council Tax</b>	<b>Rates</b>	<b>Total</b>
(111,478)	0	(111,478)	Council Tax Receivable	2 (116,798)	0	(116,798)
0	0	0	Council Tax Hardship Grant	(651)	0	(651)
			<b>Business Rates</b>			
0	(48,966)	(48,966)	Business Rates Receivable	3 0	(27,127)	(27,127)
(111,478)	(48,966)	(160,444)	Total Income	(117,449)	(27,127)	(144,576)
			<b>Expenditure</b>			
			<b>Apportionment of Previous Year</b>			
			<b>Estimated Surplus / (Deficit)</b>			
593	112	705	West Sussex County Council	953	590	1,543
75	0	75	Sussex Police & Crime Commissioner	131	0	131
103	446	549	Mid Sussex District Council	162	(581)	(419)
0	558	558	Central Government	0	(727)	(727)
771	1,116	1,887		1,246	(718)	528
			<b>Precepts, Demands and Shares</b>			
83,993	24,526	108,519	West Sussex County Council	88,787	4,641	93,428
11,529	0	11,529	Sussex Police & Crime Commissioner	12,337	0	12,337
14,260	8,918	23,178	Mid Sussex District Council	15,109	18,565	33,674
0	11,148	11,148	Central Government	0	23,207	23,207
109,782	44,592	154,374		116,233	46,413	162,646
			<b>Charges to Collection Fund</b>			
71	250	321	Write Offs of uncollectable amounts	4 22	135	157
199	(232)	(33)	Increase/(decrease)in bad debt allowance	4 627	1,186	1,813
0	1,179	1,179	Increase/(decrease) provision for appeals	4 0	1,036	1,036
0	0	0	Renewable Energy Scheme	3 0	2,552	2,552
0	172	172	Cost of Collection Allowance	0	172	172
270	1,369	1,639		649	5,081	5,730
110,823	47,077	157,900	Total Expenditure	118,128	50,776	168,904
(655)	(1,889)	(2,544)	<b>(Surplus)/Deficit arising in the year</b>	679	23,649	24,328
			<b>Collection Fund Balance</b>			
(1,328)	1,073	(255)	(Surplus)/Deficit at 1 April 2020	(1,983)	(1,439)	(3,422)
(655)	(2,512)	(3,167)	Movement on Fund Balance	679	23,649	24,328
(1,983)	(1,439)	(3,422)	<b>(Surplus) / Deficit at 31 March 2021</b>	(1,304)	22,210	20,906
			<b>Shares of (Surplus)/Deficit at 31 March 2021</b>			
(1,517)	(1,776)	(3,293)	West Sussex County Council	(996)	1,251	255
(208)	0	(208)	Sussex Police & Crime Commissioner	(138)	0	(138)
(258)	150	(108)	Mid Sussex District Council	(170)	9,315	9,145
0	187	187	Central Government	0	11,644	11,644
(1,983)	(1,439)	(3,422)		(1,304)	22,210	20,906

## Notes to the Collection Fund Account

### 1. General

The Collection Fund statement 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 (NNDR). The administrative costs associated with the collection process are charged to the General Fund.

Collection Fund surpluses or deficits declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial year. The Council Tax precepting bodies are West Sussex County Council and Sussex Police and Crime Commissioner.

The Business Rates Retention Scheme was introduced from 1 April 2013. The main aim of the scheme is to give councils a greater incentive to grow businesses in the District. It does however, also increase the financial risk due to non-collection and the volatility of the NNDR base. For 2020/21 the scheme shares are 40% retained by the Authority, 50% share paid to Central Government and 10% share paid to West Sussex County Council. For 2019/20 all of the 7 Districts were part of the West Sussex Pool, with the shares of 20% retained by the Authority, 55% share paid to West Sussex County Council and 25% share paid to Central Government.

The NNDR surpluses or deficits declared by the billing authority in relation to Business Rates are apportioned to the relevant bodies in the subsequent financial year in their respective proportions detailed above.

The Collection Fund deficit for 2020/21 is much larger than in previous years for Business Rates. This is primarily as a result of businesses being awarded expanded retail and nursery reliefs in 2020/21 totalling £23,333,000, as a part of the Governments response to the COVID-19 pandemic. These reliefs were not anticipated on the 2020/21 NNDR1 Government return submitted to Central Government in January 2020. This Government return informed the Authority's Budget setting for 2020/21.

The reliefs effectively reduce the net amount the Authority can collect from businesses, and as the precept amounts cannot be changed the result is a considerable deficit. However, these reliefs are funded by MHCLG through Section 31 Grants. These grants have been received in 2020/21 and have been transferred to the Authority's earmarked reserve. This reserve will be used to offset the Collection Fund deficit when it is charged to the Authority's General Fund in 2021/22.

### 2. Council Tax

The Authority is required to calculate a tax base each year and this is divided into the total precept requirement to produce the band D council tax figure. The tax base is calculated by estimating the number of dwellings in the district in each tax band, taking into account an estimate of additions and deletions during the year, and adjusted for the effects of various reliefs, exemptions and discounts where applicable. Each band total is then adjusted to give band D equivalents. Finally, an adjustment is made to cover non-collection of arrears.

A summary of the calculation, as agreed by the Authority on 4 March 2020, is shown below.

Property Value	Number of Net Dwellings	Ratio to Band D	No of Band D Equivalents	less (0.6%) adjustment for non-collection	Council Tax Base
up to £40,000	1,456.89	6/9	971.3		
between £40,001 & £52,000	4,641.13	7/9	3,609.8		
between £52,001 & £68,000	11,461.25	8/9	10,187.8		
between £68,001 & £88,000	14,941.19	9/9	14,941.2		
between £88,001 & £120,000	10,462.70	11/9	12,787.7		
between £120,001 & £160,000	7,968.56	13/9	11,510.1		
between £161,001 & £320,000	4,411.34	15/9	7,352.2		
over £320,000	362.01	18/9	724.0		
			<u>62,084.1</u>	<u>(372.5)</u>	<u>61,711.6</u>

The average band D Council Tax can be calculated by estimating the amount of income required to be taken from the Collection Fund by West Sussex County Council, Sussex Police & Crime Commissioner and the Council (including parish and town council requirements) for the forthcoming year and dividing this by the Council Tax Base. To calculate the Council Tax for each band, the band D Council Tax is then multiplied by the ratio specified above for the particular band, as shown in the table below. There were 24 actual Council Taxes levied for band D properties for each parish area in the district and these ranged from £1,814.37 to £1,944.17.



Authority	Demand or Precept £000		Council Tax Base		Band D Council Tax £
West Sussex County Council	88,787	÷	61,711.6	=	1,438.74
Sussex Police & Crime Commissioner	12,337	÷	61,711.6	=	199.91
Mid Sussex District Council	15,109	÷	61,711.6	=	244.83 (average)
<b>Average Band D Council Tax Charge For 2020/21</b>					<b><u>1,883.48</u></b>

For 2020/21 Central Government paid a Covid-19 Council Tax Hardship Fund Grant to compensate billing authorities for the council tax foregone in 2020/21 due to additional council tax reliefs that may be provided to recipients of working age local council tax support schemes during the Covid-19 emergency. The amount of £651,000 has been transferred into the Collection Fund.

### 3. Business Rates Income

The Authority collects Non Domestic Rates (Business Rates) for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government. The Rateable Value of Non Domestic Properties as at 31 March 2021 was £126,230,000 (£124,324,000 at 31 March 2020). The standard multiplier for 2020/21 was 51.2p (50.4p in 2019/20) and the Small Business Rate Relief Multiplier for the year was 49.9p (49.1p in 2019/20).

The business rates shares payable for 2020/21 were estimated before the start of the year as £23,206,000 (50%) (£11,148,000 in 2019/20, 25%) to Central Government, £18,565,000 (40%) (£8,918,000 in 2019/20, 20%) for the Authority and £4,641,000, 10% (£24,526,000 in 2019/20, 55%) for WSCC. These amounts have been charged to the Collection Fund in year. For the previous year, 2019/20, the Authority was part of the WSCC Business Rates Pool. In the pool, the net yield is paid 25% to central government, 55% to WSCC leaving 20% as the Authority's share.

As part of the Business Rates scheme, Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive their baseline amount. Tariffs payable to Central Government are used to pay the top ups of those authorities who do not received their baseline funding amount, ie County Councils.

In addition, a 'safety net' figure is calculated at 92.5% of baseline funding amount to ensure authorities are protected to this level of business rates income. If the income share exceeds the baseline, then a tariff payment is due. A tariff payment of £16,253,000 was made in 2020/21 from the Authority's General Fund to Central Government. The Authority was not required to make a tariff payment in year 2019/20 due to being part of the WSCC Business Rates Pool.

The total income from business ratepayers collected in 2020/21 was £27,127,000 (£48,966,000 in 2019/20), net of transitional protection payments for ratepayers of £14,000 (£622,000 in 2019/20). The Renewable Energy Scheme allows the Authority to solely retain the income for a site that it has granted planning permission for, and in 2020/21 the income received totalled £2,552,000 payable to the Authority. The Renewable Energy Scheme income will be transferred to the Business Rates Equalisation Reserve in 2021/22.

Successful appeals against the NNDR rateable values are refunded to the ratepayers according to the proportional shares.

### 4. Allowance for Bad Debts and Provision for NNDR Valuation Appeals

**Council Tax** An allowance has been made for Council Taxpayers' Bad Debts using an analysis of the recovery position of the debts outstanding as at 31 March 2021. A total of £3,690,000 (£3,112,000 in 2019/20) has been allowed against debts of £5,732,000 (£4,567,000 in 2019/20) outstanding as at 31 March 2021. The Authority's share of the allowance is £468,000 (£404,000 in 2019/20).

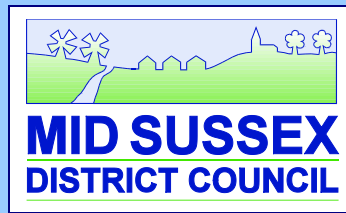
In year, £22,000 of uncollectable amounts has been written off (£71,000 in 2019/20).

**Business Rates** An allowance of £2,414,000 (£1,228,000 in 2019/20) has been made for Business Ratepayers' Bad Debts using an analysis of the recovery position of the debts outstanding as at 31 March 2021 against debts outstanding of £3,591,000 (£4,156,000 in 2019/20). The Authority's share of the allowance is £966,000 (£246,000 in 2019/20).

In year, £135,000 of uncollectable amounts has been written off (£250,000 in 2019/20).

A provision for appeals made against the rateable value not settled as at 31 March 2021 has been made of £7,755,000 (£6,719,000 in 2019/20). The Authority's share is £3,102,000 (£1,344,000 in 2019/20).





## **Annual Governance Statement**

## ANNUAL GOVERNANCE STATEMENT 2020/21

### 1. Scope of responsibility

Mid Sussex District Council (“the Council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council also has 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 economy, efficiency and effectiveness.

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

### 2. The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives 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 all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks, the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised, (and the impact should they be realised), and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ending 31 March 2021 and up to the date of approval of the Statement of Accounts.

### 3. The Council’s governance framework

The Council’s Constitution, which is updated annually (and last updated in May 2020), sets out how the Council operates. It states what matters are reserved for decision by the whole Council, the responsibilities of the Cabinet and the matters reserved for collective and individual decision.

Decision-making powers not reserved for councillors are delegated to the Chief Executive and Heads of Service. The Monitoring Officer ensures that all decisions made are legal and supports the Standards Committee in promoting high standards of conduct amongst Members and the wider Parish Council community in Mid Sussex.

The Scrutiny Committees are dual role in that they offer advice to Cabinet and Council both collectively, and to Cabinet members individually, and will scrutinise decisions made by the Cabinet, individual Cabinet members and Executive decisions taken by officers and those published on the Members’ Information Service, and in the formulation of new policies. Call-ins can be made on these decisions and this has been enacted once in the last year.

The overall budget and policy framework of the Council is set by the Council and all decisions are made within this framework. The Council’s overall policy is represented through the Corporate Plan, which is a combination of service and financial plans.

The Corporate Plan is a key reference for the Medium Term Financial Plan, which enables the Council to forecast forward and make best use of financial, human, technological and other resources available and to enable the continued provision of value for money services that meet the needs of residents, businesses and other stakeholders. At the broadest level, the Council also works with a number of key strategic partners through the local strategic partnership group of organisations.

From the Corporate Plan, service plans and business plans are developed and individual officer work plans are agreed, with performance targets agreed at every level. More detailed budgets are aligned to corresponding plans following a robust budget challenge process, which challenges managers to demonstrate efficiency and value for money. Performance is monitored and managed at every level on a regular basis.

The Council also monitors its performance through feedback from its residents and service users. An analysis of complaints raised under the Council's Corporate Complaints Policy is regularly reported and considered by the Scrutiny Committee for Customer Services, Service Delivery and Community; the last instance being in February 2021. The Council also has a Whistleblowing Policy, which encourages staff to report any instances of suspected unlawful conduct, financial malpractice, or actions that are dangerous to the public or environment.

The Council's financial management arrangements conform to the standards of the Chartered Institute of Public Finance and Accountancy (CIPFA), and have regard to the 'Statement on the Role of the Chief Financial Officer in Local Government'. The Head of Corporate Resources has statutory responsibility for the proper management of the Council's finances and is a key member of the Management Team. The four Heads of Service with the Chief Executive sit as a Management Team and may further devolve decision making to Business Unit Leaders through written schemes of management. The Head of Corporate Resources will also provide detailed finance protocols, procedures and guidance and training for managers, staff and Members.

The Council's Risk Management Strategy ensures proper management of the risks to the achievement of the Council's priorities and helps decision-making. In the Council's day-to-day operations, a framework of internal controls (e.g. authorisation, reconciliations, separation of duties, etc) control the risks of fraud or error, and this framework is reviewed by Internal Audit. Partnership working is governed by agreements, protocols or memoranda of understanding relevant to the type of work or relationship involved. The Council's legal services and procurement teams ensure that all are fit for purpose and the Council's interests are protected.

The Audit Committee is responsible for monitoring the effective development and operation of corporate governance in the Council. It provides independent assurance of the adequacy of the Council's governance arrangements, including the associated control environment, the authority's financial (and non-financial) performance to the extent that it affects the authority's exposure to risk and weakens the control environment, oversight of the financial reporting process and scrutiny of the treasury management strategy and policies.

It is planned as part of the action plan arising from the Governance Review (see below) to further align the Audit Committees' general oversight with the guidance from CIPFA on the 'Role of the Audit Committee in Local Government' and allow it to review the management of Strategic Risks on an annual basis. This is subject to an amendment to the constitution to follow in the year.

#### **4. Review of effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the Internal Audit annual report, and by comments made by the external auditors and other review agencies and inspectorates. The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes the following in the last year:

- A review of governance across the authority during late winter and early spring 2021 by a respected and expert independent third party, the report from which has been positively received and is being implemented in accordance with its Action Plan.
- The Council's internal management processes, such as performance monitoring and reporting; the staff performance appraisal framework; monitoring of policies, such as the corporate complaints and health and safety policies; and the corporate budget challenge process;

- The oversight of the Department for Business, Energy and Industrial Strategy (BEIS) of our processes in administering and awarding some £40m of Covid grants, delivered at pace and against a changing suite of guidance.
- The work of the corporate Joint Procurement Board partnered with Horsham DC and Crawley BC;
- The Council's internal audit coverage (purchased from Crawley BC under a shared service arrangement), which is planned using a risk based approach. The outcome from the internal audit coverage helps form the Chief Internal Auditor's opinion on the overall adequacy of the Council's internal control framework, which is reported in their annual report.
- The Chief Internal Auditor's annual report on anti-fraud and corruption activities, including the use of the National Fraud Initiative data matching exercise;
- The annual review of the effectiveness of the internal audit function;
- External audit review of the work of the internal audit service and comment on corporate governance and performance management in their Annual Audit Letter and other reports;
- Workforce assessments and accreditation where appropriate and affordable;
- The External Auditor's opinion on the Council's financial statements;
- The work of the Audit Committee, which reviews the outcomes from the annual audit plan and the annual report of the audit function;
- The work of the Scrutiny Committees;
- An annual review of the constitution by the Constitutional Review Group, which recommends amendments to the Constitution, where appropriate, for agreement by the Council. The last review, reported to, and agreed by, Council in May 2020 reduced the number of planning committees to two per month on regular Thursdays to align better with the level of business and the number of meetings held at similar District Councils. This change has worked well to date.
- Work of the Standards Committee, which includes monitoring the operation of the Members' Code of Conduct and the Member and Officer Protocol.

## 5. Significant governance issues

The Covid-19 pandemic has provided the context within which all business at the authority has been conducted during 2020/21. It has necessitated working at speed to provide new services, such as national grant schemes, as well as provide extended services in areas of higher demand such as Housing and Homelessness. Remote working has been instituted and adopted very quickly and staff teams have had to adapt to this new way of working without recourse to physical resources such as paper files and meeting spaces.

Similarly, Members have adapted to virtual meetings throughout the year, which has enabled scrutiny and decision making to continue to a high standard.

Importantly, an independent Governance Review has been undertaken during this year and it provides a helpful, external perspective on the Council's Governance arrangements.

The Review has confirmed that the Council's formal governance meets statutory requirements. It also makes some helpful recommendations. They are in two phases; the first focussing on improving cross party working within the Council and the knowledge and familiarity of all members with the Council's governance arrangements. The second phase recommends a review of the Scrutiny, Council and working group arrangements with a view to reducing cost and increasing impact. The Review also made a number of minor suggestions to strengthen the Council's Governance. The Review's Action Plan allocates clear responsibilities for implementing all the changes recommended.

The report of the external reviewer has been shared with all members and discussed at a private workshop. A report on the Review will be considered by Council at its meeting in September.

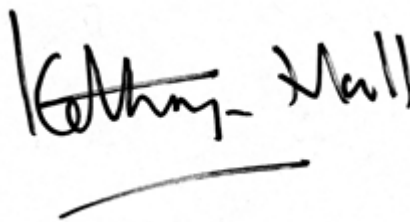
There was one call in during the year concerning a decision of Cabinet to close Clair Hall in Haywards Heath. The Scrutiny Committee decided that no further consideration by the Cabinet was necessary. However, subsequently a judicial review was issued by a local resident against the Council regarding the decision to close Clair Hall which resulted in a consent order being agreed by the parties to conclude the proceedings ahead of a preliminary court hearing and in accordance with that consent order the Council is now undertaking consultation and engagement regarding the future of Clair Hall.

This started in June 2021 and will run for 12 weeks after which Cabinet will reconsider the future of the Clair Hall site.

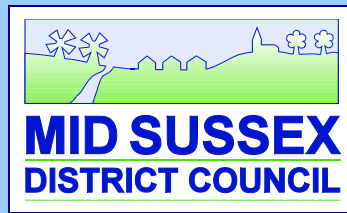
Specific opportunities for improvements in governance and internal controls identified as part of the assurance processes detailed above have been addressed or are included in action plans for the relevant managers.



Cllr Jonathan Ash-Edwards  
Leader of Council  
July 2021



Kathryn Hall  
Chief Executive  
July 2021



## Glossary of Terms

## Glossary of Terms

**Accounting Policies** - These are the specific principles, bases, conventions, rules and practices applied by the Authority in preparing and presenting the financial statements.

**Accounting Standards** - These are set by CIPFA /LASAAC and comprise International Financial Reporting Standards (IFRSs) developed by the Financial Reporting Advisory Board ((FRAB). The Code of Practice on Local Authority Accounting is based on approved Accounting Standards issued by the International Accounting Standards Board (IASB) as well as approved Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSAS) and the UK Accounting Standards Board. Therefore, the IFRS-based Code of Practice on Local Authority Accounting is based on the accounting standards issued by various standard setting bodies, Auditors could expect the guidance to be complied with, and any departure must be disclosed in the published accounts.

**Accruals** - The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

**Actuarial Gains and Losses (Pensions IAS 19)**- Actuaries assess financial and non-financial information provided by the Council to project levels of future pension fund requirements. Actuarial gains and losses are the changes in actuarial deficits or surpluses that arise because:

Events have not coincided with actuarial assumptions made for the last revaluation (experience gains or losses) or the actuarial assumptions have changed.

These are recognised by appropriation from the pensions reserve and have no impact on the Comprehensive Income and Expenditure Account.

**Agency Services** - Services which are performed by or for another authority or public body, where the principal (i.e. the authority responsible for the service) reimburses the agent (i.e. the authority carrying out the work) for the cost of the work carried out.

**Allowance for Bad and Doubtful Debts** - The amount set aside in the Council's accounts to cover debts which may be un-collectable and written off.

**Balances** - In general, this is the accumulated surplus of income over expenditure, on any account, at the end of the financial year. Balances form part of the Council's reserves, and the authority may use its revenue balances to reduce the requirement from the council tax.

**Band D Equivalent** - The weighted number of properties subject to council tax in a local authority's area, calculated on the basis of prescribed proportions in relation to band D.

**Billing Authority** – This is the local authority responsible for the billing and collection of the council tax from all properties in their areas. In shire areas the District Councils are the billing authorities.

**Capital Accounting** - The recording in local authority balance sheets of the value of all capital assets and the use of these values to charge services with capital charges.

**Capital Adjustment Account** – this represents timing differences between the amount of the historical cost of non-current assets consumed and the amount that has been financed.

**Capital Expenditure** – On the acquisition or construction of assets which have a long-term value to the authority in the provision of its services (e.g. land; purchasing existing buildings or erecting new ones; purchasing furniture or equipment etc.).

**Capital Programme** - an authority's plan for capital projects and spending over future years. Included in this category are the purchase of land and buildings, the erection of new buildings, design fees and the acquisition of vehicles and major items of equipment.

**Capital Receipts** - Income received from the sale of land or other assets, which is available to finance other items of capital (but not revenue) spending, subject to the provisions contained within the Local Government Act 2003, or to repay outstanding debt on assets originally financed from loan.

**Chargeable Dwelling** – A dwelling that is subject to council tax.



**CIPFA (The Chartered Institute of Public Finance and Accountancy)** - This is the professional body for accountants working in local government and public bodies and is a Member of the Consultative Committee of Accountancy Bodies. The Institute provides financial and statistical information services for local government and advises central government and other bodies on local government and public finance matters. Members of the Institute are entitled to use the letters CPFA after their names, and membership is by examination. CIPFA is an entirely privately funded body.

**Collection Fund** - A fund administered by each billing authority (the District Council in shire areas), recording receipts from Council Tax, and payments to the General Fund and other public authorities. It also records receipts of non-domestic rates collected on behalf of Central Government, County Council and MSDC, and payments made to these organisations for their share of the total Business Rates collected.

**Community Assets** - Assets that the local authority 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 and historic buildings.

**Contingent Liability and Asset** - A contingent liability or asset is a possible loss or gain which is not recognised in the accounts because it cannot be accurately estimated or because the event giving rise to the possible loss or gain is not considered sufficiently certain. This item is disclosed by way of a note to the accounts.

**Costs Payable to the Pension Fund and any Payments to Pensioners (Pensions IAS 19)** - These are appropriated to the Comprehensive Income and Expenditure Account from the Pensions Reserve, to replace all IAS 19 debits and credits, so that they remain, as previously, the actual amount to be met from government grants and local taxation.

**Council Tax** - The local tax payable on most residential properties in a local authority's area, in the year. Properties are valued within eight valuation bands (A-H), which determines the amount of council tax payable. See band D equivalents.

**Creditors**- Amounts owed by the Council for work done, goods received or services rendered, for which payment has not been made at the date of the Balance Sheet.

**Current Assets** - An asset which will be consumed or realised in the next accounting period e.g. short-term investments, inventories, short term debtors, cash and cash equivalents.

**Current Liabilities** - An amount which will be payable or could be called in within the next accounting period e.g. creditors, provision for accumulated absences, finance leases payable less than 1 year, cash overdrawn, and borrowing payable less than 1 year.

**Current Service Cost (Pensions IAS 19)** This represents the increase in present value of the scheme's liabilities expected to arise from employee service in the current period.

**Debtors** – These are sums of money due to the Council that have not been received at the date of the Balance Sheet.

**Discount Rate** – A calculation using a specified discount rate to estimate the present value of a future liability.

**Depreciation** – is provided for on all Property, Plant and Equipment. Depreciation is the measure of the wearing out, consumption, or other reduction in the useful economic life of a non-current asset, whether arising from use, effluxation of time or obsolescence through technological or other changes.

**DWP** – Department for Work and Pensions

**Exceptional Items** – These are material items in terms of the authority's overall net expenditure which derive from events or transactions which are not expected to recur frequently or regularly that fall within the ordinary activities of the authority. They are disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

**Extraordinary Items** - Material items which derive from events or transactions that fall outside the ordinary activities of the authority. It would be rare for an item to be classified as extraordinary and would only be likely where ultra vires transactions occur.

**External Audit** - The independent examination of the accounts of local authorities. The Mid Sussex audit is carried out by the Ernst & Young LLP.

**Fair Value** – Fair value is the price at which an asset could be exchanged in an arm's length transaction, less any grants receivable towards the purchase or use of the asset.

**Finance Lease** - A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. Other types of lease are termed "operating leases".

**Financial Instruments** – A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. This covers both financial simple assets and financial liabilities e.g. trade debtors and trade creditors. In its most complex form these include derivatives and embedded derivatives.

**Gains and Losses on Settlements (Pensions IAS 19)** - An irrecoverable action that relieves the employer of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. This also is charged to Non Distributed Costs.

**General Fund Balance**- The main revenue fund of a billing authority. Day-to-day spending on services is met from the fund.

**Heritage Asset** – A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

**Impairment** – Impairment occurs when an asset has been re-valued and the valuation is downward. It is caused by a consumption of economic benefits (e.g. physical damage, or deterioration in the quality of service provided by the asset) or a general fall in prices.

**Infrastructure Assets** – Non-current assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways, footpaths and culverts.

**Intangible Assets** – Intangible assets are defined as "non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events

**Interest Cost (Pensions IAS 19)** – The expected increase during the year in the present value of the schemes liabilities because the benefits are one year closer to settlement.

**International Financial Reporting Standard (IFRS)** – Defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

**Minimum Revenue Provision (MRP)** – is the minimum amount which must be charged to an Authority's revenue account each year and set aside as provision for credit liabilities, under the Local Government and Housing Act 1989.

**Ministry of Housing, Communities and Local Government** – MHCLG.

**National Non-Domestic Rates (NNDR)** - Nationally set tax charged on the rateable value of non-domestic properties (also known as business rates). The rate is set by the MHCLG.

**Net Book Value (NBV)**- is the amount at which non-current assets are included in the Balance Sheet, e.g. historical cost or current value less cumulative depreciation.

**Net Realisable Value (NRV)** – is the existing use value of the non-current asset less any expenses incurred in realising the asset.

**Non-current Assets** – Tangible assets that yield benefits to the local authority and the services it provides for more than one accounting year, e.g. land buildings, vehicles, vehicles plant and equipment, infrastructure assets and community assets. Collectively these are referred to as Property Plant and Equipment.

**Operating Lease** – is a lease other than a Finance Lease. A type of lease, usually of computer equipment, office equipment, furniture etc., which is similar to renting. Ownership of the asset must remain with the lessor for a lease to be classed as an operating lease.

**Past Service Costs (Pensions IAS 19)** - The increase or decrease in the present value of the scheme liabilities related to employee service in prior periods, as a result of the introduction of or improvement to retirement benefits or changes in indexation. This is charged or credited within the net cost of services under Non Distributed costs in the Comprehensive Income and Expenditure Account. Discretionary Pension benefits awarded on early retirement are treated as past service costs.

**Pension Fund** - An employees' pension fund maintained by an authority, or group of authorities, to make pension payments on retirement of participants; it is financed from contributions from the employing authority, the employee and investment income. This Council contributes to the West Sussex Pension Fund.

**Precept** - The levy made by West Sussex County Council (WSCC) and Sussex Police & Crime Commissioner (SPPC) on the Collection Fund, and Parish and Town Councils on the General Fund, for their net expenditure requirements.

**Provisions and Reserves** - Amounts set aside in one year to cover expenditure in the future. Provisions are for liabilities or losses which are likely or certain to be incurred, but the amounts or the dates on which they will arise are uncertain. Reserves are amounts set aside which do not fall within the definition of provisions and include general reserves (or "balances") which every authority must maintain as a matter of prudence. This Council has established the General Reserve, and the Specific Reserve. These are further described in the Statement of Accounts.

**Rateable Value (RV)** - A value of all non-domestic properties subject to rating, to which rate pound ages are applied to arrive at a rate payable. The value is based on a notional rent that the property could be expected to yield after deducting the cost of repairs.

**Related Parties** – Related parties are Central Government, other Local Authorities, precepting and levying bodies, subsidiary and associated companies, Elected Members, all senior officers from Heads of Service and above and the Pension Fund. For individuals identified as related parties, the following are also presumed to be related parties:-

- Members of the close family, or the same household; and
- Partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.

**Reserves** - See Provisions and Reserves.

**Return on Plan Assets (IAS 19)** is interest, dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less:

- a) Any costs of managing plan assets, and
- b) Any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

**Revaluation Reserve** – This Reserve records the accumulated gains on the non-current assets held by the Council resulting from inflationary increases in values or upward revaluations resulting from other factors.

**Revenue Expenditure** – is expenditure on the day-to-day running of Council services. E.g. employee costs, premises costs, transport costs and supplies and services.

**Revenue Expenditure Funded From Capital Under Statute (REFCUS)** – Expenditure that may be capitalised under statutory provision but that does not result in the creation of a non-current asset that has been charged as expenditure to the Comprehensive Income & Expenditure Statement.

**Service Reporting Code of Practice (SeRCOP)** – This is Cifpa's authoritative guide that establishes proper practices with regard to consistent financial reporting for services in local authorities.

**Surplus** – is where income exceeds expenditure.

**Transitional Relief** – Scheme whereby the Council Tax is reduced for properties which would otherwise have seen a large increase in the Council Tax bill in comparisons with the actual 1992/93 community charge bill for the particular property.



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## CAPITAL STRATEGY 2022/23 to 2025/26

REPORT OF: HEAD OF CORPORATE RESOURCES  
Contact Officer: Peter Stuart  
Email: [peter.stuart@midsussex.gov.uk](mailto:peter.stuart@midsussex.gov.uk) Tel: 01444 477315  
Wards Affected: All  
Key Decision: No  
Report to: Audit Committee  
Date of Meeting: 1 March 2022

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### 1. Purpose of Report

- 1.1 To present the Capital Strategy 2022/23 to 2025/26 for approval by the Committee.

### 2 Recommendations

- 2.1 **The Committee is recommended to forward the draft Strategy for approval by Council at the next appropriate meeting.**

### 3. Background

- 3.1 Each year the Council is required to approve a corporate plan and budget that shows how it will deliver its services and spend its financial resources in the following financial year. This includes publishing a Capital Programme which sets out the level of investment in the Council's assets and the financing of that investment.
- 3.2 Our Corporate Plan has in the past included a Strategy designed to guide such investment but this good practice has now been formalised through a revision to the CIPFA Prudential Code. Authorities need therefore to present and have adopted a Capital Strategy each year.
- 3.3 Appendix 1 contains a draft Capital Strategy to fulfil the requirements of the Code. It sets out the principles by which we will make capital investment and aims to balance needs and expectations with available resources.
- 3.4 Members are invited to scrutinise the Strategy and satisfy themselves that it represents their collective view.
- 3.5 This policy would be formally adopted by Council on 2<sup>nd</sup> March if Members are agreeable.

### 4. Policy Context

- 4.1 Adopting a Capital Strategy fulfils the Council's statutory duties:

### 5. Risk Management Implications

- 5.1 None. It is not considered that adopting this strategy brings forward any significant risk. All expenditure decisions are assessed individually.

### 6. Legal Implications

- 6.1 None.

**7. Financial Implications**

7.1 This report has no financial implications.

**8. Equality and customer service implications**

8.1 None.

**9. Sustainability implications**

9.1 None

**10. Background Papers**

10.1 None



## Appendix 1

### 2. Capital Strategy to 2025/26

#### 2.1 Overview

The Capital Strategy is a requirement for authorities following the publication of the revised 'Prudential Code for Capital Finance in Local Authorities' in 2017. This strategy forms the framework for capital investment decisions over the next three years and will inform the detailed annual capital budgets over this period. It is closely linked to the Treasury Management Strategy, the Investment Strategy and the Borrowing Strategy. The strategy aims to balance capital expenditure needs and expectations (e.g. replacement of business critical IT systems) with the availability of resources.

#### 2.2 Member approval and review

The Treasury Management Code allows authorities to delegate the detailed management of Treasury Management, including the Capital Strategy, to a sub-committee and this responsibility is delegated to the Audit Committee. This delegation will facilitate more active discussion of the Capital Strategy and its implementation, though overall responsibility will, at all times, remain with the full Council.

#### 2.3 Governance Framework

Given the size of the expenditure and risk in a capital programme, it is important that appropriate governance arrangements are in place. For Mid Sussex these encompass:

- The Strategy itself which is approved annually by full council
- The Cabinet which approves all capital schemes not in the corporate plan,
- The Audit Committee which scrutinises the Treasury Management Strategy and this Strategy,
- The Management Team has overall responsibility for managing and monitoring the Programme,
- The Constitution sets out the responsibilities and powers of the Executive in relation to capital expenditure,
- Monitoring reports each municipal cycle with more detail at the half-year,
- The Financial reporting framework which sets out the 'rules' for capitalisation of expenditure,
- Internal and External audit scrutiny as part of normal practice.

#### 2.4 Strategic Direction of the Council

A key driver of the Capital Strategy is the Council's Statement of Main Purpose 'To be an effective Council delivering value for money services and helping to create a strong economy, environment and community' and the accompanying priorities:

- Effective and responsive services
- Sustainable economic growth
- Strong and resilient communities
- Financial independence

This statement gives a strategic direction to the Council to enable it to meet the demands of the future.

#### 2.5 Capital Expenditure

Capital expenditure, defined in accordance with the Council's approved

accounting policies and procedures, can be funded in a variety of ways:

- Grants
- Section 106 contributions
- Capital receipts
- Direct Revenue contributions
- Borrowing

The method of funding for any particular scheme will depend on a number of factors and this is covered in more detail below. It should be noted that the Council has limited resources for the funding of capital expenditure, with balances having reduced significantly over recent years due to the use of reserves for property investment, earmarking for certain specific projects and financing the overall capital programme.

## 2.6 **Whole life costing for capital schemes**

Whole life costing can be defined as “the systematic consideration of all relevant costs and revenues associated with the acquisition and ownership of an asset.” In practical terms this means that any appraisal of a proposed capital project will need to consider not just the initial capital cost but all costs and income streams associated with the project that are likely to occur in future years, including possible replacement or disposal costs. This is vital to ensure that the Council is not committing itself to future liabilities that are unsustainable.

## 2.7 **Scheme Evaluation and Risk**

Any appraisal of proposed new capital schemes should include a full evaluation of risk, having regard to the whole life costing methodology set out above. This is set out in the Justification Statement that is completed for all new schemes. Consideration should be given to sustainability issues as part of that appraisal.

## 2.8 **Monitoring of approved capital schemes**

For approved capital schemes it is the responsibility of the relevant budget holder to manage costs and to provide explanations for any variations from the approved budget, in accordance with Financial Procedure Rules. Budget monitoring statements are presented to Corporate Management Team and Cabinet on a roughly quarterly basis.

### **3. GENERAL FUND PROGRAMME**

#### **3.1 Core annual programme**

The Council has a core annual programme comprising asset management (all owned or leased assets), Information Technology and Disabled Facilities Grants (DFGs). DFGs pay for essential adaptations to help people with disabilities stay in their own homes. The DFG programme is entirely funded by Government grant. Asset management and Information technology programmes are funded by capital receipts where available or general reserve if no receipts are available or capitalisation is not appropriate.

#### **3.2 Land and Property Revenue Reserve**

A property investment fund has been established with the aim of acquiring properties to generate a return for the Council. Property acquisitions have been funded from earmarking a proportion of the Council's general reserve but in the future we will prioritise the use of receipts from land and property disposals. Acquisitions can only be made once a full business case has been completed and the risks fully understood and evaluated. Presently the reserve is not adequately financed and will require more funding in the future.

#### **3.3 Other Schemes**

In addition to the core annual programme other schemes will be considered subject to the criteria set out below. However, the key issue here is the modest funding, as reflected in the Council's medium term financial strategy which envisages only a modest programme with only minor impacts on the revenue account through payment of minimum revenue provision (MRP). It is therefore particularly important that any new schemes have a clear benefit to ensure that limited resources are used in the most effective possible way.

#### **3.4 Prioritising new schemes**

In common with other local authorities Mid Sussex is facing a challenging financial climate and it is therefore essential that systems are in place to ensure that scarce resources are allocated in the most effective possible way. New schemes will be assessed against the following criteria:

- Link to the Council's strategic direction
- Availability of specific external funding
- Demonstration of a sound business case
- Whole life cost implications (see 2.6 above)
- Value for money

New schemes will have a Justification Statement that sets out the key factors considered prior to approval by Members.

#### **3.5 Affordability and available resources**

In addition to considering the merits of individual schemes the Council will need to assess the overall affordability of any new programme, having regard to the availability of resources, existing financial commitments and the projected level of balances forecast in the medium-term financial plan. As outlined in 2.5 above, possible sources of funding for capital schemes are:

- Grants
- Section 106 contributions
- Capital receipts
- Direct Revenue contributions
- Borrowing

### 3.6 **Specific resource issues**

Grants and Section 106 contributions are generally used to fund specific capital schemes linked to the conditions imposed by the relevant grant or section 106 contribution. There is little, if any, latitude in the way this funding can be applied. Capital receipts are derived from the sale of the Council's assets. It is the Council's policy to use these receipts to support the General Fund capital programme. A proportion of these receipts may be earmarked for the purchase of land and property (see 3.2 above).

Revenue contributions are a flexible source of funding but they put an immediate strain on the General Fund balance and can therefore only be used to a limited extent. Borrowing spreads the cost over a number of years but loan servicing costs (MRP) and the overall level of debt exposure both need to be considered and clearly flagged in a business case. Guidance on assessing and calculating MRP is set to change as a result of consultation which has been driven by the huge surge in commercial property investment undertaken by councils using relatively cheap finance from the PWLB.

### 3.7 **Major schemes already approved and committed**

The existing capital programme includes a number of schemes which the Council is fully committed to delivering, although these are not individually significant. It is however likely that until capital receipts become available, the scale of approval for new schemes will be limited.

## 4. **LINKS TO OTHER COUNCIL STRATEGIES**

### 4.1 **Treasury Management Strategy**

The capital strategy is closely linked to the Treasury Management Strategy and it is essential that any investment decisions are informed by both strategies. In particular the assessment of affordability outlined in 3.5 above will need to have regard to the relevant elements of the Treasury Management Strategy including:

- The incremental impact of capital investment on council tax levels
- The borrowing strategy
- The authorised limit for external debt

### 4.2 **Property Investment Strategy**

The landscape around property investment has recently changed with the amendments to the rules around using the Public Works Loans Board, and the forthcoming changes to the MRP regime. The strategy needs to take this fundamental shift into account but while this is being worked up we are working to the general principles outlined in the 2016/17 Corporate Plan and the approval process contained therein; *'Individual transactions would need concurrent agreement by a variety of key Members, i.e. appropriate Cabinet Portfolio Holders and the Chairs of the Scrutiny Committee for Leader and Service Delivery and the Audit Committee.'*

### 4.3 **Asset Management Strategy**

As outlined in 3.1 above, there is a core annual programme to cover capitalised repairs and improvements for all the Council's assets. The asset management strategy establishes the priorities for this programme having regard to the condition of the various assets and their respective priorities in terms of delivering Council services or generating rental income.

4.4 The adoption of the foregoing principles results in a modest proposed Capital Programme for 2022/23, as detailed further in the paragraphs below.

## 5. Proposed Projects for 2022/23

5.1 In light of the comments above, the capital and revenue projects that have come forward are as follows:

**i) ICT (Capital Projects)**

These relate to a workstation replacement programme at £50k, and projects designed to upgrade our capabilities whilst moving us towards being infrastructure free in the longer term.

**ii) Other Capital Schemes**

This project relates to the purchase of Rubbish and Recycling Service Wheelie Bins over two years.

**iii) Major Capital Renewals (Capital Projects)**

This is the cost of maintaining our assets and includes phase V of the Oaklands Window Replacements programme. This is part of the ongoing commitment to improve the thermal efficiency of the Oaklands Campus and is a need highlighted within the Corporate Sustainability Strategy and will be a focus of the forthcoming Sustainable Economy Strategy.

**iv) Disabled Facility Grants**

This is a mandatory scheme and is currently fully funded from a WSCC grant contribution.

**v) Housing**

Affordable Housing schemes are funded wholly or mainly from S106 contributions.

5.2 The proposed capital and revenue projects to be included in the 2022/23 Capital Programme of Capital and Revenue Projects are set out on the next page.

Proposed New Projects - Capital Programme and Revenue Projects 2022/23 - 2025/26						
	Project Justification	Total 2022/23	Total 2023/24	Total 2024/25	Total 2025/26	Revenue Implications
		£'000s	£'000s	£'000s	£'000s	£'000s
<b>Capital Projects</b>						
<b>Digital &amp; Technology Projects</b>						
PC Replacement Programme IV	Yes	50	50	50	50	
<b>Total Digital &amp; Technology Projects funded from Capital Receipts:</b>		<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>0</b>
<b>Others:</b>						
Replacement Wheelie Bin Purchase	Yes	117	117	0	0	
<b>Total Others:</b>		<b>117</b>	<b>117</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Major Capital Renewals</b>						
Oaklands:						
Oaklands Replacement Windows Phase V	Yes	95				
Heating works Phase IV	Yes	65				
Oaklands Staff Room and Remodelling and Refurbishment	Yes	44				
Unallocated Funding for future years	n/a		130	146	133	
<b>Total Major Capital Renewals</b>	n/a	<b>204</b>	<b>130</b>	<b>146</b>	<b>133</b>	<b>0</b>
<b>Housing</b>						
Affordable Housing	n/a	650	656			
<b>Total Housing</b>		<b>650</b>	<b>656</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Environmental Health</b>						
Disabled Facility Grants	n/a	900	900	900	900	
<b>Total Environmental Health</b>		<b>900</b>	<b>900</b>	<b>900</b>	<b>900</b>	<b>0</b>
<b>Total New Capital Projects</b>		<b>1,921</b>	<b>1,853</b>	<b>1,096</b>	<b>1,083</b>	<b>0</b>
Financed By:						
Grant Contributions WSCC		900	900	900	900	
S106 Housing - non time limited		650	510	0	0	
S106 Housing - time limited		0	146	0	0	
Met from Revenue Contributions (for MCR)		95	130	146	133	
General Reserve		65	0	0	0	
Capital Receipts		211	167	50	50	
<b>Total Financed:</b>		<b>1,921</b>	<b>1,853</b>	<b>1,096</b>	<b>1,083</b>	<b>0</b>

Revenue Projects		£'000s	£'000s	£'000s	£'000s	£'000s
<b>Major Capital Renewals</b>						
Car Parks:						
Resurfacing Heath Road Car Park, Haywards Heath	Yes	41				
Resurfacing of Muster Green Car Park, Haywards Heath	Yes	16				
Unallocated	n/a	10				
<b>Total Major Capital Renewals</b>	n/a	<b>67</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other</b>						
<u>Playground Improvements:</u>						
Dolphin Leisure Centre Play Area Haywards Heath	Yes	30				
Hollands Way Play Area, East Grinstead	Yes	62				
<u>Parks Improvement Programme</u>						
Hemsleys Meadow and Finches Field, Pease Pottage Masterplan	Yes	900				
Victoria Park, Haywards Heath Masterplan	Yes	326	tbd	tbd		
Mount Noddy, East Grinstead Masterplan	Yes	180	196	319		
St. John's Park, Burgess Hill Masterplan	Yes	tbd	tbd	tbd		
<b>Total Landscapes</b>	n/a	<b>1,498</b>	<b>196</b>	<b>319</b>	<b>0</b>	<b>0</b>
<b>Total New Revenue Projects</b>		<b>1,565</b>	<b>196</b>	<b>319</b>	<b>0</b>	<b>0</b>
Financed By:						
Met from Revenue Contributions (MCR (£67k) )		67	0	0	0	0
S106s (time limited / non-time limited)		1,055	96	200		
General Reserve		443	100	119	0	
<b>Total Financed:</b>		<b>1,565</b>	<b>196</b>	<b>319</b>	<b>0</b>	<b>0</b>

- 5.3 Each project (excluding Affordable Housing and Disabled Facility Grants) has a full accompanying justification statement and has been the subject of Ward and Cabinet Member consultation. The justification proformas for all service projects are included at the end of this section.

**Background Papers**

Report to Scrutiny Committee for Leader, Finance and Performance on 13 January 2021.

Draft Corporate Plan and Budget for 2021/22 report to Cabinet 8 February 2021.

Budget working papers.



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## TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2022/23 TO 2024/25

REPORT OF: Head of Corporate Resources  
Contact Officer: Peter Stuart  
Email: [peter.stuart@midsussex.gov.uk](mailto:peter.stuart@midsussex.gov.uk) Tel: 01444 477315  
Wards Affected: All  
Key Decision: No  
Report to: Audit Committee  
Date of Meeting: 1 March 2022

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### Purpose of Report

1. This report sets out the Council's investment and borrowing strategy for the forthcoming three years and reports the counterparty list with which investments may be made. It also sets out the Prudential Limits that provide the parameters for approved future lending and borrowing, including the incidental cost of so doing.

### Summary

2. The purchase of the Orchard Shopping Centre head lease in November 2016 necessitated borrowing of £22m from other Local Authorities. The final £5m was repaid last November.

Lending is restricted to the same counterparties and within the same limits as in the previous strategy approved in March 2021 except for the following amendments already reported:

- (i) Due to the increase in funds available for investment, and the requirement to keep significant liquidity, the Head of Corporate Resources recommends increases in the Council's counterparty investment limits as follows, subject to compliance with the approved ratings:
  - from £4m to £5m for UK banks: HSBC, National Westminster, Barclays, Santander, Handelsbanken, Goldman Sachs International Bank and Close Brothers
  - from £4m to £7m for the Council's banker, currently Lloyds Bank.
- (ii) Add HSBC Environmental, Social and Governance Sterling Liquidity fund to the list of money market fund counterparties.

In addition, it is proposed to add Standard Chartered Bank to the list of specified investments – this bank is offering sustainable fixed term deposits.

### Recommendations

3. **The Committee is recommended to propose that Council agree:**
  - (i) **the proposed Treasury Management Strategy Statement (TMSS) for 2022/23 and the following two years,**
  - (ii) **the Annual Investment Strategy (AIS) and the Minimum Revenue Provision Statement (MRP) as contained in Sections 4 and 2.3 respectively of the report;**

- (iii) the proposed amendments to the specified and non-specified investment appendices;
- (iv) the Prudential Indicators contained within this report.

## Background

4. The Council applies and upholds the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code"). CIPFA has defined Treasury Management as:

*"the management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

5. The Code requires local authorities to produce an annual Treasury Management Strategy Statement (TMSS), which documents the Council's approach to capital financing and investments for the forthcoming financial year (2022/23) and the following two years. This report fulfils that requirement.
6. In producing the TMSS, The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years. The indicators are established to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
7. Additionally, the Act and its subsequent Investment Guidance require the Council to set out its treasury management strategy for borrowing, and to prepare an Annual Investment Strategy (AIS). The Council's borrowing position is reported in Section 3, with arrangements for making Minimum Revenue Provision (MRP) for repayment of debt explained in Section 2.3. The AIS is contained in Section 4 of this report, and describes the Council's policies for managing its investments, and for giving priority to the security and liquidity of those investments.
8. Statute requires that the AIS, MRP Statement, and Prudential Indicators are approved by full Council before the start of the new financial year.

## Policy Context

9. Providing transparency and approval of the strategies contained in this report is an important part of the Council's statutory role. Treasury Management has become increasingly topical given the nature of the world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Head of Corporate Resources.

## Other Options Considered

10. None – this report is statutorily required.

## Financial Implications

11. This report has no quantifiable financial implications. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget but are not required to support the provision of services.

### **Risk Management Implications**

12. This report has no specific implications for the risk profile of the Authority.

### **Equality and Customer Service Implications**

13. None.

### **Other Material Implications**

14. None.

### **Sustainability Implications**

15. None.

### **Background Papers**

- Treasury Management Strategy Statement & Annual Investment Strategy 2021/22 to 2023/24 (March 2021)
- Annual Review of Treasury Management 2020-21 (September 2021)
- Review of Treasury Management Activity 1 April – 30 September 2021 (Nov. 2021)
- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA)
- The Prudential Code for Capital Finance in Local Authorities (CIPFA, December 2017)
- MHCLG Investment Guidance and MRP Guidance
- Link Asset Services report template (February 2022)

## Treasury Management Strategy Statement & Annual Investment 2022/23 to 2024/25

### INTRODUCTION

#### 1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

#### 1.2 Reporting requirements

##### 1.2.1 Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

##### 1.2.2 Treasury Management reporting

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals:

- a. Prudential and treasury indicators and treasury strategy** (this report) - the first, and most important report covers:
  - the capital plans (including prudential indicators);
  - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);

- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

The approval of the Treasury Management Strategy and Annual Investment Strategy is the function of the Council, however the Head of Corporate Resources shall also report to the Audit Committee on treasury management activity performance as follows:

- b. A mid year treasury management report** – This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. The report will be submitted as soon after 30 September as practically possible.
- c. An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. The report will be submitted no later than 30 September after the financial year end.

### 1.2.3 Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee, which may make recommendations regarding any aspects of treasury management policy and practices it considers appropriate in fulfilment of its scrutiny role. Such recommendations, as may be made shall be incorporated within the above named reports and submitted to meetings of the Council for consideration at the next available opportunity. The Council's Scheme of Delegations is set out in Appendix E.

## 1.3 Treasury Management Strategy for 2022/23

The strategy for 2022/23 covers two main areas:

### Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

### Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

## 1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training. This especially applies to Members responsible for scrutiny. Training was supplied to Members by Link Asset Services on the 28<sup>th</sup> September 2021. The training needs of the treasury management officers at Adur District Council, who provide the shared treasury service to Mid Sussex District Council, are periodically reviewed. Officers attend courses provided by appropriate trainers such as CIPFA and Link Asset Services. These courses have been delivered on-line during the Covid-19 period.

## 1.5 External Service Providers

The Council obtains treasury management services under a Shared Services Arrangement (SSA) from the in-house treasury management team formed out of the partnership working between Adur District and Worthing Borough Councils. The operation for all three Councils' treasury management is based at Worthing Town Hall, utilising similar banking arrangements.

The SSA is provided under a Service Level Agreement (SLA) that commenced in October 2019 and which defines the respective roles of the client and provider authorities for a period of three years.

The SSA uses Link Group, Treasury Solutions as its external treasury management advisors. The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

In making this arrangement the Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that reliance beyond the terms and arrangements specified in the SLA is not placed upon the shared service providers. The Council will ensure that the terms of the appointment of the shared services providers, and the methods by which their value will be assessed, are properly agreed and documented and subjected to regular review.

## 2. THE CAPITAL PRUDENTIAL INDICATORS 2022/23 – 2024/25

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the Prudential Indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

### 2.1 Capital expenditure

This Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The figures exclude other long term liabilities, such as leasing arrangements which already include borrowing instruments. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
General Fund	11.419	12.368	2.038	1.853	1.096

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.



Financing of capital expenditure £m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital receipts	21.411	3.104	0.243	0.167	0.050
Capital grants, Contributions & S106 receipts	8.326	8.662	1.550	1.556	0.900
General Reserves, Specific Reserves & Revenue Contributions	1.403	0.602	0.245	0.130	0.146
Net financing need for the year	0.000	0.000	0.000	0.000	0.000

## 2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has one finance lease taken out in 2018 and ending in 2028.

The Council is asked to approve the CFR projections below:

Capital Financing Requirement £m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Total CFR at 31/03	7.195	6.661	6.114	5.714	5.307
Movement in CFR	(20.243)	(0.534)	(0.547)	(0.401)	(0.407)
<b>Movement in CFR represented by:</b>					
Net financing need for the year (above)	(19.721)	0.000	0.000	0.000	0.000
Less MRP and other financing movements	(0.522)	(0.534)	(0.547)	(0.401)	(0.407)
<b>Movement in CFR</b>	<b>(20.243)</b>	<b>(0.534)</b>	<b>(0.547)</b>	<b>(0.401)</b>	<b>(0.407)</b>

## 2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP). Repayments included in finance leases are applied as MRP.

DLUHC regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options is provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

The Council's policy for MRP relating to unfunded capital expenditure is to provide for MRP on an annuity basis over the life of the loans (except as detailed below for the Orchard Shopping Centre). As an annuity is a fixed annual sum comprising interest and principal, the MRP for repayment of debt will increase each year over the asset life as the proportion of interest calculated on the principal outstanding reduces as the debt is repaid.

The purchase of the Orchard Shopping Centre head lease in November 2016 increased the Capital Financing Requirement. However, due to capital receipts on Hurst Farm, MRP will only be provided on £5m. This will be done on a level basis of £100,000 per year.

## 2.4 Funds available for investment

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances excluding the investment in the Local Authorities' Property Fund, which the Council views as a long term investment.

Investments	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	£m	£m	£m	£m
Balance at 1 April	45.265	45.376	44.384	42.327
Capital Expenditure	(12.368)	(2.038)	(1.853)	(1.096)
Grants, capital receipts & other new funds	12.913	2.038	1.853	1.096
Use of General Fund Reserves		(0.545)	(1.757)	(1.692)
Loan repayments/adjustments	(0.434)	(0.447)	(0.300)	(0.307)
Balance at 31 March	45.376	44.384	42.327	40.328

## 3.0 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet the service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

### 3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2021 and for the position as at 31 December 2021 are shown below for both borrowing and investments.

	Principal at 31.03.2021 £m	Actual 31.03.2021 %	Principal at 31.12.2021 £m	Actual 31.12.2021 %
<b>External Borrowing</b>				
PWLB	(0.298)	4%	(0.227)	10%
Other Borrowing	(5.000)	66%	-	-
Finance lease	(2.258)	30%	(2.043)	90%
<b>TOTAL BORROWING</b>	<b>(7.556)</b>	<b>100%</b>	<b>(2.270)</b>	<b>100%</b>
<b>Treasury Investments:</b>				
Local Authority Property Fund	5.689	9%	6.000	6%
<b>In-house:</b>				
Banks	16.035	26%	23.246	26%
Building societies - unrated	19.000	30%	19.000	20%
Building societies - rated	5.000	8%	20.000	22%
Debt Management Office			5.000	5%
Local authorities	2.000	3%	8.000	9%
Money market funds	15.000	24%	11.470	12%
<b>TOTAL INVESTMENTS</b>	<b>62.724</b>	<b>100%</b>	<b>92.716</b>	<b>100%</b>
<b>NET INVESTMENTS</b>	<b>55.168</b>		<b>90.446</b>	

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

External Debt £m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt at 1 April	7.437	5.298	0.152	0.000	0.000
Expected change in Debt	(2.139)	(5.146)	(0.152)	(0.000)	0.000
Other long-term liabilities (OLTL)	2.541	2.258	1.970	1.676	1.375
Expected change in OLTL	(0.283)	(0.288)	(0.294)	(0.301)	(0.306)
Actual gross debt at 31 March	7.556	2.122	1.676	1.375	1.069
The Capital Financing Requirement	7.195	6.661	6.114	5.714	5.307
Under/(over) borrowing	(0.361)	4.539	4.438	4.339	4.238

The Council's debt comprises one loan from the Public Works Loan Board (PWLB), which matures on 1 March 2023. The "other long term liability" is in respect of capital assets acquired by finance leases.

Within the range of Prudential Indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Corporate Resources reports that the Council complied with this Prudential Indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

### 3.2 Treasury Indicators: limits to borrowing activity

**The operational boundary** - This is the limit which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Debt	£28.0m	£28.0m	£28.0m	£28.0m
Other long term liabilities	£4.0m	£4.0m	£4.0m	£4.0m
<b>Total</b>	<b>£32.0m</b>	<b>£32.0m</b>	<b>£32.0m</b>	<b>£32.0m</b>

**The authorised limit for external debt** – This is a key Prudential Indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. The Council is asked to approve the authorised limit:

Authorised Limit	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Debt	£30.0m	£30.0m	£30.0m	£30.0m
Other long term liabilities	£4.0m	£4.0m	£4.0m	£4.0m
<b>Total</b>	<b>£34.0m</b>	<b>£34.0m</b>	<b>£34.0m</b>	<b>£34.0m</b>

2. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The Head of Corporate Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Council at the earliest opportunity.

### 3.3 Prospects for interest rates

The Council's shared service provider uses Link Group as its treasury advisor. Link has provided the following forecast for the certainty interest rate (gilt yield plus 80bps):

Link Group Interest Rate View as at 7.2.22	Capital Economics forecasts as at 10.2.22												
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, then again in February to 0.50%.

As shown in the forecast table above, the forecast for Bank Rate now includes three further increases in the financial year 2022/23.

Additional information about the economic background is contained in Appendix F.

### Forecasts for PWLB rates and gilt and treasury yields

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields.

**As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

### The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

### A new era – a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- **For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.**
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path

which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.

- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

### Investment and borrowing rates

- **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.
- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows: -
  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- **Borrowing for capital expenditure** As Link's long-term (beyond 10 years) forecast for Bank Rate is 2.00%. As nearly all PWLB certainty rates are now above this level, borrowing strategy will need to be reviewed, especially as the maturity curve has flattened out considerably. Better value can be obtained at the very short and at the longer end of the curve and longer-term rates are still at historically low levels. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. In addition, there are also some cheap alternative sources of long-term borrowing if a client is seeking to avoid a "cost of carry" but also wishes to mitigate future re-financing risk.
- This authority does not plan any borrowing to finance new capital expenditure, or to replace maturing debt. If borrowing **is** undertaken there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

### 3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Head of Corporate Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there is a significant risk of a sharp FALL in borrowing rates, then borrowing, if required, will be postponed.
- if it was felt that there is a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. As stated, there are no current plans to borrow, but if this changes, it is most likely that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

### 3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism

### 3.6 Debt rescheduling

The Council has one loan from the Public Works Loan Board, repaid by fixed annuities over the life of the loan. As it would not be possible to prematurely repay the existing loan without incurring a premium charge for early settlement, there is currently no intention to redeem the loan early.

### 3.7 New financial institutions as a source of borrowing and / or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for borrowing. However, if borrowing is required, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources if any borrowing is required.

## 4.0 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments.



This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The Head of Corporate Resources, under delegated powers, will undertake through the Shared Service Arrangement the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements, and Prudential Indicators. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options. As conditions in the financial markets remain uncertain, the proposed Specified and Unspecified investments will remain the same as for 2021/22 except for:

- an increase in counterparty limits from £4m to £5m for UK banks: HSBC, National Westminster, Barclays, Santander, Handelsbanken, Goldman Sachs International Bank and Close Brothers
- an increase in counterparty limit from £4m to £7m for the Council's banker, currently Lloyds Bank.
- HSBC Environmental, Social and Governance Sterling Liquidity fund has been added to the list of money market fund counterparties
- the addition of Standard Chartered Bank to the list of specified investments – this bank is offering sustainable fixed term deposits

Investment instruments identified for use in the financial year are listed in Appendices C and D under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendices C and D under the categories of 'specified' and 'non-specified' investments.
  - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.
  - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
5. **Lending limits**, (amounts and maturity), for each counterparty are set out in Appendices C and D.
6. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.8).
7. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.5). The UK is excluded from this limit because it will be necessary to invest in UK banks and other institutions even if the sovereign rating is cut.
8. Through the shared service, this authority has access to **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
9. All investments will be denominated in **sterling**.
10. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the 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 ending 31.3.23. Consequently any fluctuations in the value of the Council's investment in the Local Authorities' Property Fund will not be taken through the general fund for the period of the override.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.14). Regular monitoring of investment performance will be carried out during the year.

#### **Changes in risk management policy from last year**

The above criteria are unchanged from last year other than the changes set out in 4.1.

#### **4.2 Creditworthiness policy**

The primary principle governing the Council's investment criteria through the Shared Services Arrangement (SSA) is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the SSA will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections in Appendices C and D; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's Prudential Indicators covering the maximum principal sums invested.

The SSA will maintain a counterparty list in compliance with the criteria in the Appendices and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied to the SSA by the Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer term bias outside the central rating view) are provided to the SSA almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

#### **Use of additional information other than credit ratings**

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information will be applied to compare the relative security of differing investment opportunities.

The officers of the shared service recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets, the government support for banks, and the credit ratings of that government support. Accordingly, the shared service will exercise discretion to deviate from Link's suggested durational bands – for example the Council approves the use of Building Societies as set out in the Appendices.

### **4.3 Creditworthiness**

Significant levels of downgrades to short- and long-term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

#### **CDS prices**

Although bank CDS prices (these are market indicators of credit risk) spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS

prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

#### 4.4 **The Council's Minimum Investment Creditworthiness Criteria**

The minimum credit ratings criteria used by the Council generally will be a short term rating (Fitch or equivalents) of F1, and long term rating A-. There may be occasions when the counterparty ratings from one or more of the three Ratings Agencies are marginally lower than the minimum requirements of F1 Short term, A- Long term (or equivalent). Where this arises, the counterparties to which the ratings apply may still be used with discretion, but in these instances consideration will be given to the whole range of topical market information available, not just ratings.

The Council includes **Building Societies** with asset size in excess of £1 billion in its approved counterparty list. It is recognised that they may carry a lower credit rating than the Council's other counterparties, or no rating, therefore the lending limits for the building societies shall be £4m each for the top 3 and £3m for the others.

#### 4.5 **Other limits**

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors. The shared service has determined that it will only use approved counterparties from countries (other than the UK) with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide one). The list of countries that qualify using these credit criteria as at the date of this report is reflected in the counterparty approved lending list at Appendix C. This list will be added to, or deducted from, by officers should ratings change, in accordance with this policy. No more than 25% of investments shall be placed in non-UK financial institutions for more than 7 days.

#### 4.6 **Investment strategy**

**In-house funds** - Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed. For cash flow balances, the shared service will seek to use notice accounts, money market funds and short-dated deposits to benefit from the compounding of interest

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

The Head of Corporate Resources, through the shared service, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the meetings of the Audit Committee and the Council in accordance with the reporting arrangements. The shared service will take into account the ethical, social or climate change policies of counterparties.

##### **Investment returns expectations**

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to reach 1.25% in November 2022. Since the last Bank of England rate increase announced by the MPC in February, improved forecast rates have been received from Link on 11<sup>th</sup> February, which was after the Corporate Plan was approved.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows.:

Average earnings in each year	
2022/23	1.00%
2023/24	1.25%
2024/25	1.25%
2025/26	1.25%
Long term later years	1.50%

#### 4.7 Forecasts for Bank Rate

- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.
- Covid remains a major potential downside threat as we are most likely to get further mutations. However, their severity and impact could vary widely, depending on vaccine effectiveness and how broadly it is administered.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

#### 4.8 Investment treasury indicator and limit - principal funds invested for greater than 365 days

These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. There are currently 3 fixed term deposit investments with a remaining duration of more than 365 days, totalling £6m and the Local Authorities' Property Fund investment of £6m is expected to be held for more than 365 days.

The Council is asked to approve the following treasury indicator limit: -

Maximum proportion of principal sums invested > 365 days	2022/23	2023/24	2024/25
Principal sums invested > 365 days	50%	50%	50%

4.9 In any sustained period of significant stress in the financial markets, the default position is for investments to be placed with The Debt Management Account Deposit Facility of the Debt Management Office (DMO) of the UK central government. The rates of interest are usually below equivalent money market rates, however, the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.

4.10 The Council's proposed investment activity for placing cash deposits in 2022/23 will be to use:

- AAA rated Money Market Funds with a Constant Net Asset Value (CNAV) or a Low Volatility Net Asset Value (LVNAV) under the new money market fund regulations
- other local authorities, parish councils etc.
- bank business reserve accounts and term deposits. These are primarily restricted to UK institutions that are rated at least A- long term.
- Building Societies with asset size in excess of £1 billion

#### 4.11 Other Options for Longer Term Investments

To provide the Council with options to enhance returns above those available for short term durations, it is proposed to retain the option to use the following for longer term investments, as an alternative to cash deposits:

- a) **Supranational bonds** greater than 1 year to maturity
- b) **Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
- c) **Building Societies** not meeting the basic security requirements under the specified investments, but on the list in Appendix C (b). The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings.
- d) Any **bank** that has a minimum long term credit rating of A- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).
- e) Any **non-rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to a guarantee from the parent company, and exposure up to the limit applicable to the parent.
- g) **Property Investment Funds** for example the Local Authorities' Property Fund. The Councils will consult the Treasury Management Advisors and undertake appropriate due diligence before investment of this type is undertaken. Some of these funds are deemed capital expenditure – the Councils will seek guidance on the status of any fund considered for investment.
- h) Other **local authorities**, parish councils etc.
- i) Other investments listed in Appendices C and D - the Council will seek further advice on the appropriateness and associated risks with investments in these other categories as and when an opportunity presents itself.

4.12 The **accounting treatment** may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, the accounting implications of new transactions will be reviewed before they are undertaken.

4.13 The Council will not transact in any investment that may be deemed to constitute capital expenditure (e.g. Share Capital, or pooled investment funds other than Money Market Funds), without the resource implications being approved as part of the consideration of the Capital Programme or other appropriate Committee report.

4.14 **Investment risk benchmarking** – The shared service will subscribe to Link's Investment Benchmarking Club to review the investment performance and risk of the portfolios.

4.15 At the end of the financial year the Council will report on investment activity as part of the **Annual Treasury Report**.

#### 4.16 External fund managers

The Council does not use external fund managers, (other than the Local Authorities' Property Fund) but reserves the option to do so in future should this be deemed to be appropriate. Should consideration be given to exercising this option in the future, the relevant Committee will be advised

of the reasons for doing so and the Council requested to consider whether it wishes to proceed with the selection and appointment of external fund managers.

- 4.17 **The monitoring of investment counterparties** – The credit rating of counterparties will be monitored regularly. The shared service receives credit rating information (changes, rating watches and rating outlooks) from Link Group as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the shared service, and if required, new counterparties which meet the criteria will be added to the list.

Officers of the shared service and Mid Sussex met in October 2021 (remotely) with representatives of the Local Authorities' Property Fund for a presentation on the activity and outlook of the Fund to supplement the regular reports and dividend statements.

## 5. OTHER MATTERS

### 5.1 **2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework**

CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. The Councils have to have regard to these codes of practice when they prepare the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to the Full Councils for approval.

The revised codes will have the following implications:

- a requirement for the Councils to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address Environmental Social and Governance issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to the Treasury Management Practices to address Environmental, Social and Governance policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).



In addition, all investments and investment income must be attributed to one of the following three purposes: -

### **Treasury management**

Arising from the organisation’s cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

### **Service delivery**

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is “either related to the financial viability of the project in question or otherwise incidental to the primary purpose”.

### **Commercial return**

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council’s financial capacity – i.e., that ‘plausible losses’ could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

- 5.2 **Balanced budget requirement** - the Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

## **Appendix A**

### **THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2021/22 – 2023/24**

- 1.1 The Council’s capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the Prudential Indicators, which are designed to assist Members’ overview and confirm capital expenditure plans.

<b>Capital expenditure</b>	<b>2020/21 Actual</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
General Fund	11.419	12.368	2.038	1.853	1.096

- 1.2 **Affordability Prudential Indicators**

The previous sections cover the overall capital and control of borrowing Prudential Indicators, but within this framework Prudential Indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council’s overall finances. The Council is asked to approve the following indicators:

## Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Ratio	% 1.52%	% 1.37%	% 0.67%	% -0.74%	% -1.20%

The estimates of financing costs include current commitments and the proposals in this budget report.

### 1.3 Maturity structure of borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. However as the Council currently has only two significant loans, the upper limits need to be set very high. The Council does not have any variable rate borrowing.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2022/23		
	Lower	Upper
Under 12 months	0%	80%
12 months to 2 years	0%	70%
2 years to 5 years	0%	80%
5 years to 10 years	0%	80%
Over 10 years	0%	60%

## Appendix B

### TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The MHCLG (now DLUHC) issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, which will apply to all investment activity. In accordance with the Code, the Council will comply with the treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

**Annual investment strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of the annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.

- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

**Strategy guidelines** – The main strategy guidelines are contained in the body of the treasury strategy statement.

## **SPECIFIED AND NON SPECIFIED INVESTMENTS**

A variety of investment instruments will be used, subject to the credit quality of the institution and, depending on the type of investment made, it will fall into one of the categories below.

**Specified Investments** will be those that meet the criteria in the MHCLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year or where the Council has the right to be repaid within 12 months or where the investment would have been classified as specified apart from originally being for a period longer than 12 months, once the remaining period to maturity falls to under 12 months
- meets the “high” credit criteria as determined by the Council or is made with the UK government or is made with a local authority in England, Wales and Scotland
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

These are considered low risk assets where the possibility of loss of principal or investment income is small.

### **“Specified” Investments identified for the Council’s use are:**

- The UK Government such as the Debt Management Account Deposit Facility – there is no limit for these investments.
  - Deposits with UK local authorities
  - Deposits with banks and building societies
  - \*Certificates of deposit with banks and building societies
  - \*Gilts : (bonds issued by the UK government)
  - \*Bonds issued by multilateral development banks
  - Pooled investment vehicles such as AAA Money Market Funds with a Constant Net Asset Value (Constant NAV) or appropriate Low Volatility Net Asset Value (LVNAV) that have been awarded an AAA rating by Standard and Poor’s, Moody’s and/or Fitch rating agencies.
  - Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.
- \* Investments in these instruments will be on advice from the Shared Service’s treasury advisor.

## **Non Specified Investments**

These are any investments which do not meet the specified investment criteria. Where appropriate, the Council will seek further advice on the associated risks with non-specified investments.

## **All Investments**

For credit rated counterparties, the minimum criteria, excepting for the Council's own banker and the specified building societies, (see below) will be the short-term / long-term ratings assigned by various agencies which may include Moody's Investors Services, Standard and Poor's, Fitch Ratings, being:

Long-term investments (over 365 days): minimum: A- (Fitch) or equivalent

Or

Short-term investments (365 days or less): minimum: F1 (Fitch) or equivalent

For all investments the Shared Service will also take into account information on corporate developments of, and market sentiment towards, investment counterparties.

If the Council's own banker (currently Lloyds Bank) falls beneath the specified criteria, it will still be used for transactional purposes.

Where appropriate the Ring Fenced entities of banks will be used.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies, as detailed below.

**APPROVED INVESTMENT INSTITUTIONS****Specified Investments identified for use by the Council**

New specified investments will be made within the following limits:

## (a) Banks

Major U.K. and European Banks and their wholly-owned subsidiaries meeting the Council's approved investment criteria. RFB refers to Ring Fenced Bank – the separate core retail banking service.

	<b>Counterparty</b>	<b>Group</b>	<b>Maximum Sum</b>	<b>Maximum Period *</b>
	DMADF, DMO (Government)	N/A	No limit	
1	HSBC UK Bank PLC (RFB)	N/A	£5m	5 years
2	NatWest/ Royal Bank of Scotland Group (RFB)	£5m	£5m	5 years
3	Lloyds/ Bank of Scotland Group (RFB)	£7m	£7m	5 years
4	Barclays Bank UK PLC (RFB)	N/A	£5m	5 years
5	Santander UK PLC	N/A	£5m	5 years
6	Clydesdale Bank PLC	N/A	£4m	5 years
7	Handelsbanken PLC	N/A	£5m	1 year
8	Goldman Sachs International Bank	N/A	£5m	5 years
9	Close Brothers Ltd	N/A	£5m	5 years
10	Standard Chartered Bank	N/A	£4m	5 years

\*Specified investments are for a maximum period of 1 year, the maximum limits shown in this column are for non-specified investments with these institutions.

- (b) Building Societies  
Building Societies (Assets in excess of £1 billion):

Rank	Name of Counterparty	Individual	
		Sum	Period*
1	Nationwide	£4m	3 years
2	Coventry	£4m	3 years
3	Yorkshire	£4m	3 years
4	Skipton	£3m	3 years
5	Leeds	£3m	3 years
6	Principality	£3m	3 years
7	West Bromwich	£3m	3 years
8	Newcastle	£3m	3 years
9	Nottingham	£3m	3 years
10	Cumberland	£3m	3 years
11	National Counties (Family)	£3m	3 years
12	Progressive	£3m	3 years
13	Cambridge	£3m	3 years
14	Monmouthshire	£3m	3 years
15	Newbury	£3m	3 years
16	Saffron	£3m	3 years
17	Leek United	£3m	3 years

- (c) Money Market Funds

Counterparty	Sum	For Short Term Operational Cash Flow Purposes
Invesco Aim – Sterling	£3m	
Blackrock Institutional Sterling Liquidity Fund	£3m	
Goldman Sachs Sterling Liquidity Reserve Fund	£3m	
HSBC Global Liquidity Fund	£3m	
Fidelity Institutional Cash Fund plc – Sterling	£3m	
CCLA Public Sector Deposit Fund	£3m	
JP Morgan GBP Liquidity LVNAV Fund	£3m	
Federated Short-Term Sterling Prime Liquidity Fund	£3m	

The limit for investing in any one Money Market Fund is £3 million. Total investments in Money Market Funds shall not exceed the higher of £9m or 25% of the total investment portfolio, for more than one week at any one time.

- (d) Local Authorities

Details	Individual	
	Sum	Period*
All Local Authorities	£3m	5 years

\*Specified investments are for a maximum period of 1 year, the maximum period limits shown in (b) and (d) are for non-specified investments with these institutions.

## NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use.

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
<ul style="list-style-type: none"> <li>• Deposits with banks and building societies</li> <li>• Certificates of deposit with banks and building societies</li> </ul>	√	√	5 years	The higher of £10m or 50% of funds	No
<ul style="list-style-type: none"> <li>• Deposits with Local Authorities</li> </ul>	√		5 years	The higher of £10m or 50% of funds	No
<b>Gilts and Bonds:</b> <ul style="list-style-type: none"> <li>• Gilts</li> <li>• Bonds issued by multilateral development banks</li> <li>• Bonds issued by financial institutions guaranteed by the UK government</li> <li>• Sterling denominated bonds by non-UK sovereign governments</li> </ul>	√ √ √ (on advice from treasury advisor)	√ √ √ √	5 years	The higher of £3m or 25% of funds	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No. 534 and SI 2007, No. 573), but which are not credit rated.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date.	The higher of £9m or 25% of funds	No
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Subject to test
Property Funds approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority – specifically the Local Authorities' Property Fund	√	√	These funds do not have a defined maturity date.	The higher of £6m or 25% of funds	No
Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Subject to test
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No. 534 or SI 2007, No. 573.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	The higher of £2m or 20% of funds	Subject to test



In determining the period to maturity of an investment, the investment is regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

The Council will seek further advice on the appropriateness and associated risks with investments in these Non-Specified investment categories, other than those which would be Specified other than for the duration of over 12 months (for example a 2 year fixed term deposits with a bank on the counterparty list).

### **Accounting treatment of investments**

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

**The monitoring of investment counterparties** - The credit rating of counterparties will be monitored regularly. The Council's Shared Service receives credit rating information (changes, rating watches and rating outlooks) from Link as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Shared Service, and if required new counterparties which meet the criteria will be added to the list.

## TREASURY MANAGEMENT SCHEME OF DELEGATION

### (i) Full Council

- approval of annual treasury management strategy and Annual Investment Strategy
- approval of MRP Statement

### (ii) Executive Committee (e.g. Cabinet)

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

### (iii) Audit Committee

Receiving and reviewing the following, and making recommendations to the Cabinet

- regular monitoring reports on compliance with the Treasury Management Strategy, practices and procedures.

### (iv) The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

**ECONOMIC BACKGROUND supplied by Link Group**

- COVID-19 vaccines.** These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pandemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

**A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE**

- The threat from Omicron was a wild card causing huge national concern at the time of December's MPC meeting; now it is seen as a vanquished foe disappearing in the rear-view mirror.
- The MPC shifted up a gear last week in raising Bank Rate by another 0.25% and narrowly avoiding making it a 0.50% increase by a 5-4 voting margin.
- Our forecast now expects the MPC to deliver another 0.25% increase in March; their position appears to be to go for sharp increases to get the job done and dusted.
- The March increase is likely to be followed by an increase to 1.0% in May and then to 1.25% in November.
- The MPC is currently much more heavily focused on combating inflation than on protecting economic growth.
- However, 54% energy cap cost increases from April, together with 1.25% extra employee national insurance, food inflation around 5% and council tax likely to rise in the region of 5% too - these increases are going to hit lower income families hard despite some limited assistance from the Chancellor to postpone the full impact of rising energy costs.
- Consumers are estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above increases. But most of those holdings are held by more affluent people whereas poorer people already spend nearly all their income before these increases hit and have few financial reserves.
- The increases are already highly disinflationary; inflation will also be on a gradual path down after April so that raises a question as to whether the MPC may shift into protecting economic growth by November, i.e., it is more debatable as to whether they will deliver another increase then.

- The BIG ISSUE – will the current spike in inflation lead to a second-round effect in terms of labour demanding higher wages, (and/or lots of people getting higher wages by changing job)?
- If the labour market remains very tight during 2022, then wage inflation poses a greater threat to overall inflation being higher for longer, and the MPC may then feel it needs to take more action.

### **PWLB RATES**

- The yield curve has flattened out considerably.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate.
- It is difficult to say currently what effect the Bank of England starting to sell gilts will have on gilt yields once Bank Rate rises to 1%: it is likely to act cautiously as it has already started on not refinancing maturing debt. A passive process of not refinancing maturing debt could begin in March when the 4% 2022 gilt matures; the Bank owns £25bn of this issuance. A pure roll-off of the £875bn gilt portfolio by not refinancing bonds as they mature, would see the holdings fall to about £415bn by 2031, which would be about equal to the Bank's pre-pandemic holding. Last August, the Bank said it would not actively sell gilts until the *“Bank Rate had risen to at least 1%”* and, *“depending on economic circumstances at the time.”*
- It is possible that Bank Rate will not rise above 1% as the MPC could shift to relying on quantitative tightening (QT) to do the further work of taking steam out of the economy and reducing inflationary pressures.
- Increases in US treasury yields over the next few years could add upside pressure on gilt yields though, more recently, gilts have been much more correlated to movements in bund yields than treasury yields.

### **MPC MEETING 4<sup>TH</sup> FEBRUARY 2022**

- After the Bank of England became the first major western central bank to put interest rates up in this upswing in December, it has quickly followed up its first 0.15% rise by another 0.25% rise to 0.50%, in the second of what is very likely to be a series of increases during 2022.
- The Monetary Policy Committee voted by a majority of 5-4 to increase Bank Rate by 25bps to 0.5% with the minority preferring to increase Bank Rate by 50bps to 0.75%. The Committee also voted unanimously for the following: -
  - to reduce the £875n stock of UK government bond purchases, financed by the issuance of central bank reserves, by ceasing to reinvest maturing assets.
  - to begin to reduce the £20bn stock of sterling non-financial investment-grade corporate bond purchases by ceasing to reinvest maturing assets and by a programme of corporate bond sales to be completed no earlier than towards the end of 2023.
- The Bank again sharply increased its forecast for inflation – to now reach a peak of 7.25% in April, well above its 2% target.
- The Bank estimated that UK GDP rose by 1.1% in quarter 4 of 2021 but, because of the effect of Omicron, GDP would be flat in quarter 1, but with the economy recovering during February and March. Due to the hit to households' real incomes from higher inflation, it revised down its GDP growth forecast for 2022 from 3.75% to 3.25%.
- The Bank is concerned at how tight the labour market is with vacancies at near record levels and a general shortage of workers - who are in a very favourable position to increase earnings by changing job.
- As in the December 2021 MPC meeting, the MPC was more concerned with combating inflation over the medium term than supporting economic growth in the short term. However, what was notable was the Bank's forecast for inflation: based on the markets' expectations that Bank Rate will rise to 1.50% by mid-2023, it forecast inflation to be only 1.6% in three years' time. In addition, if energy prices beyond the next six months fell as the futures market suggests, the Bank said CPI inflation in three years' time would be even lower at 1.25%. With calculations of inflation, the key point to keep in mind is that it is the rate of change in prices – not the level – that matters. Accordingly, even if oil and natural gas prices remain flat at their current elevated level, energy's contribution to headline inflation will drop back over the course of this year. That means the current energy contribution to CPI inflation, of 2% to 3%, will gradually fade over the next year.

- So the message to take away from the Bank's forecast is that they do not expect Bank Rate to rise to 1.5% in order to hit their target of CPI inflation of 2%. The immediate issue is with four members having voted for a 0.50% increase in February, it would only take one member more for there to be another 0.25% increase at the March meeting.
- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative tightening) holdings of bonds is as follows: -
  1. Raising Bank Rate as "the active instrument in most circumstances".
  2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
  3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

## OUR FORECASTS

### a. Bank Rate

- Covid remains a major potential downside threat as we are most likely to get further mutations. However, their severity and impact could vary widely, depending on vaccine effectiveness and how broadly it is administered.
- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

### b. PWLB rates and gilt and treasury yields

**Gilt yields.** Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Our forecasts show little overall increase in gilt yields during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on gilt yields. **As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for medium to longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

**US treasury yields.** During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a \$1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. This was in addition to the \$900bn support package previously passed in December 2020. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme roll-out had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023.

- **At its 3<sup>rd</sup> November Fed meeting**, the Fed decided to make a start on tapering its \$120bn per month of QE purchases so that they ended next June. However, at its **15<sup>th</sup> December meeting** it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that treasury yields will rise over the taper period, all other things being equal.
- It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024. This would take rates back above 2% to a neutral level for monetary policy. It also gave up on calling the sharp rise in inflation as being 'transitory'.
- At its **26<sup>th</sup> January meeting**, the Fed became even more hawkish following inflation rising sharply even further. It indicated that rates would begin to rise very soon, i.e., it implied at its March meeting it would increase rates and start to run down its holdings of QE purchases. It also appears likely that the Fed could take action to force longer term treasury yields up by prioritising selling holdings of its longer bonds as yields at this end have been stubbornly low despite rising inflation risks. The low level of longer dated yields is a particular concern for the Fed because it is a key channel through which tighter monetary policy is meant to transmit to broader financial conditions, particularly in the US where long rates are a key driver of household and corporate borrowing costs.

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

#### **Globally, our views are as follows: -**

- **EU.** The ECB joined with the Fed by announcing on **16th December** that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases during the first half of 2022. The ECB did not change its rate at its **3<sup>rd</sup> February** meeting, but it was clearly shocked by the increase in inflation to 5.1% in January. The President of the ECB, Christine Lagarde, hinted in the press conference after the meeting that the ECB may accelerate monetary tightening before long and she hinted that asset purchases could be reduced more quickly than implied by the previous guidance. She also refused to reaffirm officials' previous assessment that interest rate hikes in 2022 are "very unlikely". It, therefore, now looks likely that all three major western central banks will be raising rates this year in the face of sharp increases in inflation - which is looking increasingly likely to be stubbornly high and for much longer than the previous oft repeated 'transitory' descriptions implied.
- **China.** The pace of economic growth has now fallen back after the initial surge of recovery from the pandemic and China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. However, with Omicron having now spread to China, and being much more easily transmissible, lockdown strategies may not prove so successful in future. To boost flagging economic growth, The People's Bank of China cut its key interest rate in December 2021.
- **Japan.** 2021 was a patchy year in combating Covid. However, recent business surveys indicate that the economy is rebounding rapidly now that the bulk of the population is fully vaccinated, and new virus cases have plunged. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back towards its target of 2% any time soon.



- **World growth.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of **world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.
- **Supply shortages.** The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

#### **The balance of risks to the UK economy: -**

- The overall balance of risks to economic growth in the UK is now to the downside.

#### **Downside risks to current forecasts for UK gilt yields and PWLB rates include: -**

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed or unable to be administered fast enough to stop the NHS being overwhelmed.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.
- **Bank of England** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **The Government** acts too quickly to increase taxes and/or cut expenditure to balance the national budget.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, Iran, China, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows. If Russia were to invade Ukraine, this would be likely to cause short term volatility in financial markets, but it would not be expected to have a significant impact beyond that.

#### **Upside risks to current forecasts for UK gilt yields and PWLB rates: -**

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

Longer term US treasury yields rise strongly and pull gilt yields up higher than forecast

## PROCUREMENT OF AN EXTERNAL AUDITOR

REPORT OF: HEAD OF CORPORATE RESOURCES  
Contact Officer: Peter Stuart  
Email: [peter.stuart@midsussex.gov.uk](mailto:peter.stuart@midsussex.gov.uk) Tel: 01444 477315  
Wards Affected: None  
Key Decision: No  
Report to: Audit Committee  
Date of Meeting: 1 March 2022

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### Purpose of Report

1. This report recommends that the Council takes part in a nationwide procurement run by the Public Sector Audit Appointments Ltd (PSAA) for its external auditor rather than conducting its own procurement

### Recommendations

2. **The Committee is recommended to:**
    - (i) **Recommend to Council that MSDC joins in the nationwide PSAA procurement for an external auditor with the contract starting 1<sup>st</sup> April 2023 and running to 2028;**
- 

### Background

3. With the demise of the Audit Commission in 2015, local authority external auditors were appointed by the PSAA. That proved to be an effective and efficient route to their appointment.
4. However, to open up the market it is now possible to opt out of this arrangement and procure our auditor from the general market, subject to their meeting certain audit standards. The criteria for suitability does restrict the procurement to a small number of firms most of which are not 'high street' accountants.
5. Our present auditor, EY plc, were appointed through the PSAA in 2015 and the arrangement has worked well until recently when a combination of the pandemic and increasing audit standards has led to problems of timeliness of reporting across the sector. Members will have read of such issues in the national press, and note that this has affected all the large audit firms equally.
6. We are now being asked to consider joining the PSAA procurement again to select our auditor, with the alternative being a unilateral procurement of an audit contract.
7. Such a unilateral procurement would be time-consuming and resource intensive and quite possibly end up with the very same result as the national procurement, given that the selection criteria and required deliverables are going to be similar. There would also be the risk that the pricing would be less keen as a standalone, smaller contract, but this is not certain.
8. In the circumstances therefore the Committee is asked to endorse the approach outlined within this paper and recommend to Council (which must be the decision maker in this instance) that Mid Sussex joins in with the national procurement run by the PSAA as shown on the letter in Appendix 1.



### **Policy Context**

9. The requirement to appoint an external auditor is set in statute.

### **Other Options Considered**

10. The report outlines the alternative approach and discounts that for reasons of efficiency.

### **Financial Implications**

11. The budget for the external audit stands at £45k. In the event that the procurement leads to a variance this would generate a pressure or saving to the revenue budget.

### **Risk Management Implications**

12. None. The PSAA procurement represents the lower risk approach.

### **Equality and Customer Service Implications**

13. None.

### **Other Material Implications**

14. None.

### **Sustainability Implications**

15. None

### **Background Papers**

- None

**Appointing Period 2023/24 to 2027/28****Form of notice of acceptance of the invitation to opt in**

(Please use the details and text below to submit to PSAA your body's formal notice of acceptance of the invitation to opt into the appointing person arrangements from 2023)

Email to: [ap2@psaa.co.uk](mailto:ap2@psaa.co.uk)

Subject: **[Name of eligible body]**

**Notice of acceptance of the invitation to become an opted-in authority**

This email is notice of the acceptance of your invitation dated 22 September 2021 to become an opted-in authority for the audit years 2023/2024 to 2027/2028 for the purposes of the appointment of our auditor under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

I confirm that **[name of eligible body]** has made the decision to accept your invitation to become an opted-in authority in accordance with the decision making requirements of the Regulations, and that I am authorised to sign this notice of acceptance on behalf of the authority.

Name: **[Name of signatory]**

Title: **[Role title]** (authorised officer)

For and on behalf of: **[Name of eligible body]**

Date: **[date]**

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By virtue of paragraph(s) 3, 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

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