**MID SUSSEX DISTRICT COUNCIL**

**Oaklands Road**
**Haywards Heath**
**West Sussex**
**RH16 1SS**

**Switchboard: 01444 458166**

**DX 300320 Haywards Heath 1**
**www.midsussex.gov.uk**

11 April 2023

**NOTE: There will be limited public access to observe the meeting. Those wishing to do so must reserve a seat by completing a Registration Form by 4pm on the working day prior to the meeting. Access is also available via a live stream through the Mid Sussex District Council's YouTube channel.**

Dear Councillor,

A meeting of **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER** at these offices on **WEDNESDAY, 19TH APRIL, 2023 at 7.00 pm** when your attendance is requested.

Yours sincerely,

KATHRYN HALL

Chief Executive

**A G E N D A**

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

# Minutes of a meeting of Audit Committee held on Tuesday, 21st February, 2023 from 7.00 pm

**Present:** L Stockwell (Chair)
A Boutrup (Vice-Chair)

K Adams I Gibson S Hicks

**Absent:** Councillors M Pulfer and M Cornish

## 1. TO RECEIVE APOLOGIES FOR ABSENCE.

Apologies were received from Councillors Cornish and Pulfer and the Committee agreed for Councillor Boutrup to act as Vice Chairman for the meeting.

## 2. TO RECEIVE DECLARATIONS OF INTEREST FROM MEMBERS IN RESPECT OF ANY MATTER ON THE AGENDA.

Councillor Gibson declared an interest in relation to item 6. Treasury Management Strategy Statement and Annual Investment Strategy 2023/24 to 2025/26 as he is a Member of West Sussex County Council.

## 3. TO CONFIRM THE MINUTES OF THE PREVIOUS MEETING HELD ON 15 NOVEMBER 2022.

The minutes of the meeting of the Committee held on 15 November 2022 were agreed as a correct record, with 4 in favour and 1 abstention and signed by the Chairman.

The exempt minutes of the meeting of the Committee held on 15 November 2022 were agreed as a correct record, with 4 in favour and 1 abstention and signed by the Chairman.

## 4. TO CONSIDER ANY ITEMS THAT THE CHAIRMAN AGREES TO TAKE AS URGENT BUSINESS.

The Chairman had one item to be considered as urgent business, an additional Audit Committee meeting to be held on Wednesday 19th April. Louise Duffield, Director of Resources and Organisational Development advised Members there was a delay with the External Audit Results Report 2021/22 item due at this meeting and asked Members to hold the provisional date subject to confirmation from Ernst & Young. A Member reminded the Committee the extra meeting date falls in purdah, Kevin Toogood, Assistant Director Legal & Democratic Services confirmed there were no business items on the proposed agenda that would be affected by purdah.

## 5. CAPITAL STRATEGY 2023/24 TO 2026/27.

Louise Duffield, Director of Resources and Organisational Development, introduced the report which sets out the Capital Strategy for 2023/24 to 2025/26 for approval prior to recommending the Strategy for approval by Council at the meeting on 1st March. She noted this was a live Strategy and as such the Governance structure had been set out clearly for Members.

A Member queried the Capital Programme budget of £5.735 million for 2023/24 which had increased substantially compared to last years estimated figure. The Director of Resources and Organisational Development reminded Members the programme was a live document, which was expected to grow and change. The Council are required to have a Capital Programme and the Proposed Additions at Table 1 had been through the required governance processes to meet the Strategy, and any significant changes to schemes would be required to go through the decision-making process again.

A Member noted the reduction in the revenue allocated for the Swanmead development. Rachel Jarvis, Assistant Director Corporate Resources confirmed this budget line had been combined with the overall budget for Temporary Accommodation, and as such there was no change to the allocation. He raised concerns regarding current inflation issues and the risk to the Capital Programme. The Director of Resources and Organisational Development confirmed each scheme was individually assessed by officers to mitigate the risks.

As there were no further questions the Chairman took Members to a vote on the recommendations, which were agreed unanimously with 5 in favour.

**RESOLVED**

The Committee considered the draft Strategy, provided any feedback it felt was appropriate and recommended the Strategy for approval by Council at the next appropriate meeting.

## 6. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2023/24 TO 2025/26.

Louise Duffield, Director of Resources and Organisational Development, introduced the report which was before the Committee for approval prior to recommending to Council at the meeting on 1st March. She noted the Council were taking a prudent approach to the strategies.

In response to a Member asking for clarification on protections afforded to the Council on monies placed with banks and building societies, and the Council's upper borrowing limit, Joseph Saville, Adur & Worthing Council advised that for banks and building societies this was the same as for individuals however with regard funds placed with other local authorities the Council would expect to recover the complete investment, with protection from Central Government. Regarding increasing the internal borrowing limit, he advised the Capital Programme work is funded, therefore it was not necessary to increase the limit. The Director of Resources and Organisational Development reminded Members the Council was a collection authority and there was no future planned borrowing.

Members discussed the external financing of the Orchards shopping centre and additional borrowing. The Director of Resources and Organisational Development advised this was a unique asset and, the Council had no need to borrow currently and that if the Council increased its borrowing the cost of doing so would have to be offset. In response to inflation rates and long-term borrowing, Joseph Saville advised this would be examined in the 2023/2024 financial year.

The Chairman asked for clarity regarding points 3 and 4 of the proposed specified and unspecified investments on p.29 of the report. Joseph Saville confirmed the unspecified investments had not been updated for some time and that investments had not been placed with these organisations and there was no intention to do so

There were no further questions, the Chairman took Members to a vote on the recommendations, which were agreed unanimously with 5 in favour.

**RESOLVED**

The Committee recommended to propose that Council agree;

(i) the proposed Treasury Management Strategy Statement (TMSS) for 2023/24 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 the report.

## 7. INTERNAL AUDIT PROGRESS REPORT.

Louise Duffield, Director of Resources and Organisational Development introduced the report, to provide Members with an update on the progress of the internal audits. She noted the inclusion of the Disabled Facilities Grant, and that this had now been formally signed off with a substantial assurance rating. Juan Fosco, Internal Auditor at Mazars LLP confirmed the internal audits were on target.

A Member requested the Committee receive copies of all audit reports once signed off by Management Team. He also asked for an update on any outstanding actions from the previous internal audit report. Juan Fosco, confirmed a process was now in place for sharing the completed 2022/23 audits with the Committee. He advised any outstanding recommendations would be included as an annex to the current progress report, however to date there were none outstanding.

There were no further questions, the Chairman took Members to a vote on the recommendation which was agreed unanimously with 5 in favour.

**RESOLVED**

The Committee received the report.

## 8. INTERNAL AUDIT STRATEGY AND PROPOSED OPERATIONAL PLAN 2023/24.

Louise Duffield, Director of Resources and Organisational Development, introduced the report with the proposed operational plan for 2023/24 with a view to the report being approved in advance of the new financial year to allow audits to be completed on time. She highlighted that recent changes in HR and a change in payroll providers presented an opportune moment to seek audit assurance on those matters. Juan Fosco, reassured Members, Mazars are comfortable with the 2023/24 proposed plan and support the early delivery of audits.

In response to the Vice Chairman’s question, the Director of Resources and Organisational Development confirmed the scoping of the Grants audit does include an examination of the procedures.

A Member asked if officers were able to provide a provisional programme of content in conjunction with the External Auditors. Juan Fosco advised if there were any risks following the outcome of the sign off of the accounts, these would be included in the proposed operational plan.

There were no further questions, the Chairman took Members to a vote on the recommendation, which was agreed unanimously with 5 in favour.

**RESOLVED**

The Committee commented on the detailed Internal Audit Plan for 2023/24 prior to its implementation.

## 9. QUESTIONS PURSUANT TO COUNCIL PROCEDURE RULE 10.2 DUE NOTICE OF WHICH HAS BEEN GIVEN.

The Chairman confirmed she had no questions.

The meeting finished at 7.37 pm

Chairman

**ANNUAL GOVERNANCE STATEMENT 2022-23**

| | |
|---|---|
| REPORT OF: | DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT |
| Contact Officer: | Assistant Director of Corporate Resources (and S151 Officer)<br>Rachel Jarvis, Email: rachel.jarvis@midsussex.gov.uk Tel: 01444 477244 |
| Wards Affected: | *None* |
| Key Decision: | No |
| Report to: | Audit Committee<br>19 April 2023 |

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**Purpose of Report**

1. This report brings forward the authority's Annual Governance Statement (AGS) for consideration and approval.

**Recommendation**

**The Committee is asked to consider and approve the AGS for inclusion in the Statement of Accounts 2022/23.**

**Background**

3. The Annual Governance Statement (AGS) is a statutory document which explains the processes and procedures in place to enable the Council to carry out its functions effectively. The AGS forms part of the governance framework of the authority and whilst Members have approved it as part of the Statement of Accounts (and will continue to do so) CIPFA guidance requires that it is considered as a separate item.

4. The AGS, in addition to acknowledging responsibility for ensuring governance is effective, should;

- focus on outcomes and value for money
- evaluate against the local code of governance and principles (i.e. the Constitution)
- be in an open and readable style
- include an opinion on whether arrangements are fit for purpose
- include identification of significant governance issues and an action plan to address them
- explain action taken in the year to address the significant governance issues identified in the previous year's statement
- be signed by the chief executive and leading member in a Council.

5. The AGS is attached at Appendix A. Members are invited to consider the document and approve it for 2022/22.

**Policy Context**

6. This report fulfils the Council's obligations under the Accounts and Audit Regulations 2015.

**Other Options Considered**

7. None.

**Financial Implications**

8. None.

**Risk Management Implications**

9. None.

**Equality and Customer Service Implications**

10. None.

**Other Material Implications**

11. None.

**Sustainability Implications**

12. None

**Appendices**

- Annual Governance Statement 2022-23

**Background Papers**

None

# ANNUAL GOVERNANCE STATEMENT 2022/23

## 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. In discharging this overall responsibility, Members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs, the effective exercise of its functions, the management of risk and the stewardship of the resources at its disposal.

## 2. Purpose of the governance framework

Good governance is about how the Council ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled. Through effective governance the Council is accountable to, engages with and, where appropriate, leads the community.

The code of corporate governance can provide only reasonable and not absolute assurance that the Council achieves its aim of good governance. Equally the Council's system of internal control is designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage those risks efficiently, effectively and economically. It cannot eliminate all risk of failure; it can therefore only provide reasonable and not absolute assurance that our policies, aims and objectives are achieved.

The governance framework has been in place at the Council for the year ending 31 March 2023 and up to the date of approval of the statement of accounts.

## 3. The Council's governance framework

The Council's Constitution was last fully reviewed and re-adopted in March 2023, and 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 appropriate senior Officers. The Monitoring Officer ensures that all decisions made are legal and support the Standards Committee in promoting high standards of conduct amongst Members and the wider Town and Parish Council community in Mid Sussex. In January 2022 the Council adopted the revised Local Government Association Model Code of Conduct for Members, with that decision taking effect on 1st March 2022.

The Scrutiny Committees offer advice to Cabinet and Council both collectively, and to Cabinet members individually. They scrutinise decisions made (or which are due to be made) by the Cabinet and individual Cabinet members, executive Key decisions taken by officers and those published on the Members' Information Service. The committees also have a role in the formulation of new policies. The Scrutiny Committees can call-in decisions for their consideration, although no decisions were called in over 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 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 Leader, Deputy Leader & Housing and Customer Service, the last instance being on 8th March 2023.

The Council 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 Assistant Director of Corporate Resources has statutory responsibility for the proper management of the Council's finances. The Assistant Director 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 and capital strategy and policies.

In the constitutional changes brought forward and adopted in March 2023, the role of the Audit Committee has been aligned with the CIPFA Code of Practice for Internal Audit. In particular, the Audit Committee's role in monitoring operational risk management has been clarified.

## 1. 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:

- 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 removal of the Procurement Code from the Council's Constitution and the introduction of Contract Procedure Rules which set out clearly the role of decision makers in contracting processes. Whilst those Rules still require the Procurement Code to be followed, its removal from the constitution will enable more agile changes to the Code as procurement legislation changes;
    - The work of the corporate Joint Procurement Board partnered with Horsham DC, Crawley BC and Mole Valley DC which is working to update the Procurement Code as the legislative framework changes following the departure of the UK from the EU and the forthcoming passage of the Procurement Bill into law;
    - The Council's internal audit coverage (purchased from Mazars via a Croydon LBC framework), 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;
    - 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;
    - Work of the Standards Committee to deal with Code of Conduct complaints

## 2. Assurance and Significant governance issues

No assurance can ever be absolute; however this statement seeks to provide a reasonable assurance that there are no significant weaknesses in the Council's governance arrangements. On the basis of the review of the sources of assurance set out in this statement, it is considered that the Council has in place satisfactory governance arrangements, including a satisfactory system of internal control, both of which are operating effectively.

The Annual Internal Audit Annual Report and Opinion provides an opinion on the adequacy of Council's control environment as a contribution to the proper, economic, efficient and effective use of resources. The Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. Annually, the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement and this is provided in the Annual Internal Audit Annual Report and Opinion. Based on the internal audit work completed, the Chief Internal Auditor will provide assurance regarding the adequacy of Mid Sussex District Council framework of governance, risk management and internal control for the period 1 April 2022 to 31 March 2023.

The Council will continue to regularly monitor issues that may seriously prejudice or prevent achievement of its key objectives.

Hybrid working has become the norm and 'new ways of working' with increased dependence on digital solutions has been widely adopted both at Mid Sussex and across the sector.

Members continued with virtual meetings in the early part of the year where legally possible, and now committees are held face to face which enabled scrutiny and decision making to continue to a high standard. Where possible meetings are now live streamed, improving public access to meetings.

There are however two specific areas where governance has been tested through the year, and which represent issues that will continue to need be addressed for the future.

Firstly, as with all local authorities, the cost of living crisis and unprecedented levels of inflation have had an impact on procurements, supply chain and contracts and the overall financial position of the council; this was taken into account in the budget setting and reporting process for the coming year.

Secondly, it continues to be important to be alert to the growing threat of cybercrime given our increasing reliance on Cloud- based line of business systems.

These specific issues 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
April 2023

Kathryn Hall
Chief Executive
April 2023

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**FINANCIAL STATEMENTS 2020/21**

| | |
|---|---|
| REPORT OF: | DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT |
| Contact Officer: | Assistant Director of Corporate Resources (and S151 Officer)<br>Rachel Jarvis, Email: rachel.jarvis@midsussex.gov.uk Tel: 01444 477244 |
| Wards Affected: | *None* |
| Key Decision: | No |
| Report to: | Audit Committee<br>19 April 2023 |

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**Purpose of Report**

1. Ernst & Young LLP have now concluded their audit of the 2020/21 Accounts and we are pleased to report they have provided an unqualified opinion.

2. Audit Committee last met to consider these accounts at its meeting of 1 March 2022. At this meeting Audit Committee resolved to approve the Financial Statements for the year ending 31 March 2021 and Authorise the Chair and Vice Chair of the Committee to sign the accounts when the audit had concluded, subject to any changes being immaterial to the accounts.

3. The Financial Statements relating to the 2020/21 financial year are now ready for final review and signing and comprise: -

   (a) The Auditors Annual Report (Appendix A)

   (b) The Audit Results Report to the Audit Committee – Final (Appendix B)

   (c) The Financial Accounts 2020/21 - Final (Appendix C)

   (d) Letter of Representation - (Appendix D)

**Recommendations**

**The Committee is recommended to:**

i. **Agree the Auditors Annual Report having consideration of the Audit Results Report together with previous considerations and the resolution on 1 March 2022;**

ii. **Approve and Sign the Financial Statements for the year ending 31 March 2021 and the Letter of Representation**

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**Background**

4. The audit of the Statements for the financial year 2020/21 was reported to Audit Committee on 1 March 2022 noting that some reaming work was still to be completed.

5. The conclusion of this Audit has been delayed for two reasons. Firstly, as a result of investigations required due to an objection made to the accounts. This objection has not been upheld.

6. In addition, there are national issues in local public sector audits. These have been summarised in the recent reviews by the National Audit Office (NAO), the Public Accounts Committee, and the Redmond Review.

7. The Committee approved the accounts in principle, having read the draft Audit Results Report whilst being aware that further changes might be needed post-audit.

8. The work on the objection has now been concluded and not upheld and the Auditor's Annual Report and the final Audit Results Report to Audit Committee are attached at Appendix A and B respectively.

9. As is the picture nationally, the Whole of Government Accounts has not concluded, and the National Audit Office has reserved the right to request further procedures subject to the conclusion of the Whole of Government Accounts. It is unlikely that this will be requested specifically of Mid Sussex DC.

**Auditors Annual Report and Findings**

10. This section provides an overview of the Audit Results Report in order to provide Audit Committee with a broader context to facilitate their understanding.

11. Section 2 of the report provides an overview of the areas of audit focus. Of note are:

    (a) Valuation of investment property (adjusted) - As reported and considered at Audit Committee on 1 March 2022 there was a need to revise the initial valuations of 3 investment properties. These revisions were made by the Councils' valuers, and work is now under way to ensure a consistent approach is taken for future years. This is mostly related to synchronisation of the date of valuation between our local valuers and our auditors. We will align with our auditors' dates.

    (b) Net Pension Liability (unadjusted) - As previously reported the Pension Fund is administered by West Sussex County Council who appoint actuaries to provide annual pension liability information. It is therefore a difference of opinion between WSCC and our external auditor's judgement as to the value of the net pension liability with no underlying errors. As this is immaterial it has not been adjusted for.

    (c) Accounting for Covid Business Grants (adjusted) – This is an accounting adjustment in relation to the presentation of grants, and the overall financial position remains unchanged. It does not relate to the handling or distribution of grants, but instead to the accounting treatment of how these should be presented. This error has arisen at a significant number of authorities and is a result of the high volume of new grants made available to support the public during the pandemic. These often had complex accounting requirements, the treatment of which, both local and national government had to grapple with.

12. The Assistant Director of Corporate Resources will sign the accounts as presenting a true and fair view of the financial position of the authority and its income and expenditure for the year ended 31st March 2021.

13. The Letter of Representation sets out the Committee's responsibility for approving the statements and their contents and is included as Appendix D. This will be signed by the Chairman.

**Other Options Considered**

14. none

**Financial Implications**

15. As laid out in the Appendices.

**Risk Management Implications**

16. None

**Equality and Customer Service Implications**

17. None

**Other Material Implications**

18. None

**Sustainability Implications**

19. None

**Appendices**

- Appendix A - The Auditors Annual Report
- Appendix B - The Audit Results Report to the Audit Committee – Final
- Appendix C - The Financial Accounts 2020/21 - Final

**Background Papers**

- None

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# Mid Sussex District Council

## Auditor's Annual Report
## Year ended 31 March 2021

March 2023

Building a better working world

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/)).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit 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.
Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Ref: EY-000092651-01

Section 1

# Executive Summary

# Executive Summary: Key conclusions from our 2020/21 audit

| Area of work | Conclusion |
|---|---|
| **Opinion on the Council:** | |
| Financial statements | Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.<br>We issued our auditor's report on 19 April 2023.<br>The audit took until April 2023 to complete because we received an objection to the 2020/21 accounts. |
| Going concern | We have concluded that the Assistant Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |
| Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements | We concluded that financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited accounts. |

| Area of work | Conclusion |
|---|---|
| **Reports by exception:** | |
| Value for money (VFM) | We had no matters to report by exception on the Council's VFM arrangements.<br><br>We have included our VFM commentary in Section 04. |
| Consistency of the annual governance statement | We were satisfied that the annual governance statement was consistent with our understanding of the Council. |
| Public interest report and other auditor powers | We had no reason to use our auditor powers. |

Ref: EY-000092651-01

# Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

| Outcomes | Conclusion |
| --- | --- |
| Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit. | We issued an Audit Results Report dated March 2023 to the Corporate Governance and Audit Committee. |
| Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice. | We have not yet issued our certificate for 2020/21. We have performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. However, the NAO have reserved the right to request further procedures, and until they have confirmed whether this is necessary we cannot certify closure of the audit. |

**Fees**

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas, and to respond to the objection to the accounts. As a result, we have calculated an associated additional fee which will be submitted to PSAA for determination.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Kevin Suter

Associate Partner
For and on behalf of Ernst & Young LLP

Ref: EY-000092651-01

Section 2

# Purpose and responsibilities

# Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

**Purpose**

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

**Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued in July 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

**Responsibilities of the Council**

The Council is responsible for preparing and publishing its financial statements and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

# Financial Statement Audit

# Financial Statement Audit

We have issued an unqualified audit opinion on the Council’s 2020/21 financial statements.

**Key issues**

The Annual Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 19 April 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Audit Committee, initially in March 2022 and then updated to the April 2023 once we had determined the objection to the accounts. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

| Significant risk | Conclusion |
|---|---|
| **Misstatements due to fraud or error - management override of controls**<br>An ever present risk that management is in a unique position to commit 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 did not identify any:<br>• material weaknesses in controls or evidence of material management override;<br>• instances of inappropriate judgements being applied; or<br>• any other transactions during our audit which appear unusual or outside the Council‘s normal course of business. |
| **Inappropriate capitalisation of expenditure**<br>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. | In response to the risk we tested capital additions to ensure that the expenditure incurred and capitalised was clearly capital in nature.<br><br>We are satisfied that capital additions made in the year met the requirements of IAS 16, and had been correctly capitalised |

Continued over.

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# Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

| Significant risk | Conclusion |
|---|---|
| **Sales, fees and charges income grant.**<br><br>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.<br><br>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 | We gained an understanding of the Council's process for completing the fees and charges reimbursement grants returns to Central Government, and assessed whether those returns appropriately follow the guidance.<br><br>We review whether the values included could be supported by relevant and appropriate evidence. This included to the original budget, and the recorded income within the trial balance.<br><br>We were satisfied that the grant return was not materially misstated. |
| **Valuation of Investment property**<br>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.<br><br>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.<br><br>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. | 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.<br><br>From this review we identified three asset values were misstated. The key areas we identified differences on were;<br><br>- 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<br>- Purchase costs should be deducted on the valuation due to the UK market reporting yields on a net basis<br>- The valuer was unable to support their assumption on market rent<br>- One asset was valued on the incorrect basis<br><br>Following the correction of these misstatements, we concluded that the balance was fairly stated. |

Continued over.

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# Financial Statement Audit (continued)

| Other area of audit focus | Conclusion |
|---|---|
| **Valuation of property, plant and equipment. (land and buildings)**<br>The value of Land and Buildings represent significant balances in the Council's accounts. The valuation of these assets are complex and are subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements. | We reviewed the work performed by a review of the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. We sample tested a selection of assets.<br><br>We were satisfied that the valuation of property, plant and equipment was fairly stated and appropriately disclosed. |
| **Pension Asset/Liability valuation**<br>The Pension Fund asset/liability is a material balance in the Balance Sheet. 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. | We obtained assurances from the auditors of West Sussex Pension Fund that the information supplied to the actuary in relation to Mid Sussex District Council was accurate and complete.<br><br>We identified a judgement difference of £293k between the actuarial values and amount estimated from the Council's share of the final audited pension fund assets. This overstated the asset.<br><br>We have engaged our specialists EY Pensions to assist in our conclusions over the completeness and accuracy of the model used by the actuaries in determining the obligation attributable to the Authority, in order to satisfy the requirements of the revised ISA540. No issues were noted. |
| **Accounting for Covid-19 related grant funding**<br>The Council received government funding in relation to Covid-19. 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 2020/21. | Where the Council acted as principal, because it has the control over the allocation of the funding to the beneficiaries of these grants then these should be processed through the Comprehensive Income and Expenditure Statement (CIES).<br><br>For those grants received where the Council is acting as an agent – passing on the funds without any discretion - we would not expect these to be processed through the CIES but would expect to see the amounts received disclosed in the notes to the accounts.<br><br>As a result of our work, an error was identified where one grant was classified as agent, but in our view should have been principal. The Council amended the classification, increasing both income and expenditure by £3.692m. |

Continued over.

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# Financial Statement Audit (continued)

| Other area of audit focus | Conclusion |
|---|---|
| **Going concern disclosures**<br>The Council’s required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council’s financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period. | Our review of management's continued use of the going concern assumption concludes it remains appropriate. We reviewed the proposed going concern disclosures for inclusion in the financial statements and proposed relatively minor updates which management made. In our view no significant uncertainty existed that may cast doubt on the Council’s ability to continue to deliver its services, which would be required to be disclosed. |

## Summary of Audit differences

Throughout the audit we identified a number of misstatements as shown below:

Unadjusted:

- Difference between the actuarial values and amount estimated from the Council’s share of the final audited pension fund assets: £293k judgemental misstatement

Adjusted:

- Amendments to the valuations of investment properties, initially overstated by a net total of £1.4m.
- Incorrect classification of a Covid-19 grant as agent, rather than principal: £3.692m

Disclosure Errors

We also identified a small number of misstatements in disclosures which management corrected.

Continued over.

# Financial Statement Audit (continued)

**Our application of materiality**

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

| Item | Thresholds applied |
| --- | --- |
| **Planning materiality** | We determined planning materiality to be £1.496m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council. |
| **Reporting threshold** | We agreed with the Corporate Governance and Audit Committee that we would report to the Committee all audit differences in excess of £0.075m. |

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Section 4

# Value for Money

# Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

**Scope and risks**

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the July 2021 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with management and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

We kept our risk assessment up to date throughout the audit, including assessing any impact from the objection received to the accounts.

We had no matters to report by exception in our audit report.

**Reporting**

We did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our VFM commentary highlights relevant issues for the Council and the wider public.

**VFM Commentary**

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- 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.

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# VFM Commentary

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

**Introduction and context**

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

**Financial sustainability**

*How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them*

Financial Strategy and Medium Term Financial Strategy (MTFS)

The Council produces an annual MTFS covering the current and next 4 years on a rolling basis. The MTFS should have regard to the following criteria:

• be constructed to resource the Corporate Plan;

• identify and quantify all known factors likely to impact on the Council's budget in the medium term (the financial risk matrix);

• use the service review process to identify efficiencies in order to maintain a balanced budget over the medium term;

• have regard to the current and potential legislative and national financial issues;

• community needs and taxation implications.

This strategy will set out the key financial principles to be utilised and key actions that need to be undertaken to ensure the council is able to continue to balance its finances over the medium term. The purpose of the report is to update the Council's financial strategy and action plan to help guide the management of the Council's finances during a period of pressures on resources.

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**Financial sustainability (continued)**

Throughout 2020/21, the MTFS in place was the “Financial Strategy 2021-22 to 2024-25”. This was presented for approval at Full Council in March 2021. The four year financial model forecast was updated to reflect current assumptions; including government funding, council tax projections, projected costs and planned efficiencies. The medium-term financial plan included £3m use of reserve each year from 2022/23 to 2024/25. As noted in the report projections over future years should be treated with caution as circumstances can change quickly and figures underpinning the figures may change.

During the year the update to the “Financial Strategy” was for 2022-23 to 2025-26 and was taken to the March 2022 Council. This report revised down the use of the general reserve to £181k in 2022/23 and approximately £1.3m for each year between 2023/24 to 2025/26.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Budget Setting Process

The Council has a statutory duty to prepare a balanced annual revenue budget. The Council’s budget must be constructed so as to ensure that resource allocations properly reflect the Council’s priorities.

The financial strategy is based on the rolling four year cycle. This sets out the likely envelope of resources available to the council over the following four years for both revenue and capital spending (see section above on MTFS). This strategy shall be approved by Council, having first been considered by Cabinet.

After considering the financial strategy and the Council’s priorities, the draft budget is prepared and is approved by Council, having been recommended by Cabinet. The Council will consider the proposals of the Cabinet and may adopt them, amend them, refer them back to the Cabinet for further consideration, or substitute its own proposals in their place

Each of the Council’s budgets are delegated to a designated budget manager. Budget managers have the responsibility to:

• Only incur expenditure or vire budget provision for which they have approved budgets or specific authority.

• Monitor and control revenue and capital expenditure and income under their control.

• Submit periodic capital and revenue monitoring reports to members.

• On becoming aware of a potential overspend either take remedial action to prevent such an overspend or submit a virement proposal prior to the overspend occurring.

**Financial sustainability (continued)**.

Responsibility of CFO

In relation to Financial Planning, the CFO has responsibilities of:

- Ensuring lawfulness and financial prudence of decision making;
- Administration of financial affairs;
- Contributing to corporate management.
- Advising whether executive decisions are within the budget
- Providing advice
- Give financial information
- Supporting the Audit Committee

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

*How the body plans to bridge its funding gaps and identifies achievable savings*

In preparation for the annual budget process the Council's Financial Strategy and the 4 year Financial Model, including the key financial principles are reviewed. This is in order to take account of financial pressures, saving plans and the key assumptions being used for future years' forecasts. To address the impact on the financial position of the council, saving proposals of £1m were approved as part of the corporate plan. The saving plans were profiled evenly over a four year period.

The annual budget for revenue spending for 2021-22 was approved by full Council on 3 March 2021. The budget incorporated the first year of the savings identified in the Corporate plan.

*How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities*

Mid Sussex District Council has a Corporate Plan which sets out the Council's future priorities and objectives. This helps to ensure that:

• the Council manages its resources effectively

• that projects can be delivered by the council's services and that enough capacity is available to deliver them

• the Council's Cabinet can plan its work

• a framework is provided for evaluating the Council's performance

In September 2020 the Council adopted a revised Corporate Plan, in response to the impacts of the pandemic, which consisted of a wide-ranging set of recovery plans, designed to reshape and reaffirm their offer to the community and direct necessary redesigns their services to ensure efficient delivery in a post-Covid19 world. Primary amongst those plans is the Council's role in supporting economic recovery and growth in the District, enabling community resilience and the need to maintain financial independence.

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**Financial sustainability (continued)**

The priorities set out in the plan were:

- Effective and responsive services
- Sustainable economic growth
- Strong and resilient communities
- Financial independence

As noted above, the Financial Strategy and Plan has regard to the corporate plan, therefore, ensuring the consistency of financial strategy with the corporate strategy.

*How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system*

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Under the umbrella of the Financial Strategy are other linked policies and strategies which assist with ensuring the robust financial management of the Council, including the Treasury Management and Investment Strategies and a Capital Strategy. We note that throughout the financial planning i.e. budget and MTFS, consideration of other plans such as capital and treasury management also take place. The Financial Strategy and Plan incorporates the revenue effect of capital and other investment decisions, and those impacting the workforce as a whole.

The Capital Programme is based upon the Corporate Plan which will identify the need for investment.

The capital strategy implemented by Mid Sussex District Council provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local services and how associated risk is managed by the council. The Council approves a capital programme on recommendation from the Council's Cabinet. This programme consists of significant projects that qualify as capital expenditure and a planned programme of scheduled asset replacements.

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.

This statement gives a strategic direction to the Council to enable it to meet the demands of the future.

The Treasury Management strategy is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing

**Financial sustainability (continued)**

the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing.

Decisions on treasury management investment and borrowing are made daily and were therefore delegated to the Head of Corporate Resources, who must act in line with the treasury management strategy approved by Council.

*How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.*

Please see documentation above about the annual budget setting process and MTFS. Throughout the preparation of each of these, risks are taken into consideration in order to see how they impact certain areas and what the financial implications of these risks might be.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Council has an effective strategic risk management framework and register in place to identify, mitigate and monitor the risks to the organisation in delivering strategic objectives. This includes both financial and non-financial risks.

Cabinet is the body responsible for the Council's strategic risk management. Cabinet approves the Council's strategic risks on an annual basis. Cabinet members work with Heads of Service regarding the progress in managing risks that fall within their portfolio. In addition, Cabinet is responsible for:

- Providing an overall direction on strategic risk management.
- Promoting a positive risk culture throughout the organisation including promoting its importance to other Members.
- Holding an annual workshop to agree the strategic risks for the following 12 months.
- Approving an annual Strategic Risk Profile.

The Cabinet Member for Finance and Service Delivery is recognised as the Member Risk Champion and works with the Officer Risk Champion to embed risk management into the organisation. Management Team is responsible for ensuring the Council's strategic risks are actively managed through the year. It uses its weekly meetings to monitor progress across all the risks and where it is found a risk has raised up the risk profile, a report is submitted to Cabinet.

In addition, Management Team has the following responsibilities:

- Implementing the strategic risk management policy.
- Reviewing the management of strategic risk.
- Monitoring the effectiveness of the controls developed to implement the chosen risk response.
- Integrating risk management into the service and budget planning process.

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**Financial sustainability (continued)**

- Promoting a robust and proactive risk culture throughout the organisation.
- Ensuring that appropriate training is put in place for appropriate officers and that it is reflected in the Member Development programme.

The Assistant Chief Executive is recognised as the Officer Risk Champion and works with the Member Risk Champion to embed risk management into the organisation.

These arrangements come together, linking the Corporate Plan and its risk assessment, through to the financial plans and implications, as part of the ongoing monitoring of performance and then the annual refresh associated with developing the annual budget.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

**Governance**

*How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud*

The Council has an effective strategic risk management framework and register in place to identify, mitigate and monitor the risks to the Organisations in delivering strategic objectives. This includes both financial and non-financial risks.

The Council maintains a strategic risk register. The register details any risks along with the internal controls in place, plus any associated action plans to manage those risks. Updates to the risk register and are discussed in Cabinet as described above.

The Council has an Internal Audit function in place. The Internal Audit Service provided a continuous and independent review of all internal control systems. It objectively examines, evaluates and reports upon the adequacy of such internal controls.

The findings and recommendations from each audit review are reported to the Audit Committee.

*How the body approaches and carries out its annual budget setting process*

The Council has a statutory duty to prepare a balanced annual revenue budget. The Council's budget must be constructed so as to ensure that resource allocations properly reflect the Council's priorities.

The financial strategy based on the rolling four-year cycle. This sets out the likely envelope of resources available to the council over the following four years for both revenue and capital spending (see section above on MTFS). This strategy shall be approved by Council, having first been considered by Cabinet.

After considering the financial strategy and the Council's priorities, the draft budget is prepared and is approved by Council, having been recommended by Cabinet. The Council will consider the proposals of the Cabinet and may adopt them, amend them, refer them back to the Cabinet for further consideration, or substitute its own proposals in their place.

Each of the Council's budgets are delegated to a designated budget manager. Budget managers have the responsibility to:

- Only incur expenditure or vire budget provision for which they have approved budgets or specific authority.

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**Governance (continued)**

- Monitor and control revenue and capital expenditure and income under their control.
- Submit periodic capital and revenue monitoring reports to members.
- On becoming aware of a potential overspend either take remedial action to prevent such an overspend or submit a virement proposal prior to the overspend occurring.
- Should a need to incur unavoidable or non-controllable expenditure be identified, a proposal for a supplementary estimate shall be submitted to Cabinet.

*How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.*

*See section above.*

Each of the Council's budgets will be delegated to a designated budget manager. Budget managers have the responsibilities as documented above.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Both revenue and capital monitoring take place on a frequent basis through the tear, at periods 2, 4, 6, 9 and 12.

All budget managers have access to the Council's general ledger system in order to review actual performance against budget. The queries outlined below can be produced as and when required to help with budget monitoring:

- Compare the annual budget with all posted income and expenditure, including commitments. The query will show the total remaining uncommitted budget.
- Compare the profiled budget to all income, expenditure, and commitments as at the end of the last completed month. This query will show the variance to date for budget monitoring purposes.
- Compare the annual budget with the full year income and expenditure for the last complete financial year.

The Council also reviews its Treasury Management performance. As reported in Note 18 to it's accounts, during the year the Council received large Covid grant payments from Central Government to distribute to local businesses. It was required to keep these funds liquid to ensure their timely distribution, and as a result the Council breached its counter-party limits (the limits set to ensure investments were not concentrated on a particular counter-party) during the year. These breaches were identified, reported, and no losses occurred. This demonstrates the Council's ongoing arrangement to monitor it's Treasury Management functions. We did not judge this to be a risk of a lack of appropriate arrangements.

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**Governance (continued)**

*How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.*

The Council has a number of arrangements in place to ensure that appropriate decisions are made. The decision-making process is detailed within the Council's Constitution and sets out how different decisions are made.

The Constitution states that all decisions are made in accordance with the following Principles:

- There should be clarity of aims and desired outcomes;
- Proper regard should be paid to professional advice from officers;
- Proper regard should be paid to internal and external consultation according to the decision in question;
- There should be respect for human rights;
- There should be a presumption in favour of openness;
- There should be proportionality (i.e. the action must be proportionate to the desired outcome);
- There should be an explanation of the alternative options considered; and
- There should be proper reasons for the decision which are documented.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

**The Full Council**

The Constitution sets out the role of Full Council and explains that the Council is the policy making body from which the Policy Framework will be established.

**Cabinet**

The Cabinet is the part of the Council which is responsible for operational decisions. When major decisions ('key decisions') are to be discussed or made, these are published in the Forward Plan in so far as they can be anticipated. If these major decisions are to be discussed at a meeting of the Cabinet, this will be open for the public to attend except where personal or confidential matters are being discussed. The Cabinet has to make decisions which are in line with the Council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this must be referred to the Council as a whole to decide.

Cabinet was made up of seven councillors, including the Leader and Deputy Leader. It is responsible for almost all the functions and services of the Council but is not allowed to deal with certain matters like planning and licensing applications. These are dealt with by other Committees. Each member of the Executive has responsibility for a specific range of council activities (portfolios) and will act as the Council's spokesman for those functions. There are five portfolio areas:

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**Governance (continued)**

- Housing and Customer Services
- Leisure and Parking
- Economic Growth and Net Zero
- Planning
- Community

Whilst some decision-making powers are delegated to individual Executive members, generally the Executive makes decisions as a committee.

**Scrutiny Committee**

The roles and responsibilities of the three Scrutiny Committees are set out within the Constitution and are summarised below:

i) review and/or scrutinise decisions made or actions taken in connection with the discharge of relevant functions of the Council;
ii) make reports and/or recommendations to the full Council and/or the Cabinet and/or any joint committee in connection with the discharge of any functions; and
iii) exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the Cabinet and/or any joint committee, where this is necessary and having regard to the call in procedure set out in the Scrutiny Procedure Rules in Part 4 of this Constitution.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

**Audit Committee**

The Audit Committee is independent of the executive and scrutiny functions and embedded as a key part of the authority's overall governance framework. Its terms of reference are aligned to CIPFA's best practice standards for audit committees. This Committee ensures that the Council is managing risks properly and that proper audit arrangements are in place.

*How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).*

We have inspected the website of the Mid Sussex District Council and identified the various policies in place regarding the integrity, ethical values and behaviour of key executives.

Mid Sussex District Council have adopted a number of codes and protocols that govern the standards of behaviour expected of members and officers, including a Code of Conduct for Councillors and a separate one for Staff. These Codes of Conduct forms part of the Constitution and is updated on a regular basis. The Code of Conduct has been created to assist individuals with the behaviour that is expected of them.

**Governance (continued)**

Included within this Code of Conduct there is a section of “gifts and hospitality”. This guidance sets out the members’ obligations to declare gifts and hospitality received in their official capacity as members of the Council. Officers also have to declare any gifts and hospitality offered and approval sought prior to acceptance if deemed appropriate.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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**Improving economy, efficiency and effectiveness**

*How financial and performance information has been used to assess performance to identify areas for improvement.*

*How the body evaluates the services it provides to assess performance and identify areas for improvement*

Mid Sussex District Council implement a Corporate Plan which sets out the Council's future priorities and objectives. This helps to ensure that:

- the Council manages its resources effectively
- that projects can be delivered by the council's services and that enough capacity is available to deliver them
- the Council's Cabinet can plan its work
- a framework is provided for evaluating the Council's performance

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

The Council's cabinet monitor progress against the key projects, budgets and performance measures on a regular basis and take action where any activities are behind schedule.

In September 2020 the Council adopted a revised Corporate Plan, in response to the impacts of the pandemic, which consisted of a wide-ranging set of recovery plans, designed to reshape and reaffirm their offer to the community and direct necessary redesigns their services to ensure efficient delivery in a post-Covid19 world. Primary amongst those plans is the Council's role in supporting economic recovery and growth in the District, enabling community resilience and the need to maintain financial independence.

The priorities set out in the plan are:

- Effective and responsive services
- Sustainable economic growth
- Strong and resilient communities
- Financial independence

As noted above, the Financial Strategy and Plan has regard to the corporate plan, therefore, ensuring the consistency of financial strategy with the corporate strategy.

Performance Information

In order to track performance and judge how well the Council are delivering their services to customers, they measure their key activities and set performance targets using performance indicators. These performance measures are split by service area and show indicators such as target, status and comparisons to other periods

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

**Improving economy, efficiency and effectiveness (continued)**

*How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve*

The Constitution states that the Council is able to:

- enter into arrangements or agreements with any person or body
- co-operate with, or facilitate or co-ordinate the activities of, any person or body and
- exercise on behalf of that person or body any functions of that person or body

In order to manage these arrangements, the Council may appoint joint committees with the other party to oversee and make decisions in relation to the arrangement.

In the ordinary business of Council meetings, Council is to receive reports, and receive questions and answers, on the business of any joint arrangements. This enables the effective monitoring of these arrangements and ensures that Council are held accountable by any stakeholders.

*How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.*

Mid Sussex District Council has in place “procurement code,” This information is laid out within the Constitution (page 164) and sets out the procedures that that must be followed in relation to the procurement and award of a Contract. These are intended to promote good purchasing practice and public accountability and deter corruption.

The Standing Orders go through each step of the Contract process detailing the minimum requirements for all Contracts taken out by the Authority.

Officers undertaking procurement exercises on behalf of the council are supported by the Procurement Service to aid compliance. In addition to this any necessary training including updates or refresher training is given to these Officers to ensure that these individuals have up to date skills and knowledge to perform these procurement exercises.

Section 5

# Other Reporting Issues

# Other Reporting Issues

### Governance Statement

We are required to consider the completeness of disclosures in the Council's governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

### Whole of Government Accounts

We have performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. However, the NAO have reserved the right to request further procedures, and until they have confirmed whether this is necessary we cannot certify closure of the audit.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

During the course of the audit we received an objection to the Council's accounts for the year-ended 31 March 2021.

The objection was received in two parts, and contained 3 heads of objection. The items that in my discretion I decided to accept for consideration are summarised below:

For head of objection 1, I apply to the court under section 28 of the Local Audit and Accountability Act 2014 for a declaration that the following is an unlawful item of account: Payments recorded to Cross Stone Urban Regeneration, as they are made without a contract in apparent departure from the Council's own procurement guide and procurement legislation.

For head of objection 2, I issue a public interest report in relation to:

- Scrutiny Committees are ineffective; i): Issues relating to the Scrutiny Committee work programme
- Failure to follow the Constitution
- Lack of transparency, and openness with the public which has enabled the Council to prevent any potential judicial review of their decision to sell all of the land at Hurst Farm to Homes England and avoid public scrutiny;

For head of objection 3, I issue a public interest report in relation:

- The timing of the sale of the land at Hurst Farm;
- That the Council may not have received a fair share of the sales proceeds in its agreement with other landowners at the Hurst Farm site resulting in a loss of public funds.
- There are risks to value for money from the Council's management of its commercial property investment in the Orchards shopping centre; and

- The land at Hurst Farm, which was within the Mid Sussex District boundary, was designated open space for residents, which was not considered by the Cabinet.

In considering the objection we carried out the following work:

- Requested a formal response from the Council regarding the issues accepted for the objection;
- Reviewed the Council's formal response;
- Evaluated the information gained and identified the material information;
- Took our own legal advice;
- Drafted and shared provisional views with the objector and with the Council;
- Considered the comments in response to the provisional views from both parties.

We decided that we would not apply to the court for a declaration of unlawful expenditure, nor would we issue a public interest report.

Our statement of reasons to our decision was issued on 03 March 2023.

We made three recommendations to the Council within the decision and statement of reasons.

We summarised the decision and statement of reasons within our updated audit results report to the 19 April 2023 Audit Committee, which included reporting the above recommendations.

**Other powers and duties**

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

# Other Reporting Issues (cont’d)

**Control Themes and Observations**

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

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported. This matter was originally included in our report to the March 2022 Audit Committee:

In the last two financial years we have identified material errors in property valuations. The issues identified have included; the valuer not being able to support assumptions on yield or market rents; the valuer not explicitly stating their assumptions on voids & purchase costs; the nature of the asset not being correctly reflect in the valuation, and the valuation not reflecting ongoing rent reviews.

In our view, management should put into place the following controls:

- Personnel at the Council, who have sufficient knowledge of the asset, should review the information provided to the valuer to ensure the information up to date, relevant, and accurate
- Management should ensure that the valuer explicitly states, and be able to support, all their assumptions in the valuation
- Personnel at the Council, who have sufficient knowledge of the asset, should review the valuations performed by the valuer.

Management agreed the recommendation, and committee to the Finance and Estates teams agreeing a workflow to prepare and check the valuations performed by the Council's external valuer.

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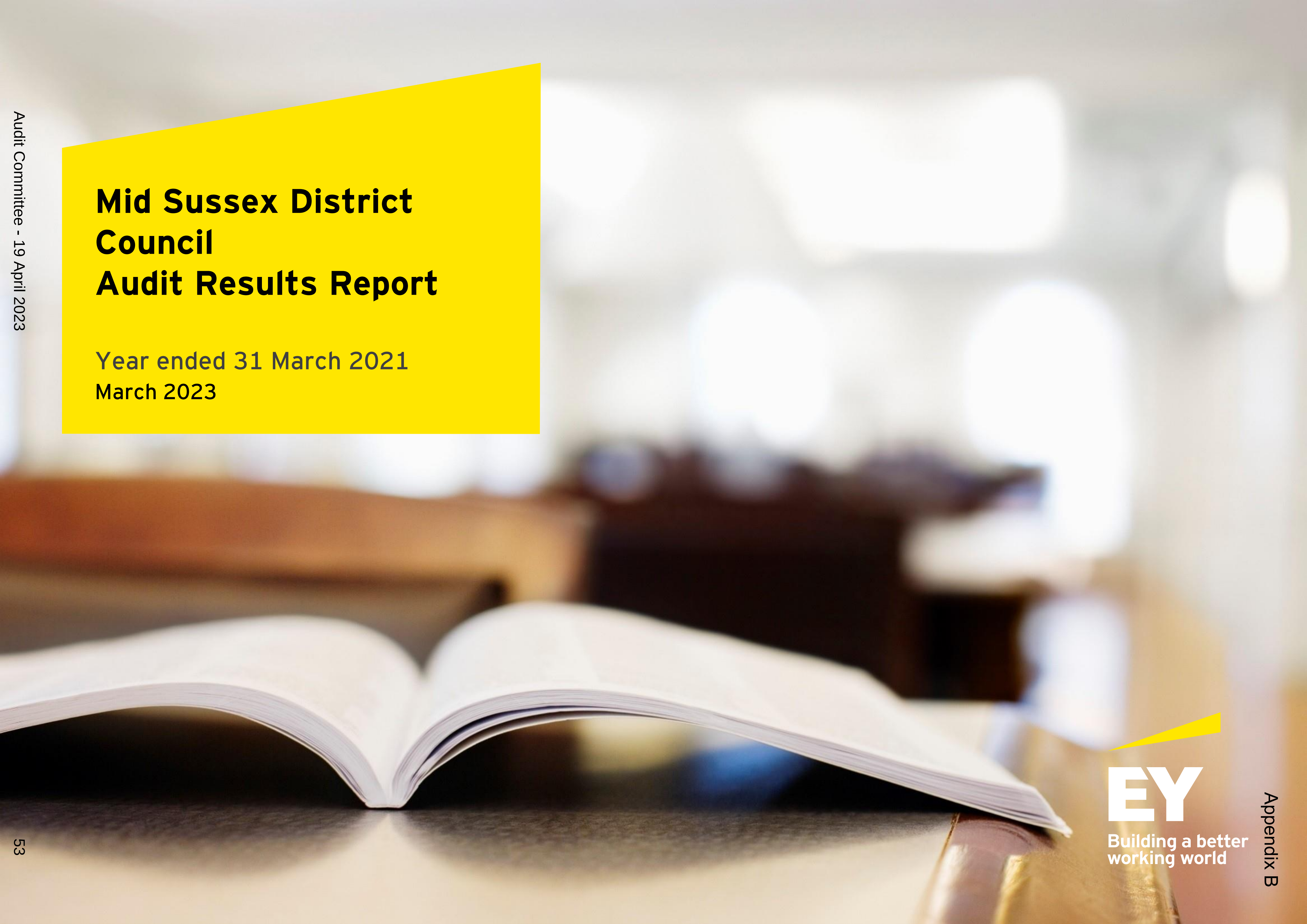


# Mid Sussex District Council
# Audit Results Report

Year ended 31 March 2021

March 2023

Building a better working world

15 March 2023

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 2020/21 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.

We previously reported to you in March 2022 when we reported we had completed a substantial amount of the audit. However, at that time we have received an objection to the 2020/21 accounts from a local elector which was in progress.  We have now completed our work on the objection, and so the audit is complete.

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 19 April 2023

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/ ).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit 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. The remaining areas to complete on the audit are those associated with the final presentation of this report, and approval of the accounts by the Council:

- Completion of subsequent events review up to date of signing the audit report;
- Receipt of approved and signed accounts; 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

## 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.

## 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

Our value for money work is complete, and we have no matters to draw to your attention.
Our detailed value for money commentary is included in our Auditor's Annual Report.

# 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 no matters to report in respect of the Council's Whole of Government Accounts submission. The Council was below the threshold for detailed procedures set by the NAO's group instruction.

## Objection to the accounts

We have received an objection to the 2020/21 accounts from members of the public.

We issued our decision and statement of reasons on 03 March 2023. We decided not to apply to the court for a declaration of an unlawful item of account, or to issue a public interest report.

Further information is included in section 6 of this report

.

## Control observations

We have identified a deficiency in the design of internal controls in relation to property valuation. Please see section 7 for full details.

## Independence

We have no issues to report.

Please refer to Section 8 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

Significant Risk

# 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

Significant Risk

# 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.

Significant Risk

# 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.

Significant Risk

# 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.

# 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.

# 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, with the exception of the accounting for the 'Additional Restrictions Grant'.

The Council had initially classified this grant as agent, but the grant has discretionary elements and so should be accounted as it is acting as principal.

The council corrected the accounting, increasing both income and expenditure by £3.692m.

# 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.

# 03 Audit Report

# Audit Report

## Draft audit report

### 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 Public Contracts Regulations 2015;
- 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 the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of Mid Sussex District Council. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

**Use of our report**

This report is made solely to the members of 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 judgemental errors in the valuation of investment property.  We identified three investments properties which were overstated by a net total of £1.4m  (See page 13)
- We identified a grant incorrectly accounted as agent which should have been accounted as principal.  Management updated the accounts, increasing both income and expenditure by £3.692m  (See page 16)

**Uncorrected Misstatements:**

We report to you any uncorrected misstatements greater than our nominal value of £81k.

- We identified that the pension assets were overstated by £293k.  (see page 15)

# 05 Value for Money

# Value for money

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

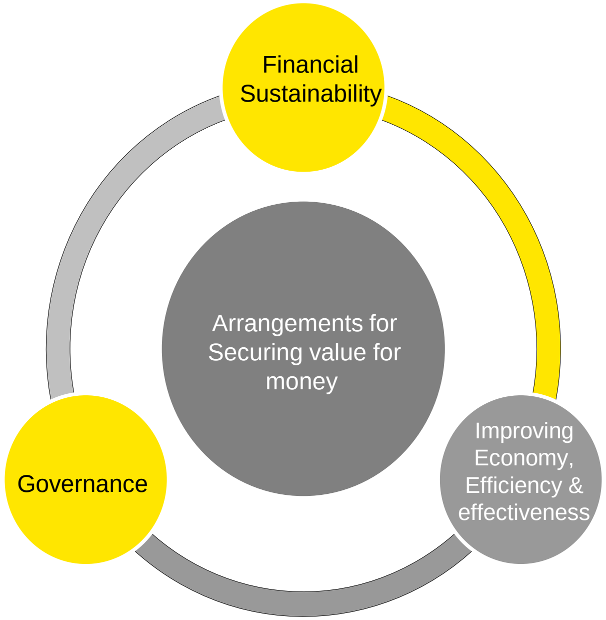
The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

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

## Risk assessment and Status of our VFM work

We have completed our procedures and have not identified any risks of significant weaknesses in the Council's arrangements. This includes consideration of the results of our work on the objection to the accounts, and the recommendations made (See Section 6)

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



# 06 Other reporting issues

# Other reporting issues

| Consistency of other information published with the financial statements, including the Annual Governance Statement |
| --- |
| We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements<br><br>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.<br><br>Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.<br><br>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.<br><br>We have no matters to report |

| Other powers and duties |
| --- |
| We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We have not identified any issues which required us to issue a report in the public interest.<br><br>We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have not identify any issues. |

| Other matters |
| --- |
| We have no other matters to report. |

# Other Powers and duties

| Objection to the accounts |
| --- |

We received an objection to the 2020/21 financial statements from a member of the public. The objection was received in two parts, on 6 and 10 September 2021, and contained 3 heads of objection. The items that in my discretion I decided to accept for consideration are summarised below:

For head of objection 1, I apply to the court under section 28 of the Local Audit and Accountability Act 2014 for a declaration that the following is an unlawful item of account: Payments recorded to Cross Stone Urban Regeneration, as they are made without a contract in apparent departure from the Council's own procurement guide and procurement legislation.

For head of objection 2, I issue a public interest report in relation to:

a) Scrutiny Committees are ineffective; i): Issues relating to the Scrutiny Committee work programme

c) Failure to follow the Constitution

d) Lack of transparency, and openness with the public which has enabled the Council to prevent any potential judicial review of their decision to sell all of the land at Hurst Farm to Homes England and avoid public scrutiny;

For head of objection 3, I issue a public interest report in relation:

1) The timing of the sale of the land at Hurst Farm;
2) That the Council may not have received a fair share of the sales proceeds in its agreement with other landowners at the Hurst Farm site resulting in a loss of public funds.
3) There are risks to value for money from the Council's management of its commercial property investment in the Orchards shopping centre.
4) The land at Hurst Farm, which was within the Mid Sussex District boundary, was designated open space for residents, which was not considered by the Cabinet.

# Other reporting issues

**Objection to the accounts (continued)**

In considering the objection we carried out the following work:

- Requested a formal response from the Council regarding the issues accepted for the objection;
- Reviewed the Council's formal response;
- Evaluated the information gained and identified the material information;
- Took our own legal advice;
- Drafted and shared provisional views with the objector and with the Council;
- Considered the comments in response to the provisional views from both parties.

<u>Summary of our decision</u>

We decided that we would not apply to the court for a declaration of unlawful expenditure, nor would we issue a public interest report.

Our statement of reasons to our decision was issued on 03 March 2023. We set out a summary below of key areas for each of the heads of objection for the Committee's information. Our full rationale is set out within the Decision Letter and Statement of Reasons issued on 03 March 2023

<u>Objection 1: I apply to the court under section 28 of the Local Audit and Accountability Act 2014 for a declaration that the following is an unlawful item of account: Payments recorded to Cross Stone Urban Regeneration, as they are made without a contract in apparent departure from the Council's own procurement guide and procurement legislation</u>

Payments were made during the year to Cross Stone Urban Regeneration, a trading name of Cross Stone Securities Ltd (formerly Altyre Securities Ltd), who were one of the landowners of Hurst Farm. Payments were made under a Memorandum of Understanding, which were contributions by the Council for the costs incurred in the engagement of external specialists providing input to all the landowner parties to that Memorandum, proportionate to each landowner's land share.

The relationship with Cross Stone Securities Ltd was set out in a report to Cabinet during February 2018, the Budget Management 2017/18 – Progress Report April to December 2017. The report requested the approach was endorsed.

Legal advice was taken by the Council over the form of the arrangement, concluding it did not involve the creation of a public contract, and it was not likely a viable procurement challenge could arise.

The memorandum of agreement was updated in 2019, with signatories agreeing that Cross Stone Securities Ltd continue it's role.

Legal advice provided by the objector highlighted concerns over this arrangement. Our own legal advice considered the matters raised, but did not agree that the relationship fell within the Public Contract Regulations.

# Other reporting issues

**Objection to the accounts (continued)**

We have accordingly taken into account, despite there being a dispute on the correct interpretation of the law, that:

- There was, in the event, no challenge by any economic operator to the agreement and payments made.
- There is low likelihood of this situation recurring. The agreement has come to an end with the sale of Hurst Farm. The Council has confirmed there are no arrangements of the Council similar to this arrangement with multiple landowners. The Council officers have throughout our consideration of the objection strongly indicated that they would not undertake such an arrangement in future.
- The value concerned for the open year of account is £162,141.46. This exceed our clearly trivial threshold, but is considerably less than what we would consider to be material to the accounts of £1.6 million.
- Only a Court judgment could definitively decide this matter; making an application to the Court is expensive, and could quickly amount to a not insignificant proportion of the above sum, which would need to be funded by local taxpayers.
- It is unclear how a declaration of the item to be unlawful, assuming that is the judgment of the courts, would make a clear difference for the future given that the situation is unlikely to recur.

In this case we decided, whether or not the item of account is unlawful, not to exercise our discretion to apply to the Court under section 28 of the Local Audit and Accountability Act 2014 for a declaration of an unlawful item of account.

We decided to set out a recommendation to the Council in the event that such a similar situation may arise in the future, however unlikely that may currently be considered. In our judgement this would be a proportionate response that would, if necessary, make difference for the future. Therefore, we make the following recommendation under Section 27(6) of the Local Audit and Accountability Act 2014.

> **Recommendation:**
>
> In the event of a procurement arrangement between partners, where the Council is not the lead party, it should in future seek legal advice to the extent that the relevant public procurement regulations and its own procurement rules apply to a 'downstream' procurement, before entering into such an arrangement.

<u>Objection 2: I issue a public interest report in relation to: Scrutiny Committees are ineffective; i): Issues relating to the Scrutiny Committee work programme</u>

The objection set out the objectors view that there was little to no evidence of the Scrutiny Committee actively developing their own work programmes and prioritising work, and the supporting evidence set out their view of incorrect advice given by the Monitoring Officer.

The Council's response to the objection responded that:

- At every meeting there is a specific agenda item on the work programme which the committee is invited to consider;

# Other reporting issues



**Objection to the accounts (continued)**

- Council or Cabinet can ask Scrutiny Committees to consider specific issues; and
- Members can raise individual suggestions and if supported by the relevant committee, these can be incorporated into the work programme.

We confirmed the accuracy of each of these points, through review of the minutes of the Committee and of the Constitution.

In regard to the Monitoring Officer providing incorrect advice, the minutes of the committee meeting concerned did appear inconsistent with the constitution that "*Any member of the Scrutiny Committees shall be entitled to give notice to the Monitoring Officer that he/she wishes an item within the terms of reference of the Committee to be included on the agenda for the next available meeting of the Committee. On receipt of such a request the Monitoring Officer will ensure that the request is included on the next available agenda*." However, it was not clear from the minute whether the intention was to follow this process and give notification to the Monitoring Officer, or otherwise.

We noted that the Council has commissioned an external review of its governance arrangements which was presented to the Full Council meeting in September 2021. Actions are already underway.

Objection 2: I issue a public interest report in relation to: Failure to follow the Constitution

The objection set out that the Council was failing to follow their Constitution because of:

- Failure to record key decisions in the forward plan: Clair Hall and Play Areas.
- Decision to keep play areas closed not recorded on the forward plan
- Decision to close Clair Hall and the subsequent call-in process – Minority report not considered by Cabinet or Council within 2 months of submission to the Monitoring Officer.
- Decision taken to transfer land taken by the wrong committee. Full Council, not the Cabinet meaning no separation of duties to allow the Scrutiny Process

*Clair Hall:* The Council has acknowledged that the process regarding Clair Hall should have been delayed in order that it could appear in the September Forward Plan, or the urgency procedure used. Therefore, the Council accepts there was a deficiency. We are aware that the Council has put in place processes to review the future of Clair Hall. This matter is already in the public domain, including consultation on the Council's website for the future of the Hall.

On the issue of the minority report, explanation was provided with reference to paragraph 9 of the Scrutiny Procedure Rules. The rules provide for a Minority Report where a Scrutiny Committee has investigated a matter and cannot reach a consensus. The Council set out this was not the case for this matter. This was communicated to Members via a letter from the Council's Monitoring Officer on 27 October 2020. Our review did not identify anything to contradict the view of the Monitoring Officer

# Other reporting issues



**Objection to the accounts (continued)**

_Play Areas:_ For Play areas, the council determined this was not a key decision and therefore was not required to be on the forward plan. We reviewed the definition of 'key decision' from The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 paragraph 8 (1):

> *"A Key decision means an executive decision which is likely:*
>
> *a) to result in the Council incurring expenditure which is, or the making of savings which are, significant, having regard to the Council's budget for the service or function to which the decision relates; or*
>
> *b) be significant in terms of its effects on communities living or working in an area comprising two or more wards or electoral divisions in the area of the Council"*

Regarding part a) of the definition an extract was provided from the Council's website, explaining the decision not to reopen a number of playgrounds. The explanation referenced the potential cleaning cost of reopening the playgrounds of £220k per annum.

For 2020/21 there was a Cleansing Services budget of £5,502k gross expenditure. As a proportion of this budget the potential sum of £220k would represent 4%, which in our judgement is not significant. Alternately, the total 2020/21 budgeted gross expenditure for the Landscapes and Leisure Service area was £3,124k. The potential sum of £220k would represent 7% of the budgeted gross expenditure for the Landscapes and Leisure Service, which again in our judgement is not significant.

On the second aspect of part b) of the definition, in our view this does involve judgement for the Council whether or not it is significant. We reviewed the The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 paragraph 8(2), and also s.9Q of the Local Government Act 2000 which has a much broader remit than regulation 8(2) quoted. It states "*A local authority must have regard to any guidance for the time being issued by the Secretary of State for the purposes of this Part*". Therefore, in accordance with that provision, it was relevant and indeed necessary for the Council to take into account coronavirus guidance when making its decision.

The Council have explained to us that they did not see this as a key decision because they were following Government guidance in relation to the pandemic, and that guidance was evolving over time. The explanation of the Council is consistent with the extract provided from their website, which stated that the Council would 'leave the remaining playgrounds closed until Government guidance is relaxed' indicating an ongoing review of guidance, and the same extract contains reference and links to coronavirus guidance, and therefore, demonstrates regard to such guidance. The extract from their website sets out that playgrounds, including the most popular, were re-opened across the district.

We also undertook a comparison of a sample of other councils around the same period, and we have not identified decisions for reopening playgrounds on their forward plans or the agendas of their executive or equivalent. Therefore, by comparison, Mid Sussex District Council does not appear to be a clear outlier in making their judgement that this was not a key decision

_Decision taken to transfer land taken by the wrong committee_. The Council's view was that the potential receipt was so significant it was outside the Budget Framework and therefore needed to be considered by Council. We have reviewed the Constitution, and do not consider this judgement to be unreasonable.

# Other reporting issues

**Objection to the accounts (continued)**

Objection 2: Lack of transparency, and openness with the public which has enabled the Council to prevent any potential judicial review of their decision to sell all of the land at Hurst Farm to Homes England and avoid public scrutiny

The Council's response to the objection set out their view there was no lack of transparency. The Council stated that there were numerous public reports prior to the transaction, and it was frequently on the Forward Plan as per their timeline provided within their response.

As part of our work we have verified the Council's response that there were reports in public prior to the transaction and that the item was frequently on the Forward Plan, and that the sale was advertised in accordance with the received advice. Therefore, we have not identified a lack of updating key decision information in this regard.

A number of reports were restricted. In our judgement the council's explanation for the exemptions, predominantly on commercial sensitivity, are reasonable. There is no evidence before us that the Council was seeking to prevent scrutiny. Finally, we noted it is possible to bring judicial reviews out of time with the courts' permission, where there is a good reason for a decision not coming to the attention of a claimant, as may be the case here given the basis for exemption from public reporting.

During our work we did comment on the brevity of the Council's minutes regarding exempt items. Recording only the item heading, and the timing of the movement between exempt and non-exempt session does not provide transparency regarding the agenda items discussed for the wider stakeholders of the Council, and therefore, in our view the Council's practice in this area could be improved.

**Recommendation:**

Within its public minutes, the Council should review its recording of minutes of exempt items. Subject to maintaining the appropriate confidentiality with respect to the reason for the exemption, we recommend more detail should be included of the nature of the item and the decisions made, sufficient that wider stakeholders of the Council can as a minimum see the nature of the item and agreed decision.

A full record would remain within the confidential minutes.

Objection 3: I issue a public interest report in relation to: the timing of the sale of Hurst Farm

The objection set out the view that the Council did not receive best consideration for the sale of land at Hurst Farm as this was during the pandemic, a period of economic uncertainty.

# Other reporting issues

**Objection to the accounts (continued)**

The objection did not identify any guidance that restricts the Council from continuing to sell the land through the pandemic. We are not aware of any such guidance or restrictions. Therefore, our assessment concentrated on whether the Council has followed an appropriate process.

Mid Sussex District Council (MSDC) have a legal responsibility to consider whether they have achieved best consideration ("best that can reasonably be obtained") under Section 123 of Local Government Act 1972. The act states that a Council needs Secretary of State approval where Councils dispose of land for less than best consideration. In 2003, the Secretary of State provided general consent to dispose of land which was no more than £2m less than best consideration where it considers that the disposal will contribute to the promotion or improvement of the economic, social or environmental well-being of its area. Legal precedent shows that the Council is not bound to accept the highest offer.

We were satisfied as to the process the Council followed with the Homes England offer for Hurst Farm, and how this met its s123 responsibilities. The Full Council received a report on 9 December 2020 setting out the information considered. The report considered the Homes England offer, and made a comparison to the Redrow offer. The comparison made between Homes England and Redrow represented the Council deciding on the best consideration that the Council could obtain.

Within the report we identified that the council had used standard Treasury discount rate which was inconsistent to the CIPFA Financial Management Code that sets out it should use its won opportunity cost of capital. As such we make a recommendation under Section 27(6) of the Local Audit and Accountability Act 2014.

**Recommendation:**

In undertaking financial appraisals relating to where expected benefits and costs and related cash inflows and outflows arise over time from proposed asset sales and acquisitions, the Council should use the opportunity cost of capital specific to its current returns. It should not use a generic Treasury standard discount rate.

Despite our observation on the financial comparison included within the report to Full Council in December 2020, in our judgement Mid Sussex District Council have followed an appropriate process, taking extensive advice which has been reflected in the decision-making paper to Full Council in December 2020, and notwithstanding our observations, in our judgement the decision reached by the Council was not unreasonable.

<u>Objection 3: I issue a public interest report in relation to: the Council may not have received a fair share of the sales proceeds in its agreement with other landowners at the Hurst Farm site resulting in a loss of public funds</u>

The Council received a proportion of the receipt of the sale of Hurst Farm, in accordance with it's share of the land owned to the west of Hurstwood Lane. The concerns raised were that this did not take into account the Council's land ownership to the east of Hurstwood Lane, or it's valuation.

In summary, the Council responded that the value of the land to the east of Hurstwood lane was effectively £nil, as it could only be valued for community use and due to the requirements to provide infrastructure for the site greater than the land value. Therefore, the value and sale was conducted on the basis of the site to the west, using the agree proportion of that area, with the Council's share being 81.98%.

# Other reporting issues

**Objection to the accounts (continued)**

We reviewed the Council's explanations, the sale receipt and any deductions. We are satisfied with the Council's explanations and concluded that we have obtained sufficient appropriate evidence that the Council has received appropriate shares of the sale value#.

Objection 3: I issue a public interest report in relation to: There are risks to value for money from the Council's management of its commercial property investment in the Orchards shopping centre.

It is a matter of fact that the financial statements of the Council record impairments in the last two financial years 2019/20 and 2020/21. From our financial statements audit, the impairment does reflect the general status of the market, and from our wider experience this is not unusual for investment properties in the retail sector over the period impacted by the Covid-19 pandemic.

We have enquired regarding the Council's current plans for The Orchards, obtaining and reviewing plans and appraisals for the site including risk assessments. We are satisfied that there is no evidence of risk of significant deficiency in the council's arrangements, taking account of our value for money responsibilities under the Local Audit and Accountability Act 2014 and the NAO's Code of Audit Practice 2020.

Objection 3: I issue a public interest report in relation to: The land at Hurst Farm, which was within the Mid Sussex District boundary, was designated open space for residents, which was not considered by the Cabinet

The Council's response to the objection asserts that this was incorrect, and the land in the Council's ownership has not been designated as public open space. The Council set out that this has been confirmed consistently over time, and that the land has been licensed for the keeping of sheep. We verified this to grazing licences.

The Council took advice from various sources during the process of the sale of the land, including whether the land should be treated as de facto open space and advertised as such. De facto open space is land not designated as open space but that has been used for public recreation.

The Council included consideration of de facto open space in their report to the Full Council of 9 December 2020. Following the approval of the report, the proposed transaction was advertised in the Mid Sussex Times on the 17 and 24 December 2020. The Council stated that no objections were received to the proposed sale from the advertisement.

Therefore, in our judgement the Council took advice relevant to the issue of open space, and followed that advice

# 07 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



| | |
|---|---|
| **Area** | **Property Valuations** |
| **Rating** | **Moderate** - Matters are considered to be of moderate importance to maintenance of internal control. Action should be taken within six months. |

**Observation**

In the last two financial years (2019/20 and 2020/21) we have identified material errors in property valuations. The issues identified have included; the valuer not being able to support assumptions on yield or market rents; the valuer not explicitly stating their assumptions on voids & purchase costs; the nature of the asset not being correctly reflect in the valuation and the valuation not reflecting ongoing rent reviews.

In our view, management should put into place the following controls:

- Personnel at the Council, who have sufficient knowledge of the asset, should review the information provided to the valuer to ensure the information up to date, relevant, and accurate
- Management should ensure that the valuer explicitly states, and be able to support, all their assumptions in the valuation
- Personnel at the Council, who have sufficient knowledge of the asset, should review the valuations performed by the valuer.

**Impact**

Mid Sussex District Council have a significant property portfolio include ~£47m classified as investment property

Where the value of the property is materially mistated it could undermine ongoing decision making in relation to the current asset portfolio and any future transaction

**Management comment**

The recommendation is agreed.  The Finance and Estates teams will agree a workflow to prepare and check the valuations performed by the Council's external valuer

# 08 Independence

# 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, the only non-audit service is the review of the Council's Housing Benefit Subsidy claim.  This is a permitted service under the NAO's auditor guidance.

As part of our reporting on our independence, we set out below a summary of the fees for the year ended 31 March 2021.

| | Planned fee 2020/21 | Scale fee 2020/21 | Final Fee 2019/20 (1) |
|---|---|---|---|
| | £ | £ | £ |
| Total Fee – Code work | 38,917 | 38,917 | 38,917 |
| Scale fee Rebasing: changes in the work required to address professional and regulatory standards (2) | 31.643 | 31,643 | 26,360 |
| Revised proposed scale fee | 70,560 | 70,560 | |
| Objection (3) | 30,471 | - | |
| Change in audit requirements (4) | 8,678 | - | |
| Change in risks, errors and other additional time incurred. (5) | 3,821 | | |
| Total audit fee | 113,530 | 70,560 | 65,277 |
| Non-audit services (Housing Benefit subsidy certification) (4) | 51,922 | N/A | 47,672 |
| Total fees | 165,452 | 70,560 | 112,949 |

All fees exclude VAT

Notes:  see overleaf

# Independence

## Audit Fees (cont)

**Audit Fees**

1) PSAA determined the final fee as shown in the 'Final Fee 2019/20' column.

2) As detailed in our 2019/20 annual audit letter we submitted a proposed rebasing of the scale fee during 2019/20 of £25,314. We have rolled this forward as in our view the issues are recurrent, uplifted by 25% due to the increase in the PSAA scale fee variation rates from 2020/21.

3) The objection to the accounts has been completed. The charge includes time incurred, and fees for legal advice.

4) Change in audit requirements: During the 2020/21 audit there were two new audit requirements. These were:
   (a) the introduction of the 2020 Code of Audit Practice and it's updated requirements for our Value for Money assessment.
   (b) ISA540 (revised) audit of accounting estimates – introducing updated requirements.
   PSAA communicated an expected range of fees for these new areas, and our work at Mid Sussex DC is at the bottom of that range.

5) As noted in the main section of this report we have identified new risks for 20/21, identified errors in the accounts, and incurred additional time through internal specialists in areas of property and pension valuations. These include:

   - £2,163 use of internal experts to verify property valuations, identifying errors as reported
   - £584 use of internal experts to review the IAS19 pension liability
   - £1,074 review of Covid-19 grant accounting

(6) The work to certify the 2020/21 Housing Benefit claim is complete and has been agreed.

# Independence

## 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.<br>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:<br>EY UK Transparency Report 2021 \| EY UK |

# 09 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 | ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>▶ Significant difficulties, if any, encountered during the audit<br>▶ Significant matters, if any, arising from the audit that were discussed with management<br>▶ Written representations that we are seeking<br>▶ Expected modifications to the audit report<br>▶ Other matters if any, significant to the oversight of the financial reporting process | Audit planning report – July 2021 |

# Appendix A

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>▸ Whether the events or conditions constitute a material uncertainty<br>▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>▸ The adequacy of related disclosures in the financial statements | 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 | ▸ Uncorrected misstatements and their effect on our audit opinion<br>▸ The effect of uncorrected misstatements related to prior periods<br>▸ A request that any uncorrected misstatement be corrected<br>▸ Material misstatements corrected by management | Audit results report |
| Subsequent events | ▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | Audit results report |
| Fraud | ▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council<br>▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>▸ Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving:<br>    ▸ Management;<br>    ▸ Employees who have significant roles in internal control; or<br>    ▸ Others where the fraud results in a material misstatement in the financial statements.<br>▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>▸ Any other matters related to fraud, relevant to Audit Committee responsibility. | Audit results report |

# Appendix A

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Related parties | Significant matters arising during the audit in connection with the Council's related parties including, when applicable:<br>▸ Non-disclosure by management<br>▸ Inappropriate authorisation and approval of transactions<br>▸ Disagreement over disclosures<br>▸ Non-compliance with laws and regulations<br>▸ Difficulty in identifying the party that ultimately controls the Council | Audit results report |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>▸ The principal threats<br>▸ Safeguards adopted and their effectiveness<br>▸ An overall assessment of threats and safeguards<br>▸ Information about the general policies and process within the firm to maintain objectivity and independence<br>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. | Audit planning report – April 2021 and<br>Audit results report |
| External confirmations | ▸ Management's refusal for us to request confirmations<br>▸ Inability to obtain relevant and reliable audit evidence from other procedures. | We have received all requested confirmations |
| Consideration of laws and regulations | ▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur<br>▸ 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 | 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 | ▸ Significant deficiencies in internal controls identified during the audit. | Audit results report |
| Consideration of laws and regulations | ▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur<br>▸ 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 | 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 | ▸ Significant deficiencies in internal controls identified during the audit. | Audit results report |
| Written representations we are requesting from management and/or those charged with governance | ▸ Written representations we are requesting from management and/or those charged with governance | Audit results report |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | ▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report |

# Appendix A

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Auditors report | ▸ Any circumstances identified that affect the form and content of our auditor's report | Audit results report |
| Fee Reporting | ▸ Breakdown of fee information when the audit planning report is agreed<br>▸ Breakdown of fee information at the completion of the audit<br>▸ Any non-audit work | Audit planning report and<br>Audit results report |

# Appendix B

## 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

# Appendix B

## 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**

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MID SUSSEX DISTRICT COUNCIL

# Statement of Accounts 2020–2021 (Audited Version)

Audit Committee
19 April 2023

# Statement of Accounts for the Year Ended 31 March 2021

## Contents

Page

## Section 3 Notes to the Accounts continued

# 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 Assistant Director for 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 Assistant Director for Corporate Resources’ Responsibilities

The Assistant Director for 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 Assistant Director for 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 Assistant Director for 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.

R Jarvis CPFA
Assistant Director, Corporate Resources
19 April 2023

Approval for the Statement of Accounts

Michael Pulfer - Chairman of the Audit Committee

Cllr M Pulfer
Chairman Audit Committee
19 April 2023

# Narrative Report by the Assistant Director for 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 | 2020/21 | 2020/21 | 2020/21 | 2020/21 | 2020/21 |
| **Service Area** | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| 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 |
| **Corporate Pressures/savings:** | | | | | | |
| 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 |
| **Council Net Expenditure** | 13,893 | 15,408 | 1,515 | 477 | 7,726 | 23,611 |
| less: Drainage levies | | | | 0 | (1) | (1) |
| **Total excluding drainage levies** | 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) | | | |
| **Total** | 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.

**Capital Expenditure 2020/21**

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

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 | 2020/21 | 2020/21 |
|---|---|---|---|
| | £000 | £000 | £000 |
| | **Grant Received** | **Grant Paid to Business** | **Balance** |
| **Grants for Businesses - acting as Principal** | | | |
| BEIS Covid-19 Discretionary Grant | **(1,454)** | **1,454** | **0** |
| Track and Trace (Self Isolation) Discretionary | **(67)** | **12** | **(55)** |
| Additional Restrictions Grant (Discretionary) | **(4,362)** | **3,692** | **(670)** |
| **Grants for Businesses - acting as Agent for BEIS** | | | |
| 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)** |
| 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** |
| | **(49,223)** | **40,128** | **(9,095)** |

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 runoff, 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.

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## 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), and the Chief Accountant, Cathy Craigen 01444 477384 (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.

MID SUSSEX
DISTRICT COUNCIL

# Financial Statements

# Comprehensive Income and Expenditure Statement

| 2019/20 Gross Expenditure £000 | 2019/20 Gross Income £000 | 2019/20 Net Expenditure £000 | | 2020/21 Gross Expenditure £000 | 2020/21 Gross Income £000 | 2020/21 Net Expenditure £000 |
|---|---|---|---|---|---|---|
| | | | **Business Unit Net Expenditure (Note 1)** | | | |
| 2,333 | (465) | 1,868 | Housing | 3,756 | (733) | **3,023** |
| 5,761 | (4,755) | 1,006 | Planning Policy & Economic Development | 6,845 | (4,709) | **2,136** |
| 2,453 | (1,490) | 963 | Development Management | 2,416 | (1,249) | **1,167** |
| 5,277 | (2,305) | 2,972 | Cleansing Services | 5,732 | (1,699) | **4,033** |
| 1,884 | (2,877) | (993) | Parking Services | 1,921 | (1,574) | **347** |
| 5,049 | (2,283) | 2,766 | Landscapes & Leisure | 7,493 | (149) | **7,344** |
| 2,068 | (449) | 1,619 | Community Services, Policy & Performance | 2,125 | (517) | **1,608** |
| 1,103 | (515) | 588 | Corporate Estates & Facilities | 1,903 | (700) | **1,203** |
| 91 | 0 | 91 | Finance Accountancy | 47 | 0 | **47** |
| 341 | (8) | 333 | Finance Corporate | 237 | (3) | **234** |
| 3,345 | (497) | 2,848 | Revenues & Benefits | 9,095 | (6,280) | **2,815** |
| 134 | (5) | 129 | Customer Services & Communications | 5 | (2) | **3** |
| 730 | (5) | 725 | Digital & Technology Services | 337 | (3) | **334** |
| 179 | 0 | 179 | Human Resources & Payroll | (65) | 0 | **(65)** |
| 254 | (198) | 56 | Legal Services | 176 | (153) | **23** |
| 1,379 | (269) | 1,110 | Democratic Services | 923 | (2) | **921** |
| 355 | (194) | 161 | Land Charges | 333 | (230) | **103** |
| 2,864 | (1,530) | 1,334 | Environmental Health | 2,692 | (1,541) | **1,151** |
| 964 | (447) | 517 | Building Control | 869 | (442) | **427** |
| 1,676 | 0 | 1,676 | Strategic Core | 1,538 | 0 | **1,538** |
| 28,759 | (28,868) | (109) | Benefits | 26,337 | (26,448) | **(111)** |
| 66,999 | (47,160) | 19,839 | **Net Cost of Services** | 74,715 | (46,434) | **28,281** |
| 4,081 | 0 | 4,081 | **Other Operating Expenditure (Note 8)** | 6,159 | 0 | **6,159** |
| 8,431 | (4,762) | 3,669 | **Financing & Investment Income/Expenditure (Note 9)** | 5,539 | (4,383) | **1,156** |
| 0 | (23,067) | (23,067) | **Taxation & Non-Specific Grant Income (Note 10)** | 0 | (33,103) | **(33,103)** |
| 79,511 | (74,989) | 4,522 | **(Surplus) / Deficit on Provision of Services** | 86,413 | (83,920) | **2,493** |
| | | 787 | (Surplus)/ Loss arising on revaluation of Property, Plant, Equipment assets (Note 25a) | | | **(5,307)** |
| | | (23,008) | Actuarial (gains) / losses on pension fund assets and liabilities (Note 34) | | | **5,679** |
| | | (22,221) | **Other Comprehensive Income and Expenditure** | | | **372** |
| | | (17,699) | **Total Comprehensive Income and Expenditure** | | | **2,865** |

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

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

# Balance Sheet

| 31 March 2020 £000 | | Note | 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 | **Property, Plant & Equipment** | 12, 17 | **98,674** |
| 825 | Heritage Assets | 13 | **825** |
| 50,779 | Investment Properties | 14 | **47,094** |
| 445 | Intangible Assets | 15 | **299** |
| 5,755 | Long Term Investments | 18 | **5,714** |
| 22 | Long Term Debtors | 18 | **20** |
| 149,766 | **Long Term Assets** | | **152,626** |
| 19,171 | Short Term Investments | 18 | **38,070** |
| 3,778 | Short Term Debtors | 19 | **16,878** |
| 27,208 | Assets Held For Sale | 21 | **0** |
| 9,790 | Cash & Cash Equivalents | 20 | **20,831** |
| 59,947 | **Current Assets** | | **75,779** |
| 0 | Bank Overdraft | 20 | **0** |
| (17,066) | Creditors | 22 | **(31,834)** |
| (1,577) | Provisions | 23 | **(3,401)** |
| (283) | Finance Lease Payable Less 1 Year | 33 | **(288)** |
| (189) | Borrowing Payable Less 1 Year | 18 | **(5,185)** |
| (19,115) | **Current Liabilities** | | **(40,708)** |
| (9,061) | Capital Grants & Contributions Receipts In Advance | 11 | **(10,293)** |
| (2,258) | Finance Lease Payable Longer 1 Year | 33 | **(1,970)** |
| (7,298) | Borrowing Payable Longer 1 Year | 18 | **(152)** |
| (15,081) | Liability related to Defined Benefit Pension Scheme | 34 | **(21,247)** |
| (33,698) | **Long Term Liabilities** | | **(33,662)** |
| 156,900 | **Net Assets** | | **154,035** |
| (6,132) | General Fund Balances | 7 | **(7,811)** |
| (15,709) | Earmarked Specific Reserve | 7 | **(23,816)** |
| (1,145) | Usable Capital Receipts Reserve | MIRS | **(5,641)** |
| (5,669) | Capital Grants Unapplied Account | MIRS | **(5,635)** |
| (28,655) | **Usable Reserves** | 24 | **(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) | **Unusable Reserves** | 25 | **(111,132)** |
| (156,900) | **Total Reserves** | | **(154,035)** |

R Jarvis, CPFA
Assistant Director, Corporate Resources
19 April 2023

# Cash Flow Statement

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

MID SUSSEX
DISTRICT COUNCIL

# Notes to the Accounts

## 1. Expenditure and Funding Analysis

| Business Unit | 2020/21 Net Expenditure Chargeable to the General Fund Balances £000 | 2020/21 Adjustments for Capital purposes (Note a) £000 | 2020/21 Net change for the Pensions adjustments (Note b) £000 | 2020/21 Other Differences (Note c) £000 | 2020/21 Total Adjustments between the Funding and Accounting Basis £000 | 2020/21 Net Expenditure in the Comprehensive Income and Expenditure Statement £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 & | **(36)** | 0 | 36 | 3 | **39** | **3** |
| Digital & Technology Services | **77** | 181 | 71 | 5 | **257** | **334** |
| Human Resources & Payroll | **(84)** | 0 | 20 | (1) | **19** | **(65)** |
| Legal Services | **(15)** | 0 | 35 | 3 | **38** | **23** |
| Democratic Services | **890** | 3 | 23 | 5 | **31** | **921** |
| Land Charges | **56** | 37 | 9 | 1 | **47** | **103** |
| Environmental Health | **1,047** | 0 | 87 | 17 | **104** | **1,151** |
| Building Control | **371** | 0 | 52 | 4 | **56** | **427** |
| Strategic Core | **1,423** | 0 | 115 | 0 | **115** | **1,538** |
| Benefits | **(111)** | 0 | 0 | 0 | **0** | **(111)** |
| **Net Cost of Services** | **23,610** | 4,390 | 138 | 143 | **4,671** | **28,281** |
| 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** |
| **Other Income and Expenditure (Notes 8, 9, 10)** | **(33,396)** | 518 | 349 | 6,741 | **7,608** | **(25,788)** |
| **(Surplus)/Deficit for year** | **(9,786)** | 4,908 | 487 | 6,884 | **12,279** | **2,493** |
| **Opening General Fund Reserves** | **(21,841)** | | | | | |
| **Plus/ less Surplus or Deficit on General Fund Balance in Year** | **(9,786)** | | | | | |
| **Closing General Fund Reserves** | **(31,627)** | | | | | |

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.

| Business Unit | 2019/20 Net Expenditure Chargeable to the General Fund Balances £000 | 2019/20 Adjustments for Capital purposes (Note a) £000 | 2019/20 Net change for the Pensions adjustments (Note b) £000 | 2019/20 Other Differences (Note c) £000 | 2019/20 Total Adjustments between the Funding and Accounting Basis £000 | 2019/20 Net Expenditure in the Comprehensive Income and Expenditure Statement £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)** |
| **Net Cost of Services** | **15,464** | 2,658 | 1,668 | 49 | **4,375** | **19,839** |
| 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** |
| **Other Income and Expenditure (Notes 8, 9, 10)** | **(17,367)** | 1,323 | 875 | (148) | **2,050** | **(15,317)** |
| **(Surplus)/Deficit for year** | **(1,903)** | 3,981 | 2,543 | (99) | **6,425** | **4,522** |
| **Opening General Fund Reserves** | **(19,938)** | | | | | |
| **Plus/ less Surplus or Deficit on General Fund Balance in Year** | **(1,903)** | | | | | |
| **Closing General Fund Reserves** | **(21,841)** | | | | | |

## 2. Expenditure and Income analysed by nature

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

| Expenditure | 2020/21 £000 | 2019/20 £000 |
|---|---|---|
| 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 | **24,015** | 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) |
| **Total Expenditure** | **86,413** | 79,511 |
| **Income** | | |
| 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) | **(34,346)** | (12,017) |
| **Total Income** | **(83,920)** | (74,989) |
| **(Surplus) / deficit on the Provision of Services** | **2,493** | 4,522 |

## 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 Note14 Investment Properties.

## 4. Events After The Reporting Period

The Statement of Accounts was authorised for issue by the Assistant Director for Corporate Resources on 19 April 2023. 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.

## 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 | | |
|---|---|---|---|
| **Adjustments to the Revenue Resources** | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied Account £000 |
| 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) |
| **Total Adjustments to Revenue Resources** | (40,110) | 0 | (2,692) |
| **Adjustments between Revenue and Capital Resouces** | | | |
| 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 |
| **Total Adjustments between Revenue and Capital Resources** | 27,831 | (25,906) | 0 |
| **Adjustments to Capital Resouces** | | | |
| 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 |
| **Total Adjustments to Capital Resources** | 0 | 21,410 | 2,726 |
| **Total Adjustments on MIRS** | (12,279) | (4,496) | 34 |

| 2019/20 | Usable Reserves | | |
|---|---|---|---|
| **Adjustments to the Revenue Resources** | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied Account £000 |
| 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)** |
| **Total Adjustments to Revenue Resources** | **(10,345)** | **0** | **(558)** |
| **Adjustments between Revenue and Capital Resouces** | | | |
| 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** |
| **Total Adjustments between Revenue and Capital Resources** | **3,920** | **(169)** | **0** |
| **Adjustments to Capital Resouces** | | | |
| 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** |
| **Total Adjustments to Capital Resources** | **0** | **85** | **563** |
| **Total Adjustments on MIRS** | **(6,425)** | **(84)** | **5** |

## 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)** |
| **Specific Reserve Total** | (16,840) | (4,285) | 5,416 | (15,709) | (15,365) | 7,258 | **(23,816)** |
| **General Fund Balances** | (3,098) | (4,636) | 1,602 | (6,132) | (5,818) | 4,139 | **(7,811)** |
| | (19,938) | (8,921) | 7,018 | (21,841) | (21,183) | 11,397 | **(31,627)** |

**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 Accomodation 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) |
| Total | **6,159** | 4,081 |

## 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 |
| Total | **1,156** | 3,669 |

## 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) |
| **Total credited to Taxation and Non Specific Grant Income** | **(33,103)** | (23,067) |

* 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 |
| BEIS Additional Restrictions Grant (Discretionary) | **(3,692)** | 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) |
| **Total Credited to Services** | **(33,682)** | (30,261) |

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: Additional Restriction Grant £670,000 (nil 2019/20) and Mid Sussex Partnership £14,000 (£86,000 2019/20).

Additional grants of £43,339,000 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 | **(10,293)** | (9,061) |

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 |
| **Total** | 3,878 | 212 | 180 | 196 | 4,466 |

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.

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

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

**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: | | | | | | | |
| **2020/21** | **70,818** | **0** | **17** | **0** | **0** | **0** | **70,835** |
| 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** |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| 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** |
| **At 31 March 2020** | 700 | 115 | 10 | **825** |
| **Cost or valuation** | | | | |
| 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** |
| **At 31 March 2021** | 700 | 115 | 10 | **825** |

### 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, 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 (Gorringes, 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 (Gorringes, 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<br>£000 | 2019/20<br>£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<br>£000 | 2019/20<br>£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 |
|---|---|---|
| Balance at 1 April | £000 | £000 |
| Gross carrying amounts | **1,059** | 880 |
| Accumulated amortisation | **(614)** | (647) |
| Net carrying amount at 1 April | **445** | 233 |
| Purchases | **16** | 365 |
| Disposals (NBV) | **(21)** | 0 |
| Amortisation for the year | **(141)** | (153) |
| Net carrying amount at end of year | **299** | 445 |
| Comprising: | | |
| Gross carrying amounts | **1,011** | 1,059 |
| Accumulated amortisation | **(712)** | (614) |
| Balance at 31 March | **299** | 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<br>£000 | 2019/20<br>£000 |
|---|---|---|
| Opening Capital Financing Requirement | **27,438** | 27,948 |
| **Capital Investment** | | |
| Operational Assets and Assets Under Construction (Note 12) | **5,034** | 2,426 |
| Investment Assets (Note 14) | **0** | 711 |
| Intangible Assets (Note 15) | **16** | 365 |
| Revenue expenditure funded from capital under statute (Note 6) | **6,369** | 5,990 |
| **Source of Finance** | | |
| Capital Receipts (Note 6) | **(21,411)** | (86) |
| Government Grant, WSCC Contribution, Sect 106 receipts in advance (Note 6) | **(5,600)** | (5,602) |
| Capital Grants Unapplied Account (Note 6) | **(2,726)** | (563) |
| Capital expenditure financed from revenue balances (Note 6) | **(1,403)** | (3,241) |
| Statutory provision for the payment of debt-MRP from revenue (Note 6) | **(522)** | (510) |
| **Closing Capital Financing Requirement** | **7,195** | 27,438 |
| **Explanation of Movement in Year** | | |
| Increase / (Decrease) in underlying need to borrow (unsupported by Government financial assistance) | **(20,243)** | (510) |
| **Increase/ (Decrease) in Capital Financing Requirement** | **(20,243)** | (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 Accomodation 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 |
| **Total Investments** | **5,714** | 5,755 | **38,070** | 19,171 |
| Fair value through profit or loss | **0** | 0 | **20,831** | 9,790 |
| **Total Cash and Cash Equivalents** | **0** | 0 | **20,831** | 9,790 |
| **Long Term Debtors at amortised Cost** | **20** | 22 | **0** | 0 |
| **Trade Debtors at amortised Cost** | **0** | 0 | **1,370** | 1,026 |
| **Total Financial Assets** | **5,734** | 5,777 | **60,271** | 29,987 |
| Borrowing at amortised cost | **(152)** | (7,298) | **(5,185)** | (189) |
| Bank Overdraft | **0** | 0 | **0** | 0 |
| **Total Borrowings** | **(152)** | (7,298) | **(5,185)** | (189) |
| **Creditors -Finance lease liabilities at amortised cost** | **(1,970)** | (2,258) | **(288)** | (283) |
| **Trade Creditors at amortised cost** | **0** | 0 | **(4,221)** | (3,204) |
| **Total Financial Liabilities** | **(2,122)** | **(9,556)** | **(9,694)** | **(3,676)** |

**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** |
| **Total expense in Surplus or Deficit on the Provision of Services** | **137** | **0** | **0** | **137** |
| Interest income, dividend income (Note 9) | **0** | **(170)** | **(249)** | **(419)** |
| (Gain)/Loss on revaluation of financial instrument (Note 25 (d)) | **0** | **0** | **40** | **40** |
| **Total income in Surplus or Deficit on the Provision of Services** | **0** | **(170)** | **(209)** | **(379)** |
| **Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure** | **0** | **0** | **0** | **0** |
| **Net (gain)/loss for the year** | **137** | **(170)** | **(209)** | **(242)** |

| | 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 |
| **Total expense in Surplus or Deficit on the Provision of Services** | 156 | 0 | 0 | 156 |
| Interest income, dividend income (Note 9) | 0 | (335) | (257) | (592) |
| (Gain)/Loss on revaluation of financial instrument (Note 25 (d)) | 0 | 0 | 213 | 213 |
| **Total income in Surplus or Deficit on the Provision of Services** | 0 | (335) | (44) | (379) |
| **Net (gain)/loss for the year** | 156 | (335) | (44) | (223) |
| **Surplus/deficit arisng on revaluation of financial assets in Other Comprehensive Income and Expenditure** | 0 | 0 | 0 | 0 |
| **Net (gain)/loss for the year** | **156** | **(335)** | **(44)** | **(223)** |

**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:

| Financial Liabilities | Amortised Cost 31 March 2021 £000 | Fair Value 31 March 2021 £000 | Amortised Cost 31 March 2020 £000 | Fair Value 31 March 2020 £000 |
|---|---|---|---|---|
| Borrowing | **(5,337)** | **(5,337)** | (7,487) | (7,410) |
| Other liabilities | **(6,480)** | **(6,480)** | (5,744) | (5,744) |
| **Financial Assets** | | | | |
| 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** |
| **Total** | | **57,010** |

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 summaries 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** |
| **Total** | **1,089** | **3** | **3** | **36** | **10** |

* excludes statutory debtors for Council Tax and NNDR

The Authorty 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 |
| **Total** | **1,070** | 1,009 |

**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 |
| **Total** | **63,010** | 34,465 |

**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 £ 000 | Actual at 31 March 2020 % | Actual at 31 March 2020 £ 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 |
| **Total** | | | 100 | **7,581** | 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 defict 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 | 31 March 2021 | 31 March 2020 | 31 March 2020 |
|---|---|---|---|---|
| **Amounts falling due within one year** | £000 | £000 | £000 | £000 |
| 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 |
| **Total** | | **16,878** | | 3,778 |

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) | **20,831** | 9,790 |

## 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 |
|---|---|---|
| **Balance outstanding at start of year** | **27,208** | 27,208 |
| Assets newly classified as held for sale transferred from Property, Plant and Equipment | | |
| Disposals | **(27,208)** | 0 |
| **Balance outstanding at year-end** | **0** | 27,208 |

## 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) |
| | **(31,834)** | (17,066) |

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. This will be taken by the following 31 March.
- £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. The outstanding appeals will be settled via Valuation Office Agency (VOA) in future years.

| | 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) | **(289)** |
| MMI Provision | (10) | 0 | (10) | 0 | **(10)** |
| Termination Benefits Provision | 0 | (77) | (77) | 77 | **0** |
| Business Rates Appeals Provision | (2,216) | 872 | (1,344) | (1,758) | **(3,102)** |
| | (2,323) | 746 | (1,577) | (1,824) | **(3,401)** |

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

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

## (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 | **Balance at 1 April** | | **271** |
| 0 | | Transfer from Available for Sale Financial Instruments Reseve | **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** |
| | 271 | **Balance at 31 March** | | **311** |

* 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 | **Pensions Reserve** | 2020/21 £000 |
|---|---|---|
| 35,546 | **Balance at 1 April** | **15,081** |
| (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 pensiors payable in the year | **(3,190)** |
| 15,081 | **Balance at 31 March** | **21,247** |

### (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 | Collection Fund Adjustment Account | 2020/21 £000 |
|---|---|---|
| 253 | **Balance at 1 April** | **(108)** |
| (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** |
| (108) | **Balance at 31 March** | **6,593** |

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 | Accumulated Absences Account | 2020/21 £000 | 2020/21 £000 |
|---|---|---|---|---|
| | 97 | **Balance at 1 April** | | **146** |
| (97) | | Settlement or cancellation of accrual made at the end of the preceding year | **(146)** | |
| 97 | | 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** |
| | 146 | **Balance at 31 March** | | **289** |

## 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 |
| 4,428 | | 274 | (224) | **50** | (40) |

## 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)** |
| (13,787) | | **(39,737)** |

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 | **9,696** |
| 207 | Proceeds from the sale of non-current assets | **26,121** |
| 6,368 | | **35,817** |

## 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 | **768** | 828 |
| Fees and charges | **(309)** | (477) |
| Management fee payable by WSCC | **(343)** | (200) |
| **Net (Surplus) / Deficit arising on the agency arrangement** | **116** | 151 |
| Government contribution for cost of collection of NNDR | **172** | 172 |
| **Net (Surplus) / Deficit arising on the agency arrangement** | **172** | 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 | **39** | 49 |
| Fees payable to Ernst & Young LLP for the certification of grant claims and returns for the year | **52** | 48 |
| | **91** | 97 |

## 30. Members' Allowances

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

| | 2020/21 £000 | 2019/20 £000 |
|---|---|---|
| Allowances | **407** | 394 |
| Expenses | **1** | 13 |
| Total | **408** | 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 £000 | 2019/20 £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 |
| | **1** | 4 | **10** | 8 | **11** | 12 | **189** | 372 |
| Provision | **-** | 1 | **-** | - | **-** | 1 | **0** | 77 |
| Total | **1** | 5 | **10** | 8 | **11** | 13 | **189** | 449 |

' * 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 | 31 March 2020 |
|---|---|---|
| | £000 | £000 |
| Vehicles, Plant, Equipment | **2,258** | **2,541** |
| | **2,258** | **2,541** |

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:

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

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

| | **Minimum Lease Payments** | | **Finance Lease Liabilities** | |
|---|---|---|---|---|
| | 2020/21 | 2019/20 | 2020/21 | 2019/20 |
| | £000 | £000 | £000 | £000 |
| Not later than one year | **288** | 283 | **288** | 283 |
| Later than one year and not later than five years | **1,214** | 1,190 | **1,214** | 1,190 |
| Later than five years | **756** | 1,068 | **756** | 1,068 |
| | **2,258** | 2,541 | **2,258** | 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 | 2019/20 |
|---|---|---|
| | £000 | £000 |
| Not later than one year | **35** | 20 |
| Later than one year and not later than five years | **74** | 43 |
| Later than five years | **4** | 0 |
| | **113** | 63 |

**Lessor – 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<br>£000 | 2019/20<br>£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 |
| | **80,932** | 83,072 |

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:

| Cost of Services: | 2020/21 £000 | 2019/20 £000 |
|---|---|---|
| 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 |
| **Financing and Investment Income and Expenditure:** | | |
| Net Interest Expense (Note 9) | **349** | 875 |
| **Total Post Employment Benefit Charges to the Surplus or Deficit on the Provision of Services** | **3,677** | 5,691 |
| **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) |
| **Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement** | **5,679** | (23,008) |
| **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 |

| | 2020/21 £000 | 2019/20 £000 |
|---|---|---|
| **Actual amount charged to the General Fund Balance for pensions in the year:** | | |
| 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 |
| **Net Liability arising from defined benefit obligation** | **(21,247)** | (15,081) |

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

| **Year ended:** | 31 March 2021 £ 000 | 31 March 2020 £ 000 |
|---|---|---|
| **Opening Defined Benefit Obligation** | **129,356** | 150,936 |
| Current service Cost* | **3,328** | 4,778 |
| Interest Cost | **2,975** | 3,647 |
| Contributions by Members | **687** | 588 |
| **Remeasurement** | | |
| 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) |
| **Closing Defined Benefit Obligation** | **165,791** | 129,356 |

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

| **Year ended:** | 31 March 2021 £ 000 | 31 March 2020 £ 000 |
|---|---|---|
| **Opening Fair Value of Employer Assets** | **114,275** | 115,390 |
| Interest income | **2,626** | 2,772 |
| Effect of Settlements | **0** | 15 |
| **Remeasurement** | | |
| 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) |
| **Closing Fair Value of Employer Assets** | **144,544** | 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 16th 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 1st April 2012 and to close legacy schemes to future accrual on 31st March 2022. Those members remaining in service from 1st 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 31st March 2020, including a past service gain of £173,000, however, due to the value being less that 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 31st 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 or 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 scheme assets 31 March 2021 £ 000 | Percentage of Total Assets 31 March 2021 % | Fair value of scheme assets 31 March 2020 £ 000 | Percentage of Total Assets 31 March 2020 % |
|---|---|---|---|---|
| Cash and cash equivalents | **6,408** | **4%** | 4,531 | 4% |
| **Equity Instruments:** | | | | |
| *By industry type:* | | | | |
| Consumer | **15,016** | **10%** | 10,150 | 9% |
| Manufacturing | **8,438** | **6%** | 7,838 | 7% |
| Energy and Utilities | **2,214** | **2%** | 2,778 | 2% |
| Financial Institutions | **13,096** | **9%** | 12,711 | 11% |
| Health and Care | **9,666** | **7%** | 7,667 | 7% |
| Information Technology | **20,060** | **14%** | 12,189 | 11% |
| Other | **4,790** | **3%** | 3,157 | 3% |
| **Sub-total equity** | **73,280** | | 56,490 | |
| **Bonds:** | | | | |
| Government | **1,836** | **1%** | 2,594 | 2% |
| **Sub-total Bonds** | **1,836** | | 2,594 | |
| **Private Equity:** | | | | |
| All* | **2,303** | **2%** | 2,615 | 2% |
| **Sub-total private Equity** | **2,303** | | 2,615 | |
| **Property:** | | | | |
| Uk Property | **9,808** | **7%** | 8,832 | 8% |
| Overseas property | **0** | **0%** | 0 | 0% |
| **Sub-total Property** | **9,808** | | 8,832 | |
| **Investment funds and Unit Trusts:** | | | | |
| Bonds | **48,642** | **33%** | 37,848 | 33% |
| Other | **2,267** | **2%** | 1,365 | 1% |
| **Sub-total Investment Funds** | **50,909** | | 39,213 | |
| **Totals** | **144,544** | **100%** | 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 31 March 2021 | MSDC 31 March 2020 |
|---|---|---|
| Pension Increase Rate | **2.9%** | 1.9% |
| Salary Increase Rate | **3.4%** | 2.3% |
| Discount rate | **2.0%** | 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 cash balance of £20.831m at the end of March 2021(£9.790m at March 2020). 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. The going concern assessment has been performed for the period up to 30 April 2024.

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 or 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 that 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: Amndments 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.

## 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.

MID SUSSEX
DISTRICT COUNCIL

# Collection Fund Statement

# Collection Fund Statement

## Income and Expenditure Account

| 2019/20 £000 Council Tax | 2019/20 £000 Business Rates | 2019/20 £000 Total | | Note | 2020/21 £000 Council Tax | 2020/21 £000 Business Rates | 2020/21 £000 Total |
|---|---|---|---|---|---|---|---|
| | | | **Income** | | | | |
| | | | **Council Tax** | | | | |
| (111,478) | 0 | (111,478) | Council Tax Receivable | 2 | **(116,798)** | **0** | **(116,798)** |
| 0 | 0 | 0 | Council Tax Hardship Grant | | **(651)** | **0** | **(651)** |
| | | | **Business Rates** | | | | |
| 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)** |
| | | | **Expenditure** | | | | |
| | | | **Apportionment of Previous Year Estimated Surplus / (Deficit)** | | | | |
| 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** |
| | | | **Precepts, Demands and Shares** | | | | |
| 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** |
| | | | **Charges to Collection Fund** | | | | |
| 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) | **(Surplus)/Deficit arising in the year** | | **679** | **23,649** | **24,328** |
| | | | **Collection Fund Balance** | | | | |
| (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)** | **(Surplus) / Deficit at 31 March 2021** | | **(1,304)** | **22,210** | **20,906** |
| | | | **Shares of (Surplus)/Deficit at 31 March 2021** | | | | |
| (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 | | |
| | | | 62,084.1 | (372.5) | **61,711.6** |

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) |
| **Average Band D Council Tax Charge For 2020/21** | | | | | **1,883.48** | |

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 soley 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.

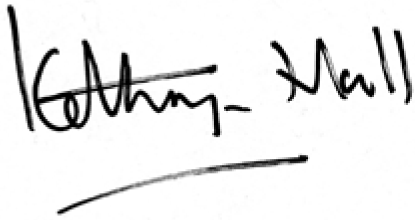
The report of the external reviewer has been shared with all members and discussed at a private workshop. A report on the Review will be considered by Council at its meeting in September.

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

MID SUSSEX
DISTRICT COUNCIL

# Glossary of Terms

# Glossary of Terms

**Accounting Polices -** 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 authoritive 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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MID SUSSEX DISTRICT COUNCIL

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| **Contact:** | **Your Ref:** | **Date:** |
|---|---|---|
| Rachel Jarvis 01444 477244 | **Our Ref:** | 19th April 2023 |
| Rachel.jarvis@midsussex.gov.uk | | |

Ernst & Young
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

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 the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

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

**A. Financial Statements and Financial Records**

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

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

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

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

that we have made to address the effects of the COVID-19 pandemic on our system of internal controls and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because the amendment to the accounts would involve a disproportionate amount of work for the utility to be gained by the users of those accounts.

6. We confirm the Council does not have securities (debt or equity) listed on a recognized exchange.

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

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

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

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

4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") including non-compliance matters:

   - involving financial improprieties;
   - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
   - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
   - involving management, or employees who have significant roles in internal controls, or others; or
   - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

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

1. We have provided you with:

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

- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

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

3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date: 19 April 2023

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

5. We believe that the methods, significant assumptions, and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 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 (17 November 2020) through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

**D. Liabilities and Contingencies**

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

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

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims,

both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

**E. Going Concern**

1. Note 37 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

**F. Subsequent Events**

1. Other than as described in Note 4 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

**G. Other information**

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

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

**H. Climate-related matters**

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

2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, aligned with the statements we have made in the other information or other public communications made by us.

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

**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 liability (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 estimates 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 the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

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

**K. Retirement benefits**

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

Yours faithfully,

Rachel Jarvis

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(Assistant Director for Corporate Resources)

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(Chairman of the Audit Committee)

## Communication schedule for uncorrected misstatements

**Entity:** Mid Sussex District Council **Period Ended:** 31-Mar-2021 **Currency:** GBP

| Uncorrected misstatements | | | Analysis of misstatements Debit/(Credit) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| No. | W/P ref. | Account (Note 1) | Assets Current | Assets Non-current | Liabilities Current | Liabilities Non-current | Equity components | Effect on the current period OCI | Income statement effect of the current period | | Income statement effect of the prior period | |
| | | (misstatements are recorded as journal entries with a description ) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Non taxable | Prior period Debit/(Credit) | Non taxable |
| **Factual misstatements:** | | | | | | | | | | | | |
| | | Overstatement of Pension Assets | | | | | | | | | | |
| | | Net pension liability | | | | (293,900) | | | | | | |
| | | Actuarial (gains) / losses on pension fund assets and liabilities | | | | | | 293,900 | | | | |
| | | | | | | | | | | | | |
| **Total of uncorrected misstatements before income tax** | | | 0 | 0 | 0 | (293,900) | 0 | 293,900 | 0 | | 0 | |
| **Total of uncorrected misstatements** | | | 0 | 0 | 0 | (293,900) | 0 | 293,900 | 0 | | 0 | |
| **Financial statement amounts** | | | | | | | | | | | | |
| **Effect of uncorrected misstatements on F/S amounts** | | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | | 0.0% | | 0.0% | |

Do not remove any categories of misstatements above, even if there are no misstatements; removing these categories may adversely affect the formulas or template functionality.

| | | Current period | | Prior period |
|---|---|---|---|---|
| **Memo: Total of non-taxable items (marked 'X' above)** | | 0 | | 0 |
| **Uncorrected misstatements before income tax** | 0.0% | 0 | | 0 |
| **Less: Tax effect of misstatements at current year marginal rate** | | 0 | | 0 |
| **Uncorrected misstatements in income tax** | | 0 | | 0 |
| **Cumulative effect of uncorrected misstatements after tax but before turnaround** | 0.0% | 0 | | 0 |
| **Turnaround effect of prior period uncorrected misstatements** | | **After tax** | **Memo: Before tax** | |
| **All factual and projected misstatements:** | | 0 | 0 | |
| **Judgmental misstatements (Note 3):** | | 0 | 0 | |
| **Cumulative effect of uncorrected misstatements, after turnaround effect** | 0.0% | 0 | | |
| **Current year income before tax** | | | | |
| **Current year income after tax** | | 0 | | |



EY