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Dear Member,

Regulation, Audit and Accounts Committee - Monday, 11 March 2024

Please find enclosed the following documents for consideration at the meeting of the Regulation, Audit and Accounts Committee on Monday, 11 March 2024.

At the request of the Chairman, tracked change versions of the documents have been provided.

Yours sincerely

Tony Kershaw
Director of Law and Assurance

To all members of the Regulation, Audit and Accounts Committee

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Accounting Policies

(i) General Principles

The Statement of Accounts summarises the Authority's transactions for the financial year and its position at the end of the reporting period. The Authority is required by the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom ('the Code') for the relevant reporting period, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

(ii) Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority, that the cost of the item can be measured reliably, and that it exceeds the Authority's de minimis threshold. 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.

The Authority applies a de minimis level of £10,000 for the capitalisation of expenditure on Property, Plant and Equipment. Items of expenditure below this de minimis level are charged to the relevant service within the Comprehensive Income and Expenditure Statement in the reporting period it is incurred. A lower de minimis of £2,000 applies to expenditure funded by the Devolved Formula Capital Grant, as per the West Sussex Scheme for Financing Schools.

Recognition - Schools

The Code confirms that local authority maintained schools (and the governing bodies thereof) are to be treated as entities for control purposes, and that the transactions of said schools shall be consolidated into the local authority single entity financial statements.

Non-current assets attributed to schools are therefore recognised in the Authority's balance sheet, subject to the Authority (or the school's governing body) having control over the asset and it being probable that future service potential will flow to the Authority (or to the school).

The Authority's policy is therefore to recognise the non-current assets of its maintained community and voluntary controlled schools on its balance sheet. The balance of control and service potential is considered to reside with independent trustees for foundation and voluntary aided schools, and so these assets are not consolidated into the Authority's balance sheet (the Council retains the statutory responsibility for land at voluntary aided schools, so this is recognised as an asset of the Authority).

A number of schools in the County now hold academy status. Academies are managed completely independently of the Authority, and funding is provided directly by central government. Whilst the Authority retains the freehold of the land, premises are leased to the academy on a finance-lease basis (typically for a 125 year term). Therefore academy buildings are derecognised from the Authority's balance sheet, and land is retained at a nominal value reflecting its restricted use.

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 Authority does not capitalise borrowing costs.

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

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

- Infrastructure and short-lived assets such as vehicles, plant and equipment – depreciated historical cost
- Assets under construction – historical cost
- Surplus assets – fair value, estimated at the 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.

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

Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in Balance Sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.

The Code requires that assets included in the Balance Sheet at current value are revalued with sufficient regularity to ensure that their carrying amount does not materially differ from their current value at year-end, but as a minimum every five years. The Authority undertook a full revaluation of all its non-current assets at 1 April 2013, and has subsequently adopted a rolling approach to revaluations to ensure that all assets are subject to revaluation at least once every five years. Assets not subject to revaluation in any given year are tested for indexation to ensure that the carrying value does not become materially misstated between formal valuations.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Surplus or Deficit on Provision of Services where they arise from the reversal of a loss previously charged to that service).

Where decreases in value are identified, they are accounted for as follows:

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

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

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

Impairment

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

Where impairment losses are identified, they are accounted for as follows:

- 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 useful life (i.e. freehold land and heritage assets) and assets that are not yet available for use (i.e. assets under construction). New assets are depreciated from 1 April of the year that follows the date of initial recognition. Depreciation is calculated on the following bases:

- Buildings – on a straight line basis over the remaining useful life of the property as estimated by the external valuer (initially 60 years)
- Vehicles, plant, furniture and equipment – individual useful life on a straight line basis as estimated by a suitably qualified officer
- Infrastructure – straight line basis over a period of 25 years for major road developments and 15 years for structural maintenance of carriageways and bridges (useful lives for other infrastructure assets to be estimated by a suitably qualified officer).

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~~

Where an item of Property, Plant and Equipment ~~asset~~ has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately (subject to this having a material impact on in-year or cumulative depreciation charges).

~~Componentisation of an asset is not required where depreciating the item would not result in a material misstatement of either the depreciation charges or carrying amount~~

~~of the asset. As a result the Authority has determined that assets with a gross carrying value below a de minimis of £10m shall not be considered for componentisation.~~

~~For assets which are subject to componentisation, the valuer has estimated remaining useful lives for the following significant components for depreciation purposes:~~

- ~~Building Structure (initial 60 year useful life)~~
- ~~Building Roof and Externals (initial 50 year useful life)~~
- ~~Building Mechanicals and Electricals (initial 25 year useful life)~~

~~At the point of componentisation, any accumulated revaluation gains (held in the Revaluation Reserve) or impairment losses (held in the Capital Adjustment Account) associated with componentised assets are attributed to the building's host structure component, as it is considered unlikely that the roof/externals and mechanicals/electricals will have given rise to revaluation gains and losses independently of the structure of the building.~~

~~Subsequent valuations obtained under the Authority's rolling revaluation programme shall be applied separately to the building components in accordance with the certificates provided by the external valuers, with gains and losses being recognised in the Revaluation Reserve and Capital Adjustment Account in accordance with the requirements of the Code.~~

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs of sale. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

If an asset no longer meets the criteria to be classified as an Asset Held for Sale, it is reclassified back to non-current assets and valued at the lower of the carrying amount before it was classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had it not been classified as held for sale, and the recoverable amount at the date of the decision not to sell.

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts, while amounts below this are credited to revenue. The balance of receipts remains within 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 i.e. the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

Statutory arrangements allow costs of disposals to be financed by capital receipts, capped to 4% of the capital receipt. Costs incurred prior to the sale are carried forward and offset in the year of disposal.

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 via the Movement in Reserves Statement.

The Code requires that, where expenditure is capitalised in relation to the replacement of a component of an item of Property, Plant and Equipment, the carrying amount of the replaced component shall be written out of the balance sheet as a disposal. For infrastructure assets, the Authority has determined the carrying value of any components replaced during the accounting period to be nil, in accordance with the provisions of the Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2022. Further detail regarding the accounting arrangements for infrastructure assets is provided at Note 4 Property, Plant and Equipment.

A direction provided by the Secretary of State for Levelling Up, Housing and Communities under the Local Government Act 2003 provides for additional flexibility on the use of capital receipts until March 2025. Under this direction, authorities may apply capital receipts received in the years to which the direction applies to meet the revenue costs of transformation projects which are designed to deliver ongoing savings and/or reduce costs or demand. The Authority’s Flexible Use of Capital Receipts Strategy is subject to annual approval by full Council. Where this flexibility is applied, capital receipts are transferred out of the Capital Receipts Reserve to finance qualifying expenditure in accordance with the Code’s requirements for the accounting of Revenue Expenditure Funded from Capital Under Statute (REFCUS).

(iii) Investment Property

Investment Properties are assets 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 valued at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains or 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.

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 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.

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.

(iv) Charges to Revenue for Non-Current Assets

Services are charged an accounting estimate of the cost of holding non-current assets during the year. This comprises:

- 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. These transactions are therefore reversed out from the General Fund Balance via the Movement in Reserves Statement to the Capital Adjustment Account.

The Authority is however required by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) to make a prudent annual contribution from revenue towards the reduction in its overall borrowing requirement, the CFR (Capital Financing Requirement). This contribution is referred to as the Minimum Revenue Provision (MRP).

In accordance with statutory guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) (now the Department for Levelling Up, Housing and Communities), the Authority adopts separate calculations for borrowing that was supported by central government and for unsupported, "self-financed" borrowing. The respective methodologies are as follows:

<u>Supported Borrowing</u>

The Authority adopted a revised MRP calculation for its supported borrowing (including pre-April 2008 unsupported borrowing) effective 1 April 2016. MRP is made on all such outstanding borrowing as at 31 March 2016 on a 2% annuity basis over a repayment period of 40 years from that date.

<u>Unsupported Borrowing</u>

The Authority has adopted the Asset Life (Annuity) Method (MHCLG guidance option 3b) for the repayment of unsupported borrowing undertaken since 1 April 2008. This method provides MRP on an annuity basis over a repayment period equal to the estimated life of the asset for which the borrowing was undertaken, up to a maximum of 50 years. The annuity rates applied are based upon the average Public Works Loan Board rates (for a loan duration equal to the asset life) in the year the borrowing was undertaken.

<u>MRP – Finance Lease and PFI</u>

In line with MHCLG regulations to mitigate the impact of the move to IFRS on the Council's revenue account, it is the policy of West Sussex County Council to make an annual MRP charge equal to the portion of the payment taken to the Balance Sheet to reduce the liability. However, where a lease premium is made (and immediately taken to write down the Balance Sheet liability), the Council spreads the MRP charge over the useful life of the asset.

(v) Government Grants and Contributions

Government grants and third party contributions and donations are recognised as due to the Authority where 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 in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (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 to the Capital Grants Unapplied Account via the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have applied to fund capital expenditure.

(vi) Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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.

(vii) Leases

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

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

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

The Authority as Lessee

Finance Leases

Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet at the beginning of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower).

The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the Property, Plant or Equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting 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 a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over an item of property, plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal and a long-term debtor representing the Authority's net investment in the lease is recognised.

As a disposal, the writing out of the asset and the recognition of the long-term debtor is accounted for as part of the gain or loss on disposal of non-current assets within Other Operating Expenditure in the Comprehensive Income and Expenditure Statement with the debtor representing the sale proceeds.

Under statute, the gain or loss recognised in the Comprehensive Income and Expenditure Statement is reversed out of the General Fund balance and posted to the Deferred Capital Receipts Reserve (proceeds) and Capital Adjustment Account (disposal) via the Movement in Reserves Statement. Deferred capital receipts are released to the Capital Receipts Reserve as the lease debtor is settled.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Operating Leases

Where the Authority grants an operating lease over an item of property, plant or equipment, the asset is retained in the Balance Sheet and 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).

IFRS Transitional Rules

In accordance with regulations issued upon the implementation of IFRS, amounts receivable under leases that changed from operating leases to finance leases (or vice versa) are accounted for as if the status of the lease had not changed, in that:

- Amounts receivable under operating leases that became finance leases on transition to IFRS continue to be credited to the General Fund balance as revenue income
- Amounts receivable for principal payments under finance leases that became operating leases on transition to IFRS continue to be treated as capital receipts.

In both cases, the leases are accounted for in accordance with the current provisions of the Code, with adjustments to the General Fund balance being made in the Movement in Reserves Statement.

(viii) Private Finance Initiatives (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor.

As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the Property, Plant and Equipment will pass to the

Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. The Authority has three PFI schemes on its Balance Sheet - Crawley Schools, Recycling and Waste Handling and Street Lighting.

The original recognition of these assets at fair value was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non--current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Authority. The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Payments towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

(ix) 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 at the lower of cost and net realisable value
- 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.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

Where income or expenditure is to be recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. The Council has applied a de minimis threshold of £10,000 for all manual accruals of income and expenditure, except for the accrual of expenditure relating to termination benefits (no de minimis has been applied to these payments).

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. An examination of debtors outstanding at 31 March has been undertaken and an allowance for doubtful debts has been made.

Under local management arrangements, school accounts have been closed shortly before the end of the reporting period. Consequently, school income, expenditure, debtors and creditors are shown on an estimated basis.

(x) Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Authority's arrangements for accountability and financial performance.

(xi) Reserves

The County Council 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 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 via 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, local taxation, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

(xii) Provisions

Provisions are made where an event has taken place on or before the Balance Sheet date that gives the Council a present 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 recognises 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.

(xiii) 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 measured with sufficient reliability.

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

(xiv) Financial Instruments

a) 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 are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

b) 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 has currently not designated any financial asset into this category.

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 most of the financial assets held by the Authority, 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 the derecognition of an asset are credited or debited to the Financing and

Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Code includes a number of provisions for the accounting of soft loans (loans made to voluntary organisations at below market rates), primarily relating to the recognition of foregone interest. The Authority's policy is to apply the materiality concept of the Code, and so has decided not to adopt any of these provisions for soft loans below £500,000. Any such loans are therefore accounted for as per other assets measured at amortised cost as set out in the previous paragraph.

Expected Credit Loss Model:

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

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses. No loss allowance is recognised for assets where the counterparty is central government or a local authority whereby relevant statutory provisions prevent default.

In addition to financial investments, whereby risk is mitigated through the creditworthiness policy contained within the annually approved Treasury Management Strategy, the Authority may agree loans to third parties (organisations or individuals) when considered to be of an economic or social benefit to the local area. The Authority will assess the expected credit loss by loan (or group of loans where considered to be of similar nature) on a 12-month or lifetime loss model dependent on the risk level applied to the loan(s).

Financial Assets Measured at Fair Value through Profit or Loss:

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

In November 2018 the Ministry of Housing, Communities and Local Government (now the Department for Levelling Up, Housing and Communities) announced a statutory override applicable to English local authorities regarding fair value movements on pooled investments funds, initially covering a five-year period commencing 1 April 2018. This override was subsequently extended in January 2023 for a further two years, now expiring 31 March 2025. During the period of the statutory override, the Authority will transfer all fair value movements recognised in the Surplus or Deficit on the Provision of Services relating to pooled investment funds to the unusable Pooled Investment Funds Adjustment Account (or, for equity investments, to the Capital Adjustment Account).

Fair Value Measurements of Financial Assets:

The fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the Authority's financial assets are based on the following techniques:

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

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

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

(xv) Cash and Cash Equivalents

Cash and Cash Equivalents represents cash in hand and cash equivalents, defined as 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. Cash equivalents are not held for the purposes of an investment gain, but rather are retained so that the Authority has monies available to settle its liabilities. The Authority therefore recognises as cash equivalents only those deposits held for the purposes of cash management and repayable without penalty on notice of not more than 24 hours.

Deposits made for the purposes of securing an investment gain are classified as Short Term Investments.

Bank overdrafts form an integral part of the Authority's cash management and are therefore consolidated within net Cash and Cash Equivalents as presented in the Authority's core financial statements.

(xvi) Schools

The Code confirms that the balance of control for local authority maintained schools (as identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority single entity financial statements (and not the group accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

(xvii) Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

<u>Accounting for Council Tax and NDR</u>

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

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

(xviii) Value Added Tax

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.

(xix) Employee Benefits

<u>Benefits Payable During Employment</u>

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year.

The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement to the Accumulated Absences Account so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

<u>Termination Benefits</u>

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, and are charged on an accruals basis to the Comprehensive Income and Expenditure Statement when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

(xx) Post-employment Benefits

Employees of the council may be members of four separate pension schemes:

- the Local Government Pension Scheme, administered by West Sussex County Council;
- the Firefighters' Pension Scheme, administered by West Sussex County Council;
- the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- the National Health Service (NHS) Pension Scheme, administered by the NHS.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

However, the arrangements for the Teachers' and NHS Pension Schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The schemes are therefore accounted for as if they were defined contribution schemes, and therefore no liability for future payments of benefits is recognised in the Balance Sheet. The employer contributions payable to the respective scheme administrators is recognised as an in-year expense against the appropriate service line in the Comprehensive Income and Expenditure Statement.

The Local Government Pension Scheme and The Firefighters' Pension Scheme

The Local Government and Firefighters' Pension Schemes are accounted for as defined benefit schemes:

- The liabilities of the respective schemes attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees).
- Liabilities are discounted to their value at current prices, using an appropriate discount rate.

The assets of the Local Government Pension Scheme attributable to the Authority are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value

The change in the net pensions liability is analysed into the following components:

Service cost, comprising:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Net interest on the net defined benefit liability, i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

Remeasurements, comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability – 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 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 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, this means that there are appropriations 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.

(xxi) Early Retirement Costs

The County Council's policy is to charge the full costs of early retirement to the relevant service at the earliest date. The Local Government Pension Scheme allows authorities to spread these costs over three years, but in keeping with the policy aim, these are recognised in full in the year they are incurred. This discretion does not exist for the Firefighters' Pension Scheme, where regulation requires that the costs are spread over three years to smooth the volatility of variable numbers of ill-health retirements.

(xxii) Senior Officer Remuneration

The Code contains requirements for the disclosure of the remuneration of higher paid officers. However, these requirements are derived from (and supplemented by) the overarching requirements of the Accounts and Audit Regulations:

- For England – regulation 7 of the Accounts and Audit Regulations 2015 (as specified in Schedule 1 SI 2015/234)

There are two related disclosures required by the regulations:

- Figures for the number of officers whose remuneration was £50,000 or more, grouped in £5,000 bands (starting at £50,000)
- The individual remuneration of senior employees.

Disclosure of senior officers' remuneration in made on an accruals (rather than cash) basis in line with the definition of remuneration provided by the regulations, which states that remuneration is to include "all amounts paid to or receivable by a person..."

The regulations dictate that the disclosure of remuneration by category must be made by reference to individuals, with the following proviso:

- Where the senior employee or relevant police officer's salary is £150,000 or more per year, they must be identified by name and job title
- Where the senior employee's salary is less than £150,000, only their job title must be disclosed.

(xxiii) 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.

(xxiv) Fair Value Measurement of Non-Financial Assets

The Authority measures some of its non-financial assets (such as Surplus Assets and Investment Property) and some of its financial instruments (such as equity shareholdings) at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset takes place either:

a) in the principal market for the asset, or
b) in the absence of a principal market, in the most advantageous market for the asset.

The Authority measures the fair value of an asset using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets 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, either directly or indirectly
- Level 3 – unobservable inputs for the asset.

(xxv) Joint Operations and Other Pooled Budgets

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly

In April 2015 the West Sussex Better Care Fund was established. This is a joint operation between the Authority and the NHS Sussex Integrated Care Board to provide integrated health and social care support within the area. West Sussex County Council acts as host in the arrangement, but shares control with its partner and as such accounts only for its share of the Fund's income, expenditure, assets and liabilities in its accounts.

The Authority is also part of three other pooled budget arrangements with NHS bodies to provide services in the local area. In two of these partnerships, established for the provision of services relating to Learning Disabilities and Telecare, the Authority acts as lead commissioner, and has control of the decisions of how the pooled funds are applied. As such, the Authority accounts for all of the expenditure of these funds in its financial statements. Funding contributed by partners is recognised as revenue in the Authority's accounts. The third agreement, for the provision of Mental Health services, is hosted by the NHS, and as such the Authority accounts only for its contribution to the pooled budget.

(xxvi) 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 such 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.

(xxvii) Going Concern

These financial statements have been prepared on a going concern basis. Assets and liabilities are therefore reported on the assumption of continuing operations for the foreseeable future.

This approach is prescribed by the CIPFA Code of Practice on Local Authority Accounting. The Code confirms that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on the going concern basis of accounting.

The potential for abolition of an authority (or the transfer of its functions) by statute is not taken as negating the presumption of going concern. Even though assets may be taken from the authority, perhaps without compensation, the continued use of those assets for public benefit means that an individual authority does not need to consider the restriction on its own ability to make use of those assets from a going concern perspective.

An authority experiencing significant resource pressures does not therefore negate the presumption of going concern, because if an authority were in financial difficulty the prospects are that alternative arrangements might be made by central government for the continuation of services. However, references to such issues affecting financial resilience and sustainability will be made in other sections of the financial statements as appropriate, for example in Note 38 Critical Judgements in Applying Accounting Policies.

Considering the above, and the critical judgements made in applying the Council's policy on going concern as set out in Note 38, the Council is satisfied that the financial statements should be prepared on a going concern basis.

Appendix 3(b)

West Sussex Pension Fund

Summary of significant accounting policies

~~There~~As of February 2024, we are ~~no~~not aware of any significant changes to the accounting policies since last year. We have however taken the opportunity to review the wording of this document for clarity. As in previous years the Pension Fund Accounts are produced in line with, and fully adhering to, guidance from the Chartered institute for Public Finance Accounting (CIPFA).

Fund Account – revenue recognition

a. Contribution income

Normal contributions, both from members and employers, are accounted for on an accruals basis. Member contributions are accrued at the percentage rate in accordance with the Local Government Pension Scheme (LGPS) Regulations 2013. Employer contributions are accrued at the percentage rate certified by the Fund Actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for when received. Any amount due in year but unpaid will be classed as a current financial asset.

b. Transfers to and from other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Pension Fund during the reporting period~~,~~ and are calculated in accordance with the LGPS Regulations.

Individual transfers in/out are accounted for when received/paid which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their Additional Voluntary Contributions to purchase LGPS benefits are accounted for on a receipts basis and are included in transfers in.

Bulk (group) transfers, where relevant, are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c. Investment income

Investment income is received in both GBP and foreign currency. Income in foreign currency is recorded at the spot exchange rate and translated into sterling on the date of the transaction with any difference between that and the actual transaction value recorded as a realised gain/loss. Any change in the value of investments (including investment properties) are recognised as income or expense and reported as a realised gain/loss.

Investment Income Classes

~~i. Interest income~~
~~Interest income is recognised by the Pension Fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.~~

~~ii. Dividend income~~
~~Dividend income is recorded on the date that the shares are quoted as ex-dividend. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as an investment asset.~~

~~iii.~~i. **Private Equity**
Private Equity income is recognised on the date paid. ~~Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as an investment asset.~~

~~iv.~~ii. **Property-related income**
Property income consists of rental income and is accounted for on an accruals basis.

~~v.~~iii. **Private Debt**
Private Debt income is recognised on the date paid. ~~Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as an investment asset.~~

~~vi.~~iv. **Infrastructure**
Infrastructure income is recognised on the date paid ~~and reported within the income received~~.

~~vii.~~v. **Pooled fund**
Pooled Fund income is recognised on the date paid ~~and reported within the income received~~.

~~viii. Movement in the net market value of investments~~
~~Changes to the value of investments (including investment properties) are recognised as income or expense and comprise of all realised and unrealised profit/loss during the year.~~

Fund Account - Expense items

d. **Benefits payable**

Pensions and lump sum benefits payable include all amounts known to be due at the end of the reporting period. Any amounts due but unpaid are accrued for and disclosed in the Net Asset Statement as current liabilities.

e. **Taxation**

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless an exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.

~~e.~~f. Management expenses

The Fund discloses its Pension Fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016) as set out below;

Administrative expenses

All administrative expenses are accounted for on an accruals basis representing the annual charge relating to the pensions administration and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis representing the Pension Fund's external advisors, audit and actuary fees and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.

Investment management expenses

All management expenses are accounted for on an accruals basis. Fees of the external managers and custodian are agreed in the respective mandates governing their appointment and are mainly based on the market value of the investments under management.

The cost of the County Council's in-house treasury management team is charged to the Fund based on a proportion of time spent by officers on treasury management. This is included in investment management costs.

Net Asset Statement

~~d.~~g. Financial assets

Investments are shown at market value at the reporting date and recognised in the Net Asset Statement on the date the Pension Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised. The values of investments have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purposes of disclosing levels of fair value hierarchy, the Pension Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

~~e.~~h. Freehold and leasehold properties

Properties have been valued at the reporting date by independent external valuers, on the basis of fair value as required by the International Financial Reporting Standards (IFRS).

~~f.~~i. Foreign currency ~~transactions~~balances

~~Income, interest and purchases and sales of investments in foreign currency have been recorded at the spot exchange rate and translated into sterling at the rate ruling at the date of the transaction.~~

End of year spot market exchange rates are used to ~~value~~ convert foreign currency cash balances ~~in foreign currency~~, market values of overseas investments and purchases and sales outstanding at the end of the reporting period to GBP.

~~g.~~j. Cash and cash equivalents

Cash comprises of cash in hand and ~~demand~~instant access deposits. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of change in value.

k. Investment income due

Investment income due is made up of tax reclaims and interest on cash balances accrued at the end of the reporting period. Tax reclaims relate to withholding tax suffered on income received on investments.

l. Financial liabilities

The Pension Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Asset Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in fair value of the liabilities are recognised by the Pension Fund.

m. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund Actuary in accordance with the requirements of IAS19 and relevant actuarial standards. The Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Asset Statement.

~~h.~~n. Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the Net Asset Statement but are disclosed by way of narrative in the notes to the accounts.

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Part 4
Section 3

Financial Regulations

Approved by the ***County Council*** ~~Regulation, Audit and Accounts Committee~~ at its meeting on ***22 March 2024*** ~~23 July 2018 and containing all subsequent approved amendments up to 1 March 2022~~

March 2024

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Part 4 Section 3

Financial Regulations

Financial Regulation A - General

1. General Introduction

1.1 The Financial Regulations and Financial Procedures of the County Council are intended to help the County Council exercise its statutory financial responsibilities, safeguard its finances and assets, and ensure the proper record keeping and reporting of its financial accounts. The Financial Regulations form part of the Council's Constitution while the Financial Procedures are held outside of the Constitution. ***The Financial Regulations clarify responsibilities and provide a framework for decision making.***

1.2 Any changes to Financial Regulations will be drawn up jointly by the Director of Finance and Support Services and Director of Law and Assurance and approved by the ***County Council*** ~~Regulation, Audit and Accounts Committee~~ in the light of advice from the ***Regulation, Audit and Accounts*** ~~Governance~~ Committee.

1.3 Any employee who knowingly or by negligence breaches the Financial Regulations may be subject to disciplinary action and in some instances may incur criminal liability.

1.4 The regulations also apply to persons who are carrying out the business of the County Council but are employed by any contractor, partner or other organisation ***representing*** ~~acting for~~ the County Council.

1.5 The Director of Finance and Support Services, in consultation with the Director of Law and Assurance, may approve a departure from Financial Regulations, where he or she concludes that such action is appropriate to safeguard the interests of the County Council.

1.6 It is the responsibility of all Directors ~~and Assistant Directors~~ to make all employees and other persons carrying out Council business aware of ***the*** Financial Regulations.

2. Financial Management

2.1 Introduction

2.1.1 Financial management covers all financial accountabilities in relation to the running of the authority, including the Policy Framework, revenue and capital budgets and treasury management.

2.2 The County Council

2.2.1 The County Council is responsible for adopting the authority's Constitution and for approving the Policy Framework and budget within which the

Executive operates. ***In terms of financial planning, the key elements are:***

- ***The Medium Term Financial Strategy***
- ***The Annual Revenue Budget***
- ***The Capital Strategy***
- ***The Treasury Management and Investment Strategy***

2.2.2 It is also responsible for approving and monitoring compliance with the County Council's overall framework of accountability and control, and for monitoring compliance with the agreed policy and related executive decisions. The functions of the County Council are listed in Responsibility for Functions, Part 3 ***of the Constitution***.

2.3 **The Cabinet**

2.3.1 The Cabinet is the principal Executive body of the County Council. The Cabinet is responsible for proposing the Policy Framework and budget to the County Council, and for discharging Executive functions in accordance with the Policy Framework and budget including Standing Orders and the Scheme of Delegation. The role of the Cabinet is described in the Description of the Constitution, Part 2, ***Chapter 7*** ~~paragraph 2.06~~.

2.3.2 Executive functions can be delegated to the Cabinet, individual ***C***abinet ***M***embers, officers or through joint arrangements with other public bodies. The County Council's Scheme of Delegation is set out in ***Appendices 1 to 4 of*** Part 3 of the Constitution.

2.4 **Regulation, Audit and Accounts Committee**

2.4.1 The Regulation, Audit and Accounts Committee***'s purpose is to provide an independent high-level oversight of the Council's systems of governance and risk management and its arrangements for financial control and compliance***.

2.4.2 The Committee is responsible for reviewing the external auditor's reports including the Audit Plan and Audit Results Report. Additionally, it is responsible for reviewing internal audit's work plan***, progress and delivery of audit recommendations to assess the level of assurance it can give over the council's corporate governance arrangements. It*** ~~and progress and~~ can consult directly with internal and external auditors. The Committee also deals with the approval of the statutory Statement of Accounts of the County Council ***(and the Pension Fund)*** and the review of the Governance Framework including the system of internal control.

2.5 **Director of Finance and Support Services**

2.5.1 ***In line with the Local Government Act 1972, t***he Director of Finance and Support Services is responsible for:

- Promoting and maintaining high standards of financial conduct***, including compliance with the CIPFA Financial Management Code***
- The provision of proactive advice to both Cabinet and the County Council,

informing them of the financial implications of all new policies and changes of policy
- The provision of strategic financial planning and advice to the Executive ***and Corporate*** Leadership Team***s*** ~~and Leadership Group~~, the Cabinet, other committees and member task groups
- Ensuring proper administration arrangements are in place for the Council's financial affairs
- Reporting to members on the overall budget performance and recommending corrective action
- Ensuring that the council or any officer of the council does not make any unlawful financial transaction or action
- Complying with the relevant accounting and financial procedures and standards in accordance with best accounting practices
- Agreeing and ensuring ~~those~~ locally managed schools and other local financial management arrangements are aligned to these regulations
- Preparing the revenue budget and capital programme
- Securing an effective internal audit function
- Treasury management and banking arrangements
- Maintaining a continuous review of the Financial Regulations and submitting any additions or changes necessary to the Regulation, Audit and Accounts Committee
- Issuing advice and guidance to underpin the Financial Regulations that Members, officers and others acting on behalf of the Council are required to follow
- The maintenance of reserves, accounting policies, records and returns and the annual statement of accounts
- ***Advising on prudential indicators required to be set in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities and ensuring that all matters required to be taken into account in setting Prudential Indicators, and monitoring them, are reported to the Cabinet Member for Finance and Property.***

2.5.2 The Director of Finance and Support Services has statutory duties in relation to the financial administration and stewardship of the County Council. This statutory responsibility cannot be overridden. The statutory duties arise from:

- Section 151 of the Local Government Act 1972
- The Local Government Finance Act 1988
- The Local Government and Housing Act 1989
- The Local Government Act 2003
- The Accounts and Audit Regulations 2015
- Local Government Pension Scheme Regulations 2013 and The Local Government Pension scheme (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006

2.5.3 Section 114 of the Local Government Finance Act 1988 requires the Director of Finance and Support Services to report to the County Council, the Cabinet and external auditor if the County Council or one of its officers:

- Has made, or is about to make, a decision which involves incurring unlawful expenditure
- Has taken, or is about to take, an unlawful action which has resulted or

would result in a loss or deficiency to the authority
- Is about to make an unlawful entry in the County Council's accounts.

Section 114 of the 1988 Act also requires:

- The Director of Finance and Support Services to nominate a properly qualified member of staff to deputise should he or she be unable to perform the duties under section 114 personally
- The authority to provide the Director of Finance and Support Services with sufficient staff, accommodation and other resources - including legal advice where this is necessary - to carry out the duties under section 114.

2.6 **The Chief Executive and Directors**

2.6.1 The Chief Executive and Directors are responsible for:

- Ensuring that ***C***abinet ***M***embers are advised of the financial implications of all proposals and that they have been agreed by the Director of Finance and Support Services.
- Consulting the Director of Finance and Support Services and seeking approval on any matter liable to affect the County Council's finances materially, before any commitments are incurred.

3. Other Financial Accountabilities

3.1 **Budget *Transfers* ~~Transfer~~**

3.1.1 Budgets may be transferred between revenue headings provided that they do not involve a new policy or a policy change and do not involve an increasing commitment in future years that cannot be contained within the existing approved budget allocations (see limitations below). Budget transfer limits apply equally to expenditure financed by increased income, including specific grants, and by drawing down of reserves and contingencies, other than when there is a specific delegation.

3.1.2 The Cabinet Member for Finance and Property is responsible for agreeing ***the rationale*** ~~procedures~~ for the transfer of budget between budget headings.

3.1.3 Revenue Budget Transfers - Assistant Directors (or Directors if appropriate) are responsible for agreeing in-year ***revenue*** budget transfers within delegated limits ***for their relevant area***, as set out below, in consultation with the Director of Finance and Support Services ~~where required~~.

Delegated Approval ~~**Minimum approval required**~~	**Limit for budget transfer**
Key decision process applies	~~Over~~ £500,000 ***and over***
~~Assistant director(s) and~~ Director of Finance and Support Services***, in***	***Technical budget transfers (eg, budget transfers to comply with proper accounting practice) – no***

Delegated Approval ~~**Minimum approval required**~~	**Limit for budget transfer**
accordance with the Finance and Support Services' Scheme of Delegation	***financial limit*** ~~Below £500,000~~
Director of Finance and Support Services***, in accordance with the Finance and Support Services' Scheme of Delegation***	***Administrative*** ~~Technical~~ budget transfers (***e.g., already approved by County Council or Schools Forum) - no financial limit*** ~~e.g., budget transfers to comply with proper accounting practice)~~
Assistant Director (or Director as appropriate) and Director of Finance and Support Services***, in accordance with the Finance and Support Services' Scheme of Delegation***	***All other*** ~~Administrative~~ budget transfers ***up to £499,999*** ~~(e.g., already approved by County Council or Schools Forum)~~

3.1.4 Capital Programme – Budget Transfers - the overall governance arrangements for capital programme is set out in Section B, paragraphs 2.2 to 2.4 below. The Authority's Capital Strategy also outlines the governance controls and monitoring arrangements for the capital programme. Approvals for amendments to the capital programme including variations to individual projects are outlined in the Constitution's Scheme of Delegation, as set out below:

Delegated Approval	***Limit for new projects, project variations or budget transfers***
Key decision process applies	***£500,000 and over***
Director of Place Services in consultation with the Director of Finance and Support Services and the Cabinet Member, in accordance with the Constitution's Scheme of Delegation	***Where the level of investment or variation (including transfers within or across portfolios) is no greater than £500,000 or no more than 10% of the total project cost (if higher) the Cabinet Member will be consulted before the decision is made and;*** ***(i) Where the decision has not previously been marked by the relevant Cabinet Member for decision by the Cabinet Member; or*** ***(ii) Where the matter has been the subject of previous Cabinet Member decision delegating further decisions to the Director;***

Delegated Approval	***Limit for new projects, project variations or budget transfers***
	and ***(iii) Where the relevant Director, in discussion with the Cabinet Member, does not consider the matter to be politically sensitive and so the use of officer delegation would be appropriate***
Director of Place Services in consultation with Director of Finance and Support Services, in accordance with the Constitution's Scheme of Delegation	***Where the level of investment or variation (including transfers within or across portfolios) is no greater than £250,000 or no more than 5% of the total project cost (if higher)***

Where a scheme is subject to more than one change in any financial year these will be considered cumulatively for this purpose.

3.2 **Contingency Allocations**

3.2.1 Revenue budgets and capital programmes are approved as cash-limited allocations. The presumption is that service budgets and capital programmes will not be supplemented. Any exception to that presumption ***and the use of the contingency allocations*** is the responsibility of the Cabinet Member for Finance and Property on receiving advice from the Director of Finance and Support Services.

3.3 **Treatment of Year-end Balances**

3.3.1 The Cabinet Member for Finance and Property***, on advice from the Director of Finance and Support Services,*** is responsible for agreeing***:***

- ***rationale for the transfer to and from reserves, including*** the carrying forward of ***underspends*** ~~underspendings~~ on ***revenue*** budget headings
- ***any transfers of non-portfolio budgets***

3.3.2 The ~~on advice from the~~ Director of Finance and Support Services ***is responsible for the approval of transfers to and from earmarked reserves, including carrying forward year-end underspends.***

3.3.3 The Cabinet is responsible for approving the overall outturn position within the outturn financial management report.

3.3.4 The Capital Programme is approved as part of the budget process by County Council each February. Any variations within the overall programme, including capital slippage to be carried forward, due to planned expenditure being unable to be completed in the financial

year, is then reported through the Performance & Resources Report process.

3.3.5 Specific approvals for variations to the capital scheme including any transfers are outlined in 3.1.4.

3.4 **Accounting Policies**

3.4.1 ***The Regulation, Audit and Accounts Committee is responsible for approving the accounting policies.*** The Director of Finance and Support Services is responsible for ***the application of the*** ~~selecting~~ accounting policies and ensuring that they are applied consistently.

3.5 **Accounting Records and Returns**

3.5.1 The Director of Finance and Support Services is responsible for determining the accounting procedures and records for the authority.

3.6 **The Annual Statement of Accounts**

3.6.1 The Director of Finance and Support Services is responsible for ensuring that the annual statement of accounts is prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom' (CIPFA/LASAAC). The Regulation, Audit and Accounts Committee is responsible for approving the annual statement of accounts.

~~3.7 **Write Off of Debts**~~

~~3.7.1 The Director of Finance and Support Services can approve the write-off of irrecoverable debts up to £15,000, in consultation with the Director of Law and Assurance.~~

~~3.7.2 Any irrecoverable debt in excess of £15,000 will require the approval of the Cabinet Member for Finance and Property.~~

Financial Regulation B - Financial Planning

1. Introduction

1.1 The County Council is responsible for agreeing the authority's Policy Framework and budget, which will be proposed by the Cabinet. In terms of financial planning, the key elements are:

- ***Our*** ~~the Corporate or County~~ Council Plan
- Directorate Business Plans
- ~~annual~~ ***S***ervice ***B***usiness ***P***lans
- the revenue budget
- the capital programme.

1.2 The County Council is also responsible for approving procedures for the budgets, plans and strategies forming the Policy Framework and for determining circumstances in which a decision will be deemed to be contrary to the budget or Policy Framework. Such decisions should be referred to the County Council by the Monitoring Officer.

1.3 The ***C***abinet ***M***embers are responsible for taking in-year key decisions on resources and priorities in order to deliver the Policy Framework and services within the annual budget set by the County Council.

2. Budgeting

2.1 Budget ~~format~~

2.1.1 The ~~general format of the~~ budget will be approved by the County Council and proposed by the Cabinet on the advice of the Director of Finance and Support Services. ~~The draft budget should include allocation to different services and projects, proposed taxation levels and contingency funds.~~

2***.1.2 Comprehensive budget plans should be based on realistic projections about:***

- ***pay and price inflation***
- ***business and activity levels, including future budget pressures***
- ***known service development plans***
- ***savings plans***
- ***government funding***
- ***other income, including business rates and council tax***
- ***risk assessments and contingency plans***
- ***other internal plans such as human resources and IT***

2.2 Budget and Capital Programme Preparation

2.2.1 The Cabinet is responsible***,*** ~~for issuing guidance on the general content of the budget and capital programme~~ in consultation with the Director of Finance and Support Services***, for setting the overarching strategies and policies, in line with the priorities in the Council Plan, which should***

underpin the budget and capital programme.

2.2.2 It is the responsibility of Directors to ensure that budget and capital programme estimates reflecting agreed service plans are submitted to the Cabinet and that these estimates are prepared in line with ***the strategic direction and policies set*** ~~guidance issued~~ by the Cabinet.

2.2.3 The Director of Finance and Support Services is responsible for ensuring that an overall revenue budget and capital programme summarising service budget estimates is prepared on an annual basis for consideration by the Cabinet, before submission to the County Council, along with a forward financial forecast in line with Government funding notifications. ***The County Council may amend the budget or ask the Cabinet to reconsider it before approving it.***

2.2.4 The Performance and Finance Scrutiny Committee considers strategic issues relating to the budget including ***comments on individual portfolio budgets ahead of its presentation to the Cabinet. All members are engaged in the budget planning process through informal member sessions where financial strategies and savings options/proposals are discussed and where appropriate, savings options are scrutinised by individual scrutiny committees*** ~~comment on individual portfolio budgets. The County Council may amend the budget or ask the Cabinet to reconsider it before approving it~~.

2.3 **Budget and Capital Programme Monitoring and Control**

2.3.1 The Director of Finance and Support Services is responsible for providing appropriate financial information to enable both the revenue budgets and the capital programme to be monitored effectively. He or she must monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis, as part of an overall performance management reporting process. The Director of Finance and Support Services will collate and present the ~~Total~~ Performance ***and Resources Report*** ~~Monitor~~ to the Executive Leadership Team***,*** ~~and~~ ***the*** Cabinet ***and all scrutiny committees*** each ***quarter*** ~~month~~, including a forecast of the financial outturn at year end. This report will cover ~~both~~ financial and performance reporting ***for both revenue and capital, risk and workforce***.

2.3.2 It is the responsibility of Directors and Assistant Directors to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Director of Finance and Support Services. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Director of Finance and Support Services to any problems. Any new proposal containing significant financial implications must take note of the Director of Finance and Support Service's advice as well as that of the relevant ***D***irector or ***A***ssistant ***D***irector and ***C***abinet ***M***ember.

2.4 **Capital Governance**

2.4.1 The Council has an established ~~officer~~ governance process which ensures transparency and gives assurance to members. Officer panels receive and consider proposals and business cases, which are supported by a set of tools and procedures ('the officer handbook') to define the process for ***approving*** ~~getting~~ capital schemes ~~approved~~ and to manage subsequent variations, including how officers provide members with information and assurance that controls are in place alongside an audit trail that meets member expectations.

2.4.2 The same process for considering and approving projects and business cases applies whether the decision is for an officer or a ***C***abinet ***M***ember. A model for business cases is used, which is streamlined for less complex projects, to ensure the input is proportionate. Where a decision relating to the capital programme is also a 'key decision' (investment ***of*** ~~exceeds~~ £500,000 ***and over*** or significant impact on more than one division), it will be published in the Forward Plan ***and taken in line with usual key decision governance processes.*** ~~The quarterly review of the capital programme will be published in The Bulletin weekly newsletter and linked to the Members' Information Network database.~~

2.4.3 All projects have a business justification through an initial business case (for schemes that require resources to develop a detailed business case) or outline business case (where the scheme is more straightforward). These are considered for prioritisation each year ahead of recommendation to the Council for approval of the programme. Individual projects may be considered by the Performance and Finance or relevant service scrutiny committees.

2.4.4 In addition to the large schemes and development projects that make up much of the capital programme, there will be routine investment plans for the core business of the Council that have block allocations. These include the schools maintenance programme, the maintenance of the Council's operational buildings, highways maintenance, the replacement of vehicles and other essential service assets. These are planned and budgeted for through asset management plans within the capital programme and will operate within the approved control totals. Their implementation is delegated to the relevant Director ~~or Assistant Director~~.

2.4.5 All significant or cross-portfolio changes are taken through the ~~Total~~ Performance ***and Resources Report*** ~~Monitor~~ and published as ***C***abinet ***M***ember decisions in accordance with their portfolio. The Performance and Finance and service Scrutiny Committees sees the Forward Plan, notice of capital schemes on the programme register and has access to the business cases which may therefore be subject to preview as required.

2.4.6 The monitoring of the capital programme is part of the ~~core business of Cabinet Briefing on a~~ quarterly ***Performance and Resources Report*** ~~basis~~ with formal decisions published in accordance with constitutional arrangements. ~~The Performance and Finance Scrutiny Committee has the same quarterly programme review.~~ ***Quarterly finance performance reports on the capital programme are reviewed by the Capital and Assets Board and both finance and performance are included in the Performance and Resources Report and reported to the relevant scrutiny committee. Variations and transfers between capital scheme budgets are outlined in Section A, 3.1.4 above.***

2.5 ***Budgeting*** ~~**Resource Allocation**~~

2.5.1 The Director of Finance and Support Services is responsible for developing and maintaining a resource allocation process that ensures due consideration of the County Council's Policy Framework ***and Medium-Term Financial Strategy***.

2.6 ***Budget Principles*** ~~**Guidelines**~~

2.6.1 ***Budget principles and general guidance relating to*** ~~Guidelines on~~ budget preparation are ***shared with*** ~~issued to~~ Directors and Assistant Directors~~, following advice~~ from the Director of Finance and Support Services***, through the Finance Business Partner Teams***. The ***guidance*** ~~guidelines~~ will take account of:

- legal requirements
- medium-term planning prospects
- ***West Sussex Plan priorities***
- ~~Corporate or County Council Plan available resources~~
- spending pressures
- other relevant government guidelines
- other internal policy documents
- cross-cutting issues (where relevant)
- the role of the Performance and Finance Scrutiny Committee in strategic budget issues.

2.7 **Maintenance of Reserves**

2.7.1 It is the responsibility of the Director of Finance and Support Services to advise the Cabinet and/or the County Council on prudent levels of reserves for the authority***, having regard to an assessment of the financial risks facing the authority***. This duty is set out in Section 25 of the Local Government Act 2003.

2.8 **Budgets Delegated to Schools**

2.8.1 Revenue budgets delegated to schools under ***Department for Education*** ~~DfE~~ Regulations are outside the scope of these regulations and are subject to the conditions set out in the Scheme for Financing Schools – Statutory guidance for local authorities - March ***2023*** ~~2018~~.

2.9 **Fees and Charges**

2.9.1 A schedule of fees and charges must be reviewed annually as part of the business planning and budget setting cycle and agreed by ***C***abinet ***M***embers, guided by the Director of Finance and Support Services.

2.9.2 All income properly due to the Council must be collected promptly and recorded to the Council's benefit, unless specific authority to waive, discount or write-off such income is approved through Cabinet, ***C***abinet ***M***embers or under delegated powers to officers.

2.9.3 Proposals to commence charging for or trading in goods or services not previously subject to charging or trading must be agreed by the relevant ***C***abinet ***M***ember (external charging/trading only) ***and in consultation with the Director of Finance and Support Services***.

Financial Regulation C - Risk Management and Control of Resources

1. Introduction

1.1 It is essential that robust, integrated systems are developed and maintained for identifying and evaluating all significant risks to the authority. This should include the proactive participation of all those associated with planning and delivering services.

2. Risk Management

2.1 The Chief Executive is responsible for approving the County Council's corporate risk management strategy and for reviewing the effectiveness of risk management.

2.2 The Regulation, Audit and Accounts Committee provides assurance of the adequacy of the risk management framework and the associated control environment and scrutiny of the County Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk.

2.3 The Performance and Finance Scrutiny Committee considers existing policies and the effectiveness of their delivery relevant to the Scrutiny Committee's specific portfolio and to issues of major strategic importance to the County Council. It also considers the effectiveness of the Council's arrangements and systems for the management of contracts and for the scrutiny of the achievement of such commissioning outcomes as have been determined, as well as the annual budget and performance framework on a strategic basis at each meeting.

2.4 Risk management must complement and build on the existing integrated service planning and performance management processes. All significant risks must be managed to, or maintained at, an acceptable level.

2.5 The Executive Leadership Team is responsible for promoting the County Council's risk management policy statement throughout the County Council with Directors responsible for ensuring there are sufficient processes in place to identify, assess and capture risks within their directorates.

2.6 The Director of Finance and Support Services is responsible for monitoring and reporting all significant risks and the Director of Law and Assurance is responsible for maintaining proper insurance cover where appropriate, in pursuant with paragraph 7 of this section.

3. Internal Control

3.1 Internal control refers to the systems of control devised to help ensure that the County Council's objectives are achieved in a manner that promotes economical, efficient and effective use of resources and that its assets and interests are safeguarded.

3.2 The Director of Finance and Support Services is responsible for advising on effective systems of internal control. These arrangements need to ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice. They should ensure that public funds are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use.

3.3 It is the responsibility of Directors and Assistant Directors to establish sound arrangements for planning, appraising, authorising and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness and for achieving their business objectives and performance targets.

4. Audit Requirements

4.1 The Accounts and Audit Regulations 2015 require every local authority to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance". Accordingly, internal audit is a separate, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.2 The Local Audit and Accountability Act 2014 requires the County Council to prepare an annual Statement of Accounts, and for these accounts to be subject to an external audit. The general duties of the auditor are set out in section 20 of the Act. The Council has opted into the national auditor appointment provisions of the Local Audit (Appointing Person) Regulations 2015. Under these provisions, an external auditor ***is*** ~~was~~ appointed to the authority by Public Sector Audit Appointments Ltd for a ***specified*** ~~five year~~ period***, the latest appointment being from 2023/24 to 2027/28*** ~~commencing 2018/19~~.

4.3 The County Council may, from time to time, be subject to audit, inspection or investigation by external bodies ~~such as HM Revenue and Customs~~, who have statutory rights of access.

5. Preventing Fraud and Corruption

5.1 The Director of Finance and Support Services is responsible for the development and maintenance of the Anti-Fraud Strategy ***and the Anti-Money Laundering Policy***. ***There are*** ~~This is~~ reviewed every three years and approved by the Regulation, Audit and Accounts Committee.

5.2 Where financial irregularity is suspected or discovered, Directors ***or nominated officer*** are to notify the Director of Finance and Support Services (represented by the Head of Internal Audit) immediately, who in turn is to inform the Director of Law and Assurance. Detailed procedures for such action are contained in the Anti-Fraud Strategy ***and Anti-Money Laundering Policy***.

6. Assets

6.1 Directors ***and Assistant Directors*** should ensure that assets, including property, vehicles, equipment, furniture and stocks/stores, are properly maintained and securely held. They should also ensure that contingency plans for the security of assets and continuity of service in the event of disaster or system failure are in place, as set out in the council's Asset Strategy and Business Continuity policies.

7. Insurance

7.1 The Director of Law and Assurance shall effect all necessary cover for liability (including employer, third party, personal accident and fidelity guarantee), motor and property (including terrorism) insurance and negotiate all claims, in consultation with other officers where necessary.

7.2 Directors ***and Assistant Directors*** shall notify the Director of Law and Assurance immediately of:

- All new risks and liabilities which may require to be insured
- Any change which may affect existing insurance
- Any loss, damage, claim or event which might give rise to a claim by or against the Council
- Any acquisition or disposal of interests in property which involves an amendment to insurance cover.

7.3 All appropriate employees of the Council shall be included in a suitable fidelity guarantee insurance.

7.4 The Director of Law and Assurance shall, at least annually, review all insurance in consultation with Directors.

8. Treasury Management

8.1 The County Council has adopted the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code) ~~as detailed in Section 5 of the Code~~. Accordingly, the County Council will maintain, as the cornerstones for effective treasury management:

- a Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its treasury management activities (held outside of the Constitution)

- suitable Treasury Management Practices (TMPs), setting out the manner in which the County Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

8.2 The content of the Policy Statement and TMPs follows the recommendations contained in ~~Sections 6 and 7 of~~ the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the County Council materially deviating from the Code's key recommendations.

8.3 The County Council will receive reports on its treasury management policies, practices and activities, including as a minimum an annual Treasury Management Strategy Statement in advance of the year, a mid-year review and an annual report after its close (see 8.4 below), in the form prescribed by its TMPs.

8.4 The County Council delegates to the Performance and Finance Scrutiny Committee responsibility for ensuring effective scrutiny of the treasury management strategy and policies. In accordance with the Constitution, a mid-year and year end treasury management report benchmarking security and liquidity, in addition to the actual yield achieved on County Council investments, will be submitted to this Committee.

8.5 The County Council in its Constitution delegates responsibility for monitoring compliance with its treasury management policies and practices against planned parameters to the Regulation, Audit and Accounts Committee.

8.6 The County Council delegates responsibility for the execution and administration of treasury management decisions to the Director of Finance and Support Services.

8.7 The County Council will act in accordance with the Policy Statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management in the implementation and administration of all treasury management decisions.

9. Prudential Code

9.1 Interlinked with the CIPFA Code of Practice for Treasury Management is the Prudential Code for Capital Finance in Local Authorities; furthermore, the Council is required by regulation to have regard to the code when carrying out its duties under Part 1 of the Local Government Act 2003.

9.2 The Director of Finance and Support Services will be responsible for ensuring that all matters required to be taken into account are reported to the full Council for consideration, and for establishing procedures to monitor performance.

10. Banking Arrangements

10.1 All arrangements with bankers must be made only by the Director of Finance and Support Services, who is authorised to operate any bank accounts considered necessary.

11. Staffing

11.1 The Chief Executive as ***H***ead of ***P***aid ***S***ervice is responsible for providing overall management to staff and is responsible for the arrangements for determining how officer support for Executive and non-Executive roles within the authority will be organised.

11.2 Directors ~~and Assistant Directors~~ are responsible for controlling total staff numbers by:

- advising the Cabinet on the budget necessary in any given year to cover estimated staffing levels
- managing the staffing numbers within approved budget provision and, where necessary, adjusting the staffing to a level that can be funded within approved budget provision, varying the provision as necessary within that constraint in order to meet changing operational needs
- the proper use of appointment procedures, workforce plans and verified personnel information.

12. Information Technology and Data and Information Management

12.1 The Director of Finance and Support Services shall ensure there is sufficient provision for all Information Technology and data and information management requirements.

12.2 All Directors and Assistant Directors will conform with and follow the Council's prevailing IT Strategy and will seek the advice of the Chief Information Officer on the introduction of new information and communications systems. In particular, Directors and Assistant Directors will ensure that sufficient standards and procedures are in place and will also ensure the achievement of value for money in the introduction of new systems and equipment.

12.3 Directors and Assistant Directors shall consult with the Chief Information Officer on the development of any financial or other systems whether computerised or manual at the earliest practicable stage and where appropriate obtain the consent of the Director of Finance and Support Services, and the Chief Information Officer in implementing those systems. This includes the potential use of AI assisted technologies to automate or simplify manual process.

12.4 Minimum standards of control for any new system or development of an existing system which involves a financial operation or produces output that may influence such an operation, must be agreed in advance with the Director of Finance and Support Services and Chief Information Officer.

12.5 Directors and Assistant Directors shall conform to the County Council's security and control of systems' standards within their Departments. They shall also be responsible for the security and privacy of data necessary to accord with the Data Protection Act 2018. When accessing central or other systems, Directors and Assistant Directors will be responsible for ensuring that agreed procedures are followed.

12.6 Any proposal to purchase or develop a computer system (IT hardware, software or communications equipment) shall be the subject of a business case in an approved form and in accordance with the Council's prevailing IT Strategy. In the same manner, such proposals will also be subject to post implementation review.

12.7 ***Directors and Assistant Directors shall make sound and sufficient contingency arrangements to ensure the security and continuity of***

services in the event of a disaster e.g. cyber, fire, flood etc. and to enable the restitution of systems and data.

Financial Regulation D - Systems and Procedures

1. Introduction

1.1 Sound systems and procedures are essential to an effective framework of accountability and control.

2. General

2.1 The Director of Finance and Support Services is responsible for the operation of the County Council's accounting systems, the form of accounts and the supporting financial records. Any changes to the existing financial systems or the establishment of new systems must be approved by the Director of Finance and Support Services. However, ~~Assistant~~ Directors are responsible for the proper operation of financial processes in their own service areas, including those activities which are delivered by an external party.

2.2 Any changes to agreed procedures by ~~Assistant~~ Directors to meet their own specific service needs should be agreed with the Director of Finance and Support Services.

2.3 Directors ~~and Assistant Directors~~ should ensure that their staff receive relevant financial training that has been approved by the Director of Finance and Support Services. This will also apply to external parties.

2.4 Directors ~~and Assistant Directors~~ must ensure that, where appropriate, computer and other systems are registered in accordance with data protection legislation. Directors ~~and Assistant Directors~~ must ensure that staff are aware of their responsibilities ***as set out in*** ~~under freedom of information~~ legislation ***including Freedom of Information requests and GDPR requirements***.

3. Income and Expenditure

3.1 It is the responsibility of ~~Assistant~~ Directors to ensure that a proper scheme of delegation has been established within their area and is operating effectively. The scheme of delegation should identify staff authorised to act on the ~~Assistant~~ Director's behalf, or on behalf of the Council, in respect of payments, income collection and placing orders, together with the limits of their authority.

3.2 Income can be a vulnerable asset and effective income collection systems are necessary to ensure that all income due is identified, collected, receipted and banked properly. It is preferable to obtain income in advance of supplying goods or services as this improves the County Council's cashflow and also avoids the time and cost of administering debts. The Council has debt management procedures in place which are regularly reviewed.

3.3 Public money should be spent with demonstrable probity and in accordance with the County Council's policies. The County Council's procedures should help to ensure that services obtain value for

money from their purchasing arrangements. These procedures should be read in conjunction with the County Council's Standing Orders on Procurement and Contracts. All ordering and payment for works, goods and services must comply with the County Council's Standing Orders.

3.4 The Cabinet Member for Finance and Property is responsible for approving procedures for writing off debts as part of the overall control framework of accountability and control. ***Any irrecoverable debt will be written off in accordance with the Scheme of Delegation, in line with the delegation limits set out below:***

Delegated Approval	***Limit for Write-Off***
Director of Finance and Support Services	***Up to £15,000***
Director of Finance and Support Services in consultation with the Director of Law and Assurance	***Between £15,001 to £100,000***
Cabinet Member for Finance and Property	***In excess of £100,000***

4. Payments to Employees and Members

4.1 The Director of Human Resources and Organisational Development is responsible for ***all*** ~~the~~ payments of salaries and wages to all staff, including payments for overtime, as well as payment of expenses and any loans and for payment of allowances to members. The Director of Finance and Support Services is responsible for ensuring there are appropriate financial systems in place to make these payments.

5. Ex-Gratia Payments

5.1 Directors may approve reasonable ex-gratia payments to both employees and 3rd parties of £1,000 or less to provide a remedy under the Council's complaints system or where a goodwill payment is made.

5.2 For ex-gratia payments in excess of £1,000 Directors must obtain the approval of the Director of Finance and Support Services and the Director of Law and Assurance. Such payments shall not exceed £10,000 without the approval of the Cabinet Member for Finance and Property.

5.3 A complete record of ex-gratia payments made by Directors shall be maintained and shall be available to the Director of Finance and Support Services on request and retained in line with the current policy.

6~~5~~. Taxation

6.1 The Director of Finance and Support Services is responsible for advising Directors, in the light of guidance issued by appropriate bodies and relevant legislation as it applies, on VAT taxation issues that affect the County Council. The Director of Human Resources and Organisational Development is responsible for advising Directors, in the light of guidance issued by appropriate bodies and relevant legislation as it applies, on all employee related taxation issues.

6.2 The Director of Finance and Support Services is responsible for maintaining the County Council's VAT records, making all VAT payments, receiving VAT credits and submitting VAT returns by their due date as appropriate.

7~~6~~. ***Non-Employees*** ~~Service Providers~~

7.1 It shall be a condition of engagement of any ***non-employee acting in partnership or on behalf of the County Council*** ~~service provider~~ (including consultants, contractors, agency staff and joint committees) for purposes within the scope of these Financial Regulations that they shall have a comprehensive knowledge of these Regulations and abide by them throughout the duration of their engagement. The relevant ~~assistant~~ ***D***irector with responsibility for engaging and managing the service provider shall ensure that this requirement is met.

Financial Regulation E - External Arrangements

1. Introduction

1.1 The County Council provides a distinctive leadership role for the community and brings together the contributions of the various stakeholders. It has the power to achieve the promotion or improvement of the economic, social or environmental well-being of its area.

1.2 This may involve the establishment of collaborative arrangements (formal or informal partnerships), joint ventures, joint operational models (such as pooled budgets) or providing an agency service.

1.3 The County Council may also want to provide financial support to staff in exceptional circumstances, clients or 3rd parties in the form of grants or loans. These are subject to approval by the Director of Finance and Support Services and where appropriate the Director of HR and Organisational Development.

2. *Partnership Arrangements, Joint Ventures and Pooled Budgets* ~~Partnerships~~

2.1 The County Council is responsible for approving delegations (Part 3, Section 2 of the Constitution), including frameworks for partnerships. The Cabinet is the interface in forming partnerships with other local public, private, voluntary and community sector organisations to address local needs.

2.2 Cabinet ***M***embers can delegate functions to officers. These are set out in the Scheme of Delegation that forms part of the County Council's Constitution. Where functions are delegated, the Cabinet remains accountable for them to the County Council.

2.3 The Chief Executive represents the County Council on partnership and external bodies, in accordance with the scheme of delegation.

2.4 The Director of Finance and Support Services is responsible for promoting and maintaining the same high standards of conduct with regard to financial administration in partnerships that apply throughout the County Council.

2.5 The Director of Finance and Support Services must ensure that the accounting arrangements to be adopted relating to partnerships and joint ventures are satisfactory. He or she must also consider, in consultation with the Director of Law and Assurance, the overall corporate governance arrangements and legal issues when arranging contracts with external bodies. He or she must ensure that the risks have been fully appraised before agreements are entered into with external bodies.

2.6 ~~Executive Directors and~~ Directors are responsible for ensuring that appropriate approvals are obtained before any negotiations are concluded in relation to work with external bodies.

2.7 Formal joint ventures will be subject to Cabinet approval.

Governance arrangements, financial framework and funding must be agreed in advance of the signing of any agreement or formal commitment of the Authority.

3. External Funding

3.1 All external funding ~~granted to the County Council~~ is to be notified to the Director of Finance and Support Services and he or she is responsible for ensuring that all funding notified by external bodies is received and properly recorded in the County Council's accounts. ***Any grant funding for which we apply must support the County Council priorities and be accompanied by an agreed exit strategy.***

4. Work for Third Parties

4.1 The Cabinet ***M***embers for a service and the Cabinet Member for Finance and Property shall be consulted before the completion of any contractual arrangements for any work for third parties or external bodies.

5. *Grants and Loans*

5.1 The County Council can make grants or loans to local enterprises, charities, wholly owned companies, joint ventures or private individuals as part of a wider strategy for economic growth or specific support.

5.2 Loans to third parties will generally form part of the Council's Capital Strategy with approval based on the economic and social benefits to the Council and the residents of West Sussex; or following an external credit assessment of the companies involved. These are not treasury type investments, rather they are Service Delivery policy investments and the funding will be spent on capital projects and may include:

- ***loans to the Council's Joint Venture (JV) Partnership with Lovell Partnerships Limited or Edes Estates, the County Council's wholly owned company. Any loan made to the joint venture would be in line with the JV Partnership Agreement;***
- ***loans to other third parties with which the County Council has a shared interest linked to the Council Plan priorities or legal responsibilities and where the nature of spend for which the loan is required is of a capital nature. These will be subject to consideration by the Director of Finance and Support Services.***

5.3 Non-Treasury Service Delivery investments will be funded through borrowing and will either utilise the Council's cash balances (internal borrowing) or impact on the Council's external borrowing. The value of loans to a specific third party at any one time will be limited to £15m.

5.4 Such loans will be considered when all of the following criteria are satisfied:

- ***The loan is towards expenditure which would, if incurred by the Council, be capital expenditure;***

- ***The purpose for which the loan is given is consistent with the Council's corporate/strategic objectives and priorities;***

- ***Due diligence is carried out that confirms the Council's legal powers to make the loan, and that assesses the risk of loss over the loan term;***

- ***A formal loan agreement is put in place which stipulates the loan period, repayment terms and loan rate; (which will be set at a level that seeks to mitigate any perceived risks of a loss being charged to the General Fund and takes appropriate account of Subsidy Control Rules).***

5.5 The approval limits for loans are:

- ***For loan amounts up to £0.5m, the Director of Finance and Support Services can authorise where there is no adverse impact on Council Policy or service delivery and can be funded from approved capital programme;***

- ***For loan amounts over £0.5m and funded from current capital programme resources the Cabinet Member for Finance and Property can authorise;***

- ***For any loan amounts in excess of the approved capital programme, County Council will need to approve any change to the capital programme required to enable such a loan to be approved.***

5.6 Third party loans approved in support of a company's (or individual's) revenue cash flows may however be arranged through the prescribed Treasury Management Practices (TMPs) of the County Council. Ahead of the Director of Finance and Support Services approving a loan the Council will undertake appropriate due diligence of the third party and the Council will also look to obtain appropriate levels of security or third party guarantees for any loan advanced. The Council would expect a return commensurate with the type, risk and duration of the loan and a maximum limit of £5m for all third party loans has been set. All loans should be in line with the Council's governance arrangements.

5.7 The County Council can make grants in certain circumstances where it is considered that they represent the most appropriate form of assistance. This is most likely to be the case for minor items of work or assistance, where the costs of arranging loan finance cannot be justified or in cases where the financial circumstances of the applicant are such that any other form of financial assistance would be inappropriate. All grant payments must be made in accordance with clearly defined criteria in line with the relevant grant conditions and should represent good value for money.

5.8 Grants or loans must be agreed by the appropriate Director and the Director of Finance and Support Services. All legal agreements to secure the repayment of a loan must be agreed by the Director of Law and Assurance.

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