

**Annual Governance  
Statement  
and  
Statement of Accounts  
(Audited)  
2015/2016**

**North  
Hertfordshire  
District Council**



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Statement  
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# Annual Governance Statement

## Annual Governance Statement 2015 to 2016

### 1. Scope of Responsibility

- 1.1 North Hertfordshire District Council (NHDC) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 1.2 NHDC also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.3 In discharging this overall responsibility, NHDC is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which include arrangements for the management of risk.
- 1.4 The Council is legally required to prepare an Annual Governance Statement ('AGS') under the provision of the Local Audit and Accountability Act 2014 and The Accounts and Audit Regulations 2015. It should prepare this Statement in accordance with proper practices set out in the CIPFA code and CIPFA's Delivering Good Governance in Local Government: Framework.<sup>1</sup> This statement explains how NHDC has complied with these requirements
- 1.5 NHDC has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.
- 1.6 The Council reviewed its governance framework in 2014/15 and shall do so in 2016/17 following the new CIPFA "Delivering Good Governance In Local Government: Framework (2016 Edition).
- 1.7 The Local Code of Corporate Governance was reviewed in 2016 and minor amendments were made in respect of the Council's Corporate Objectives.
- 1.8 A copy of the Code is on our website at <http://www.north-herts.gov.uk> or can be obtained from the Customer Service Centre, NHDC, Gernon Road, Letchworth Garden City, Herts, SG6 3JF.

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<sup>1</sup> 2007 & Addendum December 2012

## 2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of NHDC's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at NHDC for the year ended 31 March 2016 and up to the date of approval of the annual report and statement of accounts.


## 3. The Key Elements of the Governance Framework

- 3.1 The key elements of the systems and processes that comprise the Council's governance arrangements are described in Table 2.
- 3.2 Assurances provided by the Council's internal audit function that is delivered by a Shared Internal Audit Service (SIAS) are a significant source of assurance.
- 3.3 The annual risk-based audit plan contributes to the review of the Council's key internal control systems, risk management processes and corporate governance arrangements. SIAS supports the design and effectiveness of the governance framework. Each internal audit is given an assurance level. The definition of each of the assurance levels is provided below:


**Table 1 Shared Internal Audit Service – definition of assurance levels**

| Level of assurance | Definition                                                                                                                                                           |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Full</b>        | There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified. |
| <b>Substantial</b> | Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.                 |
| <b>Moderate</b>    | Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.                          |
| <b>Limited</b>     | There are significant weaknesses in key control areas, which put the system objectives at risk.                                                                      |
| <b>No</b>          | Control is weak, leaving the system open to material error or abuse.                                                                                                 |

**Table 2: KEY ELEMENTS OF THE GOVERNANCE FRAMEWORK – HOW WE MEET OUR COMMITMENT TO GOOD GOVERNANCE SET OUT IN OUR CODE.**

 Signifies: Action will be taken

| <b>Principle 1. Focus on the purpose of the Council and in outcomes for the community and create and implement a vision for North Hertfordshire.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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| <b>How we meet this principle</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>Policies &amp; Procedures in place</b>                                                                                                                               | <b>Assurance received and any issues identified</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <p>The Council's Priorities were reviewed for 2015/16. Key projects are reported mid year and achievement of Priorities year end to Overview &amp; Scrutiny Committee.</p> <p>The Priorities were also reviewed by Overview &amp; Scrutiny, Cabinet and Council in 2015 and new Corporate Objectives were adopted as part of the Corporate Plan for April implementation (vision for 2016-2021).</p> <p>The Corporate Plan is supported by the five year Medium Term financial strategy.</p> <p>The Council publishes the service plans with the Corporate Plan for the District.<br/> <a href="http://www.north-herts.gov.uk/home/council-performance-and-data/corporate-objectives">http://www.north-herts.gov.uk/home/council-performance-and-data/corporate-objectives</a></p> <p>The Council's performance management system includes a corporate Data Quality Policy and uses the Covalent System to improve its performance management.</p> | <p><a href="#">Corporate Plan 2016-21</a></p> <p><a href="#">Performance Management</a></p> <p><a href="#">Performance Indicator Monitoring Report 2015/16 year</a></p> | <p>Achievement of the Priorities and key projects for the District has been monitored throughout 2015/16 via the Council's Senior Management Team and via Overview &amp; Scrutiny Committee (as per the principle). The monitoring of delivery against the Priorities reviews the Council's capacity to deliver agreed projects within the agreed cost, time and resources.</p> <p>Performance targets are agreed each year through the mechanism of workshop and Cabinet approval.</p> <p>Analysis and reporting of performance for 2015/16 indicates we achieved most of our targets with the exception of:</p> <ul style="list-style-type: none"> <li>- number of Planning applications where a fee had to be refunded. The target was 0 for refunds. 2 had to be refunded, where the applications were referred to an external consultant (for a variety of reasons including current court dispute). The total fee returned was £770 (the total fee income for 2015/16 was £615,325).</li> <li>- waste management recycling (residual waste per household – target 350kg, achieved 367kg. NHDC remains, however, in top quartile for performing English districts. Percentage of household waste sent for recycling – target 61%, achieved 57.83%. Again NHDC remains in the top quartile for performance. Kg per residual waste 315kg – achieved 336kg. Percentage of waste from households recycled or composted – target 63% achieved 59.77%.</li> </ul> |

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|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <a href="#">end</a>                                                                                                       | <p>The slight drop reflects the national picture and is attributed to improved economic activity reflected in consumer habits. NHDC remains in the top quartile for performance for all English District local authorities, with a ranking of 9-11 out of 194.</p> <ul style="list-style-type: none"> <li>- number of households who had homelessness prevented (target 260, achieved 134). The number of homelessness preventions has consistently fallen largely due to challenges accessing the private rented sector, which has been the most effective prevention tool over recent years. Efforts are being made to improve access; however, the position is unlikely to change significantly in the short-term.</li> </ul> <p>The mechanism for performance review shall be considered during 2016/17 by Overview &amp; Scrutiny Committee and Cabinet.</p>  |
| <p>The Council publishes as part of its financial statements the independent external auditor opinion on the financial statements and the value for money (VfM) conclusion which reports on whether the Council has 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. For 2014/ 15 was compiled by external auditors Grant Thornton (reported to September 2015 Finance, Audit &amp; Risk Committee). For 2015/16 it will be Ernst &amp; Young and these will be reported in September 2016.</p> | <p><a href="#">Audit Findings Report for NHDC 2014/15</a></p> <p><a href="#">Audit Plan year ending 31 March 2016</a></p> | <p>The Auditors confirmed that that the Council's financial statements presented a true and fair view of the financial position, expenditure and income for the year and that the Statement had been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. They also confirmed that the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources and proposed an unqualified VfM conclusion.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |



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| <p>A robust Corporate business planning programme is used to assess identified projects against criteria including the Council's agreed policy, its priorities, the outcomes of public consultation, demonstration of continuous improvement and changing legislative need.</p>                                                                                                                                                                                                   |                                                                 | <p>High level draft projects to be reviewed and agreed in the June/July Cabinet meetings each year. The proposals are reviewed by Overview &amp; Scrutiny Committee and where relevant to Finance, Audit and Risk Committee.</p>                                                                                                                                                                                                                                                                                                 |
| <p>The financial elements of our Corporate Business Planning Process are set out in the Medium Term Financial Strategy (MTFS) which looks five years ahead to ensure the Council's commitment to the delivery of its Priorities (2016 going forwards, Objectives). Whilst an updated MTFS has been approved by Full Council each year (for 2017 onwards) the relevant plan for 2016/17 review has been attached.<br/><a href="#">Medium Term Financial Strategy NHDC page</a></p> | <p><a href="#">Medium Term Financial Strategy 2016-2021</a></p> | <p>The MTFS will continue to take account of the current economic climate and the forthcoming changes to Local Authority funding. The Finance Audit &amp; Risk Committee and Cabinet reviews the Council's revenue, capital and treasury management activity on a quarterly basis.</p> <p>The Council's key financial systems are subject to an annual review by internal audit.</p> <p>Quarterly reviews ensure the Council has sound processes and controls over the Treasury function that minimise risks to the Council.</p> |
| <p>The Council has a Treasury Management Strategy that is reviewed each year and monitored quarterly.</p>                                                                                                                                                                                                                                                                                                                                                                         | <p><a href="#">Treasury Management Strategy</a></p>             | <p>The Treasury Management Strategy 2015/16 sets the treasury management operations that are associated with the MTFS. Part of the role of the Strategy is to ensure that there is adequate cash flow to meet the Council's MTFS requirements. The 2015/16 Treasury Management report issued by SIAS in November 2015 gave substantial assurance for those areas covered by the review.</p>                                                                                                                                      |
| <p>In 2015 Finance, Audit and Risk Committee reviewed the Information Technology Strategy for 2015-2020 which is aimed at application development to meet service needs and promote mobile working/ move towards channel shift and self-help, developing on-line solutions.</p>                                                                                                                                                                                                   | <p><a href="#">IT Strategy 2015-2020</a></p>                    | <p>The IT Strategy provides assurance by setting out the measures to meet service requirements and provides details of the business recovery mechanisms in place.</p>                                                                                                                                                                                                                                                                                                                                                            |

The Shared Internal Audit Services (SIAS) undertake and present an Annual Assurance Statement, Internal Audit Annual Report, Annual 2015/16 report on the work undertaken on assurance and other projects. Updates on progress against the Audit Plan 2015/16 are also presented to Finance, Audit and Risk Committee. This process allows review of the assurance levels provided by SIAS by Members/public, actions to be monitored and appropriate amendments to the Plan to be approved.

[SIAS Annual Assurance Statement and Internal Audit Report 2015/16](#)

[SIAS update on progress against the 2015/16 Audit Plan](#)

[NHDC SIAS 2016/17 Internal Audit Plan](#)

Following the introduction of the Public Sector Internal Audit Standards (PSIAS) and the SIAS Audit Charter in 2013, SIAS has developed its Quality Assurance and Improvement Programme which ensures that the service has the processes to deliver robust assurance work. An update to the Charter was brought to the Committee in June 2015 with an assessment of SIAS's conformance against the PSIAS standards for 2014/15. In the North Herts Annual Report tabled at the June 2015 Committee meeting, the Head of Assurance confirms that SIAS substantially conforms to the PSIAS and considers the internal audit service to be effective.

As at 31 March 2016, 99% of the 2015/16 Audit Plan days had been delivered. The Audit Plan progress reports presented and the summary is detailed below.


| <b>Audit Title</b>         | <b>Date of Issue</b> | <b>Assurance Level</b> | <b>Number of Recommendations</b>    |
|----------------------------|----------------------|------------------------|-------------------------------------|
| Creditors                  | December             | Full                   | None                                |
| Main Accounting            | January              | Full                   | None                                |
| Treasury Management        | November             | Substantial            | 2 Findings (self-assessment report) |
| Payroll                    | February             | Substantial            | 3 Medium, 1 Merits Attention        |
| Elections Payroll          | December             | Substantial            | 2 Medium, 2 Merits Attention        |
| Debtors                    | December             | Full                   | None                                |
| Council Tax                | February             | Substantial            | 3 Medium, 3 Merits Attention        |
| Benefits & Rent Allowances | January              | Full                   | None                                |

|  |  |                                            |          |             |                               |
|--|--|--------------------------------------------|----------|-------------|-------------------------------|
|  |  | Ongoing Financial viability of contractors | November | Moderate    | 3 Medium, 1 Merits Attention. |
|  |  | Community Halls & Centres                  | February | Moderate    | 1 High, 1 Medium              |
|  |  | Social Media                               | August   | Substantial | 1 Medium, 1 Merits Attention. |
|  |  | Insurance                                  | June     | Substantial | 1 Merits Attention.           |
|  |  | S106 payments                              | August   | Substantial | 2 Medium, 1 Merits Attention. |
|  |  | Neighbourhood Plans                        | March    | Substantial | 1 Medium, 5 Merits Attention. |
|  |  | Procurement Cards                          | July     | Substantial | 2 Merits Attention.           |
|  |  | Non Domestic Rates                         | March    | Substantial | 2 Medium, 1 Merits Attention  |
|  |  | Careline                                   | April    | Substantial | 1 Medium, 2 Merits Attention  |
|  |  | Use of Agency Staff                        | April    | Substantial | 2 Medium, 1 Merits Attention  |
|  |  | Cemeteries                                 | May      | Substantial | 1 Medium, 1 Merits Attention  |
|  |  | Profit Share Arrangements                  | May      | Full        | None                          |
|  |  | Officer & Member Expenses                  | May      | Substantial | 3 Medium                      |
|  |  | DCO Refurbishment Project                  | May      | Substantial | 2 Medium, 2 Merits Attention  |



A further report will be presented to FAR Committee in September 2016, detailing an audit on safer staffing. There will be opportunities for further development and action on this issue following a Limited Assurance level.


In addition, the Council has a number of areas examined by SIAS through consultancy arrangements. Whilst no assurance levels are provided through this mechanism, issues are identified, recommendations made and action taken by management to improve control arrangements in the future as appropriate. During this year SIAS examined the accounts for King George's Playing Field; assessed compliance with the conditions of Repair & renew grants in order to support the release of grant funding and shared learning including benchmarking of risk management arrangements.

Safeguarding audits are also undertaken externally by other auditors on behalf of SIAS or independently (for example one was undertaken on Child Sexual Exploitation and this will be follow up by Herts Safeguarding Board).


| <b>Principle 2: Work to achieve the agreed objectives within clearly defined Member and Officer roles.</b>                                                                                                                                                                                                                                               |                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
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| <b>How we meet this principle</b>                                                                                                                                                                                                                                                                                                                        | <b>Policies &amp; Procedures in place</b> | <b>Assurance received and any issues identified</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| The Council's Constitution includes a scheme of delegation and terms of reference for each of the Council's committees. Responsibilities are recorded to make clear how the executive and non-executive functions operate within the Council. The Constitution reflects the legislative arrangements for defining executive and non-executive functions. | <a href="#">Constitution</a>              | <p>The Monitoring Officer has processes for review of legislative changes which feed into the annual review of the Constitution. Consultation meetings and other forms of communication between the Monitoring Officer and senior managers, the Leader and Members as appropriate, ensures that managers and Members can contribute to revisions of the scheme of delegation and terms of reference.</p> <p>The annual review of the Council's Constitution is discussed with the Leader of the Council and opposition group leaders and other member forums (as appropriate) and is formally agreed by Council. The Monitoring Officer retains overall responsibility for keeping the Constitution under review. The Constitution was reviewed in 2015 and again on 14 July 2016 by Council. Amendments were approved to take into account any required changes (legislative and/or operational).</p> |
| The Scheme of Delegation defines the general power to act granted to the Chief Executive and Strategic Directors within the areas of their service responsibility.                                                                                                                                                                                       | <a href="#">Constitution - Section 14</a> | <p>A review was undertaken in 2015 as part of the 2015/16 Constitution Review and a more substantive review will follow any restructure of the senior management team.</p> <p></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

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| <p>The Council has a statutory responsibility to have a Section 151 Officer and a Monitoring Officer. The Strategic Director of Finance, Policy and Governance is the Section 151 Officer (Chief Finance Officer (CFO)). The Monitoring Officer is the Corporate Manager of Legal Services.</p>                                                                                                                                                                                                                       | <p><a href="#">Organisation Structure Chart</a></p>                                                      | <p>The CFO has a duty to the Council's taxpayers to ensure that public money is being appropriately spent and managed. The CFO reports directly to the Chief Executive. The CFO ensures that appropriate advice is given on all financial matters, is responsible for keeping proper financial records and accounts and for maintaining an effective system of internal control.</p> <p>The Council's financial management arrangements conform to the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) and The Role of the Chief Financial Officer in Local Government (2016) which supplements this.</p> <p>The Monitoring Officer acts as guardian of the Council's Constitution to ensure lawfulness, probity and fairness of Council decision making.</p> |
| <p>There is an agreed Protocol on Member/Officer working arrangements.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                            | <p><a href="#">Constitution - Section 18</a></p>                                                         | <p>A constructive working relationship largely exists between elected Members and Officers. A complaint against one of the elected Members was upheld in February 2016, which included a finding of breaching the Code of Conduct for failing to follow the Member/ Officer Protocol.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <p>The Council's Overview &amp; Scrutiny Committee sets an agreed work programme for a number of Task and Finish Groups and reviews. These supplement scheduled meetings and ensure further Member scrutiny and analysis of how the Council utilises its resources. The Overview &amp; Scrutiny Committee, having reviewed policy recommendations and completed task and finish reviews, can make recommendations to Cabinet which reflect their findings in order to further inform the decision making process.</p> | <p><a href="#">Overview &amp; Scrutiny Committee</a></p> <p><a href="#">Constitution - Section 6</a></p> | <p>The Overview &amp; Scrutiny Committee publishes an annual report. The effectiveness of task and finish groups and the protocol has been reviewed in 2015/16 with a view to improved Overview &amp; Scrutiny outcomes.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

| <b>Principle 3: Promotes values for the Council and demonstrates the values of good governance through upholding high standards of conduct and behaviour</b>        |                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
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| <b>How we meet this principle</b>                                                                                                                                   | <b>Policies &amp; Procedures in place</b>                                                       | <b>Assurance received and any issues identified</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| The Standards Committee promotes and maintains high standards of conduct.                                                                                           | <a href="#">Constitution - Section 7</a>                                                        | The Standards Committee/ Sub-Committee, Monitoring Officer and Independent Person(s) oversee the number and types of complaints dealt with through the section 28 Localism Act 2011 complaint handling arrangements. Following receipt of a number of complaints during 2015 the arrangements will be reviewed to ensure effectiveness.<br>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| The Council operates Codes of Conduct for Members and Employees, maintaining arrangements for reporting and investigating any allegations of breaching those Codes. | <a href="#">Constitution - Section 17</a><br><br><a href="#">Complaining about a Councillor</a> | In respect of the Member Code of Conduct: records of advice on Member Code of Conduct issues are kept by the Monitoring Officer. Complaints are considered and handled in accordance with the adopted section 28 Localism Act 2011 arrangements.<br><br>With regard to complaints against District and Parish Councillors the overall level has remained static, with one referred to Standards Sub-Committee following an external independent investigation. The remainder have been investigated and either not upheld or resolved through informal mechanisms.<br><br>Complaints concerning employees are dealt with according to the Managing Misconduct Policy, and/ or Employment Procedure rules for staff (which for relevant officers will also potentially involve the Independent Person/ Employment Committee and Full Council).<br>Training is provided to Members on the Code of Conduct post election and shall be made available to the wider membership on during 2016/17 on the Code and other related governance issues/ policies.<br> |



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| <p>A Planning Code of Conduct is in place and is adhered to by Members who sit on the Planning Committee. This is set out in part 8 of the Constitution.</p>                                                                                                                              | <p><a href="#">Constitution - Section 8</a></p>                                                                                       | <p>The Planning Code of Good Practice was reviewed and updated in 2015 and a new Code was adopted. This was considered by Standards Committee in March 2016 and it will be reviewed by Standards Committee again in 2016/17 once the new Code has been in place for at least one year.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <p>The Council maintains records of the interests of Members (and Parish Councillors) and senior employees. The Member's interests are retained by the Monitoring Officer and are published as part of the Localism Act 2011. Employee interests are retained by HR.</p>                  | <p><a href="#">Councillors' Declaration of Interests</a></p>                                                                          | <p>Declaring interests under the Code of Conduct is a standing item on the agenda at every Council meeting and declarations are minuted by the clerk (and this is part of the template for delegated decision making also). A legal adviser attends all Council, Cabinet, Planning and Licensing Committee meetings to advise on Code and other issues where this is requested or otherwise considered appropriate. A legal advisor will review delegated decisions prior to these being published.</p> <p>Following the SIAS audit review of Community Halls &amp; Centres it was recommended that further guidance was issued by the Monitoring Officer to Members on outside bodies in 2016. A Full and summary 'Guidance for Members on Outside Bodies' was prepared and circulated to Members by the Deputy Monitoring Officer. It is available to Members via the intranet.</p> |
| <p>Members and Employees should comply with a Gifts &amp; Hospitality Protocol and Policy respectively.</p> <p>The Council maintains electronic Registers for Employee Gifts &amp; Hospitality for each directorate and Member's declarations are retained by the Monitoring Officer.</p> | <p><a href="#">Employee Gifts and Hospitality Policy</a></p> <p><a href="#">NHDC Members Protocol for Gifts &amp; Hospitality</a></p> | <p>The Employee Gifts &amp; Hospitality Policy and the NHDC Member Gifts &amp; Hospitality Protocol were reviewed and updated in 2015. Electronic forms and registers were introduced. Both Employees and Member registers of gifts &amp; hospitality can be called in by the Monitoring Officer or requested and may be viewed by the public under information access regimes.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <p>The Council has an Employee Conflicts of Interests Policy and employees are obliged to declare personal conflicts under the Policy.</p>                                                                                                                                                | <p><a href="#">Conflicts of Interest Policy</a></p>                                                                                   | <p>The Employee Conflicts of Interest Policy was reviewed and updated in 2015 and additionally new Guidance was produced to cover Conflicts in Council Roles and Duties. Training was provided to Senior Management</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |




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| <p>There is also Guidance on “Managing Organisational Conflicts in Council Roles and Duties.”</p> <p>Members are obliged to declare interests under the Code of Conduct and the Organisational Conflicts Guidance also applies to the roles they undertake that may conflict.</p>                                                                                                                                               | <p><a href="#">Managing Organisational Conflicts Guidance</a></p>                                                                          | <p>Group on the Guidance in 2016 on the potential actions that can be taken in such organisational conflict situations.</p> <p>Heads of Service/ Corporate Managers are obliged to include any details of organisational conflicts in their service plan assurance statement.</p> <p>In addition to conflicts of interest forms, Senior Management are now also required to declare any related party transactions.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <p>The Council operates a “zero tolerance” approach to any type of fraud or corruption perpetrated against the Authority. The Council maintains robust arrangements for dealing with any issues that are discovered.</p> <p>The Council has various policies and procedures that supplement/ are part of the anti-fraud and corruption arrangements. These include an Anti-Money Laundering Policy and Anti-Bribery Policy.</p> | <p><a href="#">Anti Fraud &amp; Corruption Policy</a></p> <p><a href="#">Appendix 3 - Proposed SAFS Anti-Fraud Action Plan 2016/17</a></p> | <p>Having considered all the principles, the Council is satisfied that it has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud. A Shared Anti Fraud Service (SAFS) has been operational from April 2015. SAFS present reports and an action plan to Finance, Audit and Risk Committee. They report the types of fraud, outcomes of closed cases/ ongoing investigations. To the end of March 2016, NHDC fraud losses of £43,000 had been identified and further savings of £69,000.</p> <p>The Anti-Bribery Policy and procedures were reviewed and updated in 2015/16 and a revised Policy has been adopted. The Council has introduced an e-learning anti-bribery module for employees and Members; it has also supplemented awareness through an annual declaration letter for employees linked to the appraisal regime. SAFS has also identified further training for employees (October 2016) and Members (March 2017) as part of its 2016/17 Plan. Training and the declarations will be monitored in 2016/17.</p>  |
| <p>The Council operates arrangements to enable those that work for the Council (employees, agency staff and trainees) as well as Members to report wrongdoing or potential wrongdoing.</p>                                                                                                                                                                                                                                      | <p><a href="#">Confidential Reporting (Whistleblowing Policy)</a></p>                                                                      | <p>One complaint was received in the 2015/16 period and the assessment found that there was no evidence to demonstrate breach of Policy or legislation. There was one recommendation that it would be desirable for the employee (who had been the subject of the concern) to provide an updated conflicts of interest form and this was actioned through the line manager.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

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|                                                                                                                                                                                                                     |                                                                                                                                                                                       | Receipt of the whistleblowing concern allowed relevant parties to review the procedures and this assisted with the review and update of the Policy. The amended Policy was subsequently considered by Finance, Audit & Risk Committee and approved by Cabinet in March 2016. This, and updated Advice to Managers on handling a whistleblowing incident, was made available to staff. A new confidential reporting form has also been introduced to monitor concerns and outcomes, with a final copy of this form to be retained by the Monitoring Officer.                                                                                              |
| <p>The Council encourages feedback from service users whether good or bad. The Council has a policy for handling complaints.</p> <p>Details of the 3 C's are reported to the Overview &amp; Scrutiny Committee.</p> | <p><a href="#">Comments, Compliments and Complaints</a></p> <p><a href="#">Comments, Compliments and Complaints (3cs) full year update report - 1 April 2015 to 31 March 2016</a></p> | <p>The 3 C's Policy was reviewed in 2015.</p> <p>There were 12 complaints made to the Local Government Ombudsman during 2015/16. None were upheld.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <p>SIAS undertake a review of the effectiveness of the main governance Committee - Finance, Audit and Risk.</p>                                                                                                     | <p><a href="#">The effectiveness of the Finance, Audit &amp; Risk Committee</a></p>                                                                                                   | <p>The 2014/15 report confirmed that the Committee was operating effectively, with recommended actions for Members to gain a deeper understanding of the SIAS methodology (presentation provided in June 2015) and consideration of further enquiry on specific training requirements. A further report was presented on 13 June 2016. A number of recommendations were made and approved by the Committee for 2016/17:</p> <p>An induction programme is provided to all new Members<sup>2</sup>;<br/>All Members of Finance, Audit &amp; Risk Committee are asked to complete the skills self-assessment to identify areas of strength and training</p> |

<sup>2</sup> NB next due following 2018 District elections


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|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                         | needs; and<br>A training programme is delivered to satisfy any training needs identified.<br>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Principle 4. Take informed and transparent decisions which are subject to effective scrutiny and risk</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>How we meet this principle</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <b>Policies &amp; Procedures in place</b>                                                                                               | <b>Assurance received and any issues identified</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| The Council makes all Council and committee agendas, meeting papers and minutes, relevant executive and non-executive decision, and now audio recordings available on its website.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <a href="#">Protocol for Recording of Council Meetings</a>                                                                              | Following a review of the Council's procedures, Cabinet approved a Protocol for Recording of Council meetings, recording of all meetings that would be accessible to the press and public under the Local Government Act 1972 and relevant Regulations. <sup>3</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| The Council aims to comply with the Local Government Transparency Codes 2014 and 2015.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <a href="#">Open data</a>                                                                                                               | The Council reviewed its practices and is now fully compliant with the requirement to publish the data required by the Transparency Code.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Underpinning the Council's financial management arrangements is a regulatory framework comprising Financial Regulations, Contract Procurement Rules, annual audits of key financial systems, audits of other systems undertaken on a risk-based basis and the role of the statutory Section 151 (Chief Finance) officer.<br><br>The Chief Finance Officer must, under section 113 of the Local Government Finance Act 1988, be a Member of a specified accountancy body. The statutory role must be performed by an "Officer" of the Council. The Chief Finance Officer has a duty under section 114 of the 1988 Act to consult with the Head of Paid Service and Monitoring Officer on any unlawful expenditure and/ or an unbalanced Budget, and to report this to all | <a href="#">Constitution - Part B - Financial Regulations</a><br><br><a href="#">Constitution - Part B - Contract Procurement Rules</a> | The Financial Regulations were reviewed and approved by Full Council on 12 February 2015. Minor amendments were approved following the Constitution reviews in July 2015 and July 2016.<br><br>No section 114 1988 Act reports have been issued during 2015/16.<br><br>The Contract Procurement Rules were reviewed, amended and approved by Full Council on 16 July 2015, with some further Public Services (Social Value) Act 2012 changes being approved by Cabinet on 28 July 2015 (updated by the Monitoring Officer under delegated powers). These will be reviewed again in 2016/17 to ensure they reflect the up to date legislative requirements (anticipated that this will be presented to November Council following Finance, Audit & Risk Committee consideration).<br> |

<sup>3</sup> Cabinet on 28 July 2015.

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| Members.                                                                                                                                                                                                                                      |                                                                                                           | For the 2015/16 reviews, SIAS gave Full assurance to the Council's Creditors, Main Accounting System, Debtors, and Benefits & Rent Allowances systems, Profit Share Arrangements and Substantial assurance for Treasury Management, Payroll, Elections Payroll, Council Tax, Insurance, social media, s106 payments, Neighbourhood Plans, Procurement cards, non domestic rates, Careline, use of Agency staff, Cemeteries, Officer & Member expenses and the DCO refurbishment project.                                                                                                                                                                                                                               |
| The Finance, Audit and Risk Committee meets 5 times per year and provides on-going monitoring and review of financial management. The Committee's terms of reference/ remit are set out in section 10 of the Constitution.                    | <a href="#">Finance Audit and Risk Committee Minutes</a><br><br><a href="#">Constitution - Section 10</a> | The terms of reference were reviewed and amended in July 2015 by Council, as part of the Constitution Review.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <p>A register of Council contracts is published on the Council's website.</p> <p>In addition the Council now publishes all spend data (which exceeds the requirement to publish spend for £500 and above) and does so on a monthly basis.</p> | <a href="#">Contracts Register Spend data</a>                                                             | <p>The Council commissioned the East of England LGA (EELGA) to undertake a review of our procurement and commissioning activities. Most of these have been implemented, with outstanding actions as reported to the Finance, Audit &amp; Risk Committee in March 2016 of the Procurement Strategy; contracts risk matrix and the implementation of Core/ Non-Core procurement. Core / non- core has now been implemented with Guidance to be produced in the form of a risk matrix and contract management guide. The Council will continue to implement the outstanding agreed recommendations from this review in 2016/17.</p>  |
| <p>The Council has a Risk and Opportunities Management Policy and Strategy In addition to the Risk Management Group.</p> <p>The Performance and Risk Management Team is responsible for managing the NHDC Project</p>                         | <a href="#">Risk &amp; Opportunities Management Policy</a>                                                | <p>Monitoring is provided by the Finance, Audit &amp; Risk Committee and if necessary referrals are made to Cabinet. An annual report is presented to Full Council.</p> <p>The Policy was reviewed in 2014 and the Strategy in December 2015 and it will be reviewed triennially (Policy next due in 2017) unless there are</p>                                                                                                                                                                                                                                                                                                                                                                                        |

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| <p>Management Framework and offers support and guidance relating to its application and use. The Performance and Risk Management Team offers support to Project Managers relating to the completion of Project Risk Logs and Benefits Review Plans. Outcomes and lessons learnt are collated by the Team.</p> <p>The key risks that could threaten the delivery of services and the achievement of our Priorities are actively managed.</p>                                                    | <p><a href="#">Risk &amp; Opportunities Management Strategy</a><br/>2015/18</p>                          | <p>significant changes that require the documents to be updated in the interim. An internal Officer group reviews the risk management framework. This is attended by the Council's risk management "champions" (Head of Finance, Performance &amp; Asset Management and Executive Member for Finance and IT).</p> <p>An internal audit on risk management in 2014/15 gave a Full level of assurance.</p> <p>Relevant Officers in Finance, Performance &amp; Asset Management explored shared insurance support service in 2016 and those arrangements are now in place.</p>                                                                      |
| <p>The Monitoring Officer, after consulting with the Chief Executive and section 151 Officer, has statutory duty/powers to report to Council or Cabinet in relation to any function, any proposal, decision or omission that he/she considers would give rise to unlawfulness or any decision or omission that has given rise to maladministration. Such a ('section 5) report will have the effect of stopping implementation of the decision until the report has been considered.</p>       | <p><a href="#">Monitoring Officer role</a></p>                                                           | <p>No such report has been issued. The approach of the Monitoring Officer is to seek to resolve any potential issue in advance, including by ensuring relevant legal and governance advice is included within Committee reports (and delegated decision records), so that use of the statutory power would be as a last resort.</p>                                                                                                                                                                                                                                                                                                              |
| <p>The Council's Overview &amp; Scrutiny Committee reviews policy, decisions and completes task and finish reviews. It can make recommendations to Cabinet which reflect its findings to further inform the decision making process. The Committee's terms of reference/ remit are set out in section 6 of the Constitution.</p> <p>The public are encouraged to engage in the work of the Overview &amp; Scrutiny Committee and the Committee meetings dates, and agenda, are publicised.</p> | <p><a href="#">Overview &amp; Scrutiny Committee</a></p> <p><a href="#">Constitution - Section 6</a></p> | <p>Further challenge is provided by Members through meetings with the Executive Members with Portfolio, comments received through any relevant consultation with Area Committees and Member workshops.</p> <p>Quarterly monitoring meetings are held with the Head of Assurance from SIAS, the Council's Strategic Director of Finance, Policy and Governance (Section 151 Officer) and Head of Finance, Performance &amp; Asset Management to ensure a high standard of internal audit support is maintained. In addition there are regular meetings between the Audit Manager and Head of Finance, Performance &amp; Asset Management. The</p> |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
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|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                 | audit plan was reviewed after six and nine months to identify any amendments needed to reflect changing priorities, emerging risks or resourcing changes. Amendments are made in the first six months of a financial year only if significant changes occur to one of these factors.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Scrutiny is provided at Officer level through the Senior Management Team.<br><br>SIAS also audit/ review areas and produce an annual report (see above). SIAS supports the design and effectiveness of the governance framework.                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Principle 5: Develop the capacity and capability of members and officers to be effective</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>How we meet this principle</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>Policies &amp; Procedures in place</b>                                                                                                                       | <b>Assurance received and any issues identified</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <p>The Council's Regular Performance Review ('RPR' Appraisals) Process not only identifies progress and performance, but also skills gaps to enable the individual and the Council to achieve NHDC objectives. Any identified gaps are then addressed through an individual's personal development plan. Personal development and delivery against agreed personal objectives are monitored through agreed six monthly RPR reviews.</p> <p>The Council's People Strategy incorporates the Workforce Development Plan.</p> <p>The Council operates a vacancy management process which provides a corporate overview of vacancy management and to ensure compliance with</p> | <p><a href="#">Meetings of Joint Staff Consultative Committee</a></p> <p><a href="#">People Strategy 2015-2020</a></p> <p><a href="#">Workforce profile</a></p> | <p>This process ensures that the Council continually has in post individuals equipped to carry out their functions with due regard to law, policy and regulation. The RPR system is currently under review.</p> <p>The Council was reassessed for the Investors in People Standard in 2014 and reviewed its appraisals process. A new RPR Policy was approved in 2016. This is conducted against a flexible competency framework (for Technical, Staff Behavioural and Manager competencies).</p> <p>The Council has a Top Risk relating to Workforce Planning which identifies the risks from the Council's ability to recruit &amp; retain staff that have the skills and experience needed. The People Strategy was updated to cover 2015 to 2020. A review of vacancy control has been undertaken during 2015/16. The People Strategy progress is monitored at quarterly Joint Staff Consultative Committee ('JSCC') meetings. Mitigations measures to address this include, for example: monitoring turnover rates; job evaluation;</p> |

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| <p>proper recruitment practices</p> <p>The Council has a Corporate Equality Strategy to ensure we treat everyone fairly &amp; equally. The Council is committed to equality of opportunity in employment and aims to have a workforce that is representative of the community that it serves.</p> <p>The Council fully supports the development of Members and the budget for member training has been delegated to each of the political groups. Members are encouraged to have personal development programmes. They can access the Learning Management System and Member training is provided by Officers or external parties as required.</p> | <p><a href="#">Corporate Equality Strategy</a></p>                                | <p>employee benefits; secondment opportunities; mentoring; management development; leadership development; apprentice scheme; career development; and home working.</p> <p>The Council reports on a number of performance indicators to the JSCC on the workforce profile of our staff.</p> <p>The Corporate Equality Strategy will be reviewed by December 2016.</p> <p> Following the election in May 2018, new Councillors will be provided with development opportunities to support them in their role (as part of the induction process).</p> |
| <p><b>Principle 6: Engage with local people and other stakeholders to ensure robust public accountability</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <p><b>How we meet this principle</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <p><b>Policies &amp; Procedures in place</b></p>                                  | <p><b>Assurance received and any issues identified</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <p>The Overview &amp; Scrutiny Committee provides this, as indicated above. Public engagement is encouraged.</p> <p>The Council has a Corporate business planning process as outlined above, that includes an annual timetable of formal consultation events, ensuring our statutory, voluntary, community parish and town council, and business partners have the opportunity to comment on budget proposals (both investments and efficiencies) under consideration.</p>                                                                                                                                                                        | <p><a href="#">Annual Report of Overview &amp; Scrutiny Committee 2015/16</a></p> | <p>The Overview &amp; Scrutiny Committee publishes an annual report as both evidence of its activities and its contribution to the Council's policy making process.</p> <p>Views on readership and the look of Outlook are obtained when the District Wide Survey is undertaken.</p> <p>The Grants Policy was reviewed during 2016 and the formal review approved by Cabinet on 14 June 2016. It will be implemented during 2016/17 with a view to further work being identified and undertaken during 2016/17.<sup>4</sup></p>                                                                                                        |

<sup>4</sup> See for resolutions: <http://web.north-herts.gov.uk/aksnherts/users/public/admin/kab12.pl?cmte=CAB&meet=97&arc=71>

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| <p>The Council has a Customer Service Strategy that aims to put people first.</p> <p>The Council complies with legislation arising from the Freedom of Information Act and Environmental Information Regulations. Proper control and security is exercised over personal data entrusted to the Council.</p> <p>The Council communicates the district vision and achievements against its Objectives (as outlined above). This is provided via a quarterly publication, 'Outlook' that is delivered to the homes of its residents. The 'Council Tax Information' leaflet gives further information on our performance, expenditure and efficiencies and is posted on the Council's website. For the autumn of 2016, 'Outlook' will contain a Council review of the 2015/16 financial year summarising key achievements against the priorities with details of expenditure.</p> <p>Use of social media sites and a text alerts service have been introduced to widen the range of communication methods with local residents.</p> | <p><a href="#">Full Version of Customer Service Strategy</a></p> <p><a href="#">Freedom of Information overview</a></p> <p><a href="#">Data Protection Statement</a></p> <p><a href="#">Outlook Magazine</a></p> <p><a href="#">Your Council Tax bill</a></p> | <p>The Council has a Consultation Strategy and this was reviewed and updated in 2015.</p> <p>SIAS undertook a review of Data Protection and FOI as part of the 14/15 Audit Plan. This was given a moderate level of assurance with 1 High and 9 medium recommendations for implementation in July 2015:</p> <ul style="list-style-type: none"> <li>- Data sharing agreements are now in place for all known agreements – with some ongoing work for others that the ICT/DPA officers were made aware of to ensure the agreements are in place:<br/>The ICT/ DPA have a rolling identification system to identify the necessity for such agreements.</li> <li>- Data sharing agreements now reflect the ICO Code of Data Sharing Practice.</li> <li>- Data sharing agreements are now reviewed annually to comply with the ICO's guidance of 'regular reviews'.</li> <li>- Service managers are to be and are reminded that they need to liaise with ICT/DPA before entering into any data sharing arrangement.</li> </ul> <p>Further/ updated FOI training has been made available through the Learning Management System for employees.</p> <p>SIAS also undertook an audit of Neighbourhood Plans during 2015/16 and this was given a Substantial assurance. The 1 Medium and 5 Merits Attention recommendations have been progressed by the relevant Officer(s) in Development &amp; Building Control and Strategic Planning &amp; Enterprise, with the Medium and 3 of the 5 Merits Attentions being completed (the remainder awaiting relevant Regulations).</p> <p>SIAS conducted a review of Social Media and this was given a Substantial assurance for 2015/16. The Media audit recommendation detailed in the Cultural Services Assurance Statement (a Merits Attention) has been given</p> |
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|  |  | <p>consideration. Namely: including “social media targets and additional metrics”. NHDC has introduced message tagging as an additional way of capturing useful information about social media interactions with the Council and this information has been included on quarterly social media performance reports presented to the Senior Management Team. It is felt currently that the level of analytics information that Hootsuite (NHDC social media monitoring software) provides is sufficient for the Council’s requirements, with useful performance information and that it would not be cost effective to introduce further metrics outside of Hootsuite’s capabilities at this time.</p> |
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\*Definition of assurance levels given in Table 1



Signifies: Action will be taken.

#### **4. Review of Effectiveness**

##### **Annual review**

- 4.1 North Hertfordshire District Council has responsibility for conducting an annual review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Senior Managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Assurance for SIAS' annual report and also by comments made by the external auditors and, where relevant, other review agencies and inspectorates.
- 4.2 Areas where the Council's Governance Framework can be improved have been identified in Section 3, Table 2 (third column).
- 4.3 The Senior Management Team, chaired by the Chief Executive, reviews the Council's governance framework and control environment and has responsibility for the preparation of this AGS.
- 4.4 Each Head of Service and Corporate Manager is responsible for producing their own assurance statements and developing an improvement action plan to rectify any identified governance weaknesses within their service areas. The Chairman of the Finance, Audit & Risk Committee has prepared and signed an assurance statement for the Committee as part of the overall assurance framework supporting the AGS. The Monitoring Officer reviews all of these documents. The Finance, Audit & Risk Committee members have been informed of progress on producing this AGS Statement and will review it and evaluate the robustness of the underlying assurance statements and evidence.
- 4.5 The Finance, Audit & Risk Committee has reviewed progress against the AGS 2014/15 action plan that was implemented.

##### **Complaints:**

- 4.6 The Council reviews and acts on justified complaints made through its 3 C's Policy (Comments, Complaints and Compliments procedures). There has been no finding of maladministration against the Council by the Local Government Ombudsman during 2015/16.

##### **Risks**

- 4.7 The top (score of 9) risks for the Council<sup>5</sup> as at (29 April 2016) are: Managing the Council's Finances; North Hertfordshire Museum and Hitchin Town Hall project; the Local Plan; Sale of waste materials and increased Homelessness and use of Bed & Breakfast (B&B) accommodation.
- 4.8 Management of the Council's Finances is a top risk, although the MTFs, budgets and capital programme are noted as soundly based and designed to deliver its strategic objectives.
- 4.9 The North Hertfordshire Museum/ Community Facility is identified as a top risk and the aim is to provide a fully accessible new museum in the near future. The facility is being opened in three stages, with stage one – hire of the Mountford Hall and Lucas Room - already operational. The Development Agreement with Hitchin Town Hall Ltd is an area of dispute and future ownership of the former site of 14/15 Brand Street is still to be resolved. The project is now concluding

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<sup>5</sup> Source: Covalent system.

although associated actions may arise during 2016/17. Access issues are to be resolved as soon as possible. SIAS will undertake a review of the project once completed (deferred from the 2015/16 Audit Action Plan<sup>6</sup>). Overview & Scrutiny Committee have also identified a review of the project once concluded.

- 4.10 Ensuring the Council has an up to date Local Plan remains a top risk. Historically an internal Audit on LDF consultation process was undertaken in 2014; a Local Plan Preferred Options consultation was published December 2014 and concluded in February 2015. During 2015/16 A Strategic Housing Market Assessment and employment provisions study was completed with Stevenage Borough Council/ Central Bedfordshire respectively in June 2015 and the Statement of Community Involvement updated and approved September 2015. A further Housing Market Areas assessment was completed for Luton, Central Bedfordshire and other neighbouring authorities in December 2015 and the Local Development Scheme updated and approved January 2016. A Local Plan Project Board was set up to provide strategic guidance and oversee the delivery of the Local Plan. The Pre-Submission draft of the Local Plan was presented to Full Council on 20 July 2016 and officers have been instructed to finalise the proposed submission documents for formal approval by Cabinet in September 2016. This will be followed by further public consultation, with the intention to submit the Local Plan to the Secretary of State for examination in March 2017.
- 4.11 A wholly owned Local Authority company, Broste Rivers LA7 Limited, has been established with 6 other Hertfordshire local authorities for the delivery of their building control services. Legal documentation including Shareholder and Service Agreements have been signed and sealed by each of the authorities. Employees transferred into the new company of 15 August 2016. Work is continuing to implement a single IT system, which when on-line will enable staff to move into one of the two hubs (Hertsmere Borough Council and Welwyn Hatfield District Council). Governance arrangements are in place with the Council having a Shareholder representative and a place on the Board of Directors.
- 4.12 Sale of waste (recycling) materials has been identified as a top risk and the current co-mingling contractual arrangements are under review as well as procurement of the new Waste Management Contract and arrangements during 2016/17. A Major public campaign commenced October 2015 to improve the quality of recylates and minimising avoidable landfill charges.
- 4.13 Homelessness and use of Bed and Breakfast accommodation has been an ongoing risk. The Council has undertaken a review of all homeless households accommodated to establish whether an ongoing accommodation duty exists and if so, the best way to manage this. Social housing has been ring-fenced for homeless households in each weekly vacancy cycle and the Council has entered into an agreement with Welwyn & Hatfield Council to utilise their temporary accommodation vacancies. The Council will continue to keep this issue and options under review during 2016/17.

## **5. Significant Governance Issues**

- 5.1. No significant governance issues have arisen as a result of the review of effectiveness for the 2015/16 financial year.

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<sup>6</sup> FAR Committee SIAS Audit Plan update report 23rd March 2016.

5.2. We propose over the coming year to take the actions set out in Section 3, table 2 and section 4 above to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed:**.....  
Leader of the Council on behalf of  
North Hertfordshire District Council

**Signed:**.....  
Chief Executive on behalf of  
North Hertfordshire District Council

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**Statement of Accounts  
2015/2016**

**North  
Hertfordshire  
District Council**



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# The Statement of Responsibilities for the Statement of Accounts

## The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Strategic Director of Finance, Policy & Governance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the statement of accounts.

## The Strategic Director of Finance, Policy and Governance Responsibilities

The Strategic Director of Finance, Policy and Governance is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the statement of accounts, the Strategic Director of Finance, Policy & Governance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code;
- Discussed all of the above with the Finance Portfolio Holder.

The Strategic Director of Finance, Policy & Governance has also:

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

I certify that the statement of accounts gives a true and fair view of the financial position of the Authority at the 31 March 2016 and its income and expenditure for the year then ended.

Norma Atlay

Strategic Director of Finance, Policy & Governance

## The Chairman of the Approving Committee Responsibilities

I confirm that these accounts were approved by the Finance, Audit & Risk Committee at the meeting held on 22 September 2016. Signed on behalf of North Hertfordshire District Council:

Chairman of meeting approving the accounts:

**Councillor M.Weeks, Chairman of the Finance, Audit & Risk Committee**

Date: 22 September 2016



# Independent Auditor's Report

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

### Opinion on the Authority's financial statements

We have audited the financial statements of North Hertfordshire District Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014.

The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement
- Balance Sheet,
- Cash Flow Statement,
- related notes 1 to 44; and
- Collection Fund Account (including notes 1 to 4).

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of North Hertfordshire District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Strategic Director of Finance, Policy & Governance and auditor

As explained more fully in the Statement of the Strategic Director of Finance, Policy & Governance's Responsibilities set out on page 1, the Strategic Director of Finance, Policy & Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Finance, Policy & Governance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

# Independent Auditor's Report

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of North Hertfordshire District Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

## Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## Conclusion on North Hertfordshire District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

### Authority's responsibilities

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

### Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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

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

## Independent Auditor's Report

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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

### Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, North Hertfordshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

### Certificate

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

Debbie Hanson  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Luton  
September 2016

# Narrative Report

## 1 . INTRODUCTION TO THE STATEMENT OF ACCOUNTS

- 1.1 The Authority is legally required to produce a statement of accounts detailing the year's financial activities and the overall financial position at the 31 March. This narrative report provides an overview of the accounts, with a focus on financial performance. This includes how the Authority has delivered economy, efficiency and effectiveness in its use of resources over the year
- 1.2 The Statement of Accounts for the year ending 31 March 2016 are set out in this document and consist of a number of statements. Much of the information in the document is of a technical nature and has been completed to be compliant with the 2015/16 Local Authority Accounting Code of Practice and Service Reporting Code of Practice. The Statement of Accounting Policies explains the policies adopted by the Council to compile these accounts.
- 1.3 The Comprehensive Income and Expenditure Account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. The statement is compiled in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- 1.4 The Movement in Reserves Statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' and other 'unusable' reserves. The starting point for the movement is the Surplus or (Deficit) on the Provision of Services line from the Comprehensive Income and Expenditure Account. There are then a series of statutory adjustments that are required before you get to the amount that is charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.
- 1.5 Usable reserves are those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve, that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.
- 1.6 The Balance Sheet shows the value as at the 31 March of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority.

## Narrative Report

- 1.7 The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the year. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.
- 1.8 The Notes relating to the statements are detailed after the statements and provide further detail to the numbers contained within the statements.
- 1.9 The Authority is a billing authority for the collection of Council Tax and National Non-Domestic Rates (NDR) for the District. The Collection Fund Account is a notional account to show all the income collected and how it is distributed. Because the Authority is acting as an agent, only the Authority's share of the Collection Fund balance is reflected in the rest of the Authority's accounts and the other statements.

### **2. REVIEW OF 2015/16**

- 2.1 This section provides a high level summary of the financial activities of the year and highlights the most significant aspects of the financial position at the 31 March 2016. Further detail on the year end position of the usable reserves can be found in the Revenue Budget Outturn 2015/16 Report and the Capital Programme Outturn 2015/16 Report. Both of these reports were presented to Cabinet on the 14 June 2016 and are available on the Authority's website.
- 2.2 The Authority has a cyclical process to determine its priorities and align both resources and finances to achieve those priorities. The high level priorities for 2015/16 were as follows:
- Living within our means;
  - Working with our communities; and
  - Promoting sustainable growth

The priorities also formed the basis for the Priorities for the District document for 2014/15 and the Authority has continued with a number of high level actions against each Priority.

- 2.3 The Authority has continued to follow the medium term financial strategy (MTFS) during 2015/16 and has contained spending within available resources. This strategy was developed in a period of national economic austerity and uncertainty which has played a significant part in generating the financial pressures the Authority has experienced. The Authority budgeted and achieved budget reductions of £0.4m in 2015/16. This allowed the Authority to make a contribution to their reserves. This follows the achievement of on-going savings of £1.5million in 2014/15 and £0.9million in the 2013/14 budget process.
- 2.4 The funding announcements from Central Government in December 2015 was that there would be a greater than expected reduction in Revenue Support Grant. As a result of this the Authority anticipates that it will need to deliver around £3m of budget reductions over the next 4 years. A small part of this includes a managed reduction in our level of reserves over this period. Reserve levels have been purposely built up in recent years to support this. £3m is around 9% of current gross expenditure (excluding housing benefit payemnts). As part of the MTFS process for 2016/17 onwards, £0.4m of budget reductions have been identified to be delivered during the year.
- 2.5 There is also uncertainty over the level of New Homes Bonus that will be received in the future. New Homes Bonus is an important income stream (£2.4m in 2015/16) to the Authority. Central Government have also announced that Business Rates will be fully

## Narrative Report

localised by 2020. The consequence is uncertainty over the future services that the Authority will be expected to deliver and the funding that it will receive to provide them. Changes in sources of funding are also likely to have an impact on the timing of cash receipts, which in turn will affect cash-flow management.

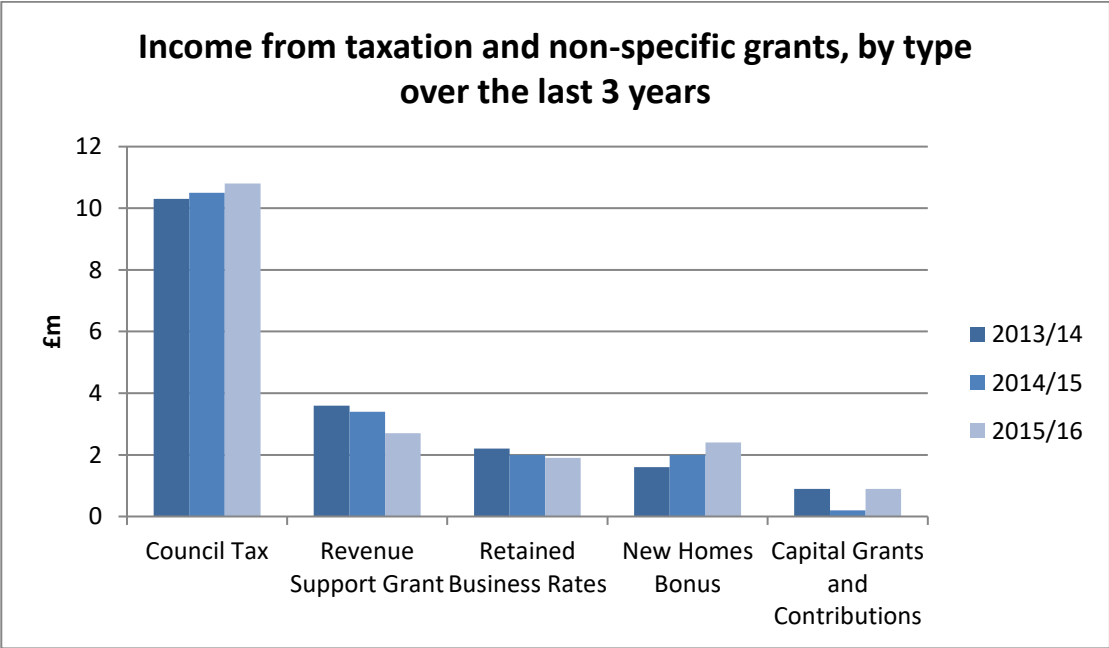
- 2.6 The net worth of the Authority is £77.7million. This represents the theoretical net value of all the Authority's assets and liabilities. Of this value £59.6million is contained within un-usable reserves. For example, a significant proportion of the Authority's value is contained within its property portfolio. The Authority does, however, have a total of £18.1million (£12.8million at 31 March 2015) of usable reserves at 31 March 2016, which can be used to fund revenue and capital expenditure. The Authority seeks to manage the amount of available reserves in a prudent way to ensure there are adequate resources for unknown financial risks and plans for ongoing capital investment. During 2015/16 the Authority has increased its general fund reserves by just over £1.1million to £7.1million in order to cushion against unknown financial risks and funding uncertainty. This is significantly above the recommended minimum balance of £1.7million for 2015/16, approved by Members of the Council in February 2015. The remainder of the increase in usable reserves is primarily due to funding received from the sale of surplus assets that can be used for future capital investment.
- 2.7 The Authority participates in the Local Government Pension Scheme. The scheme is administered by Hertfordshire County Council. The net position of the pension fund has a significant impact on the Authority's accounts because of the estimated size of future liabilities. The Authority has been notified by the fund actuary that the net liability has decreased by £7.8million during 2015/16 to £47.8million. This improved position is mainly due to improvements in market conditions and the impact on financial assumptions. The net liability had increased by £9m during 2014/15, so this is a partial reversal.

### 3. INCOME AND EXPENDITURE

- 3.1 There was a net deficit on the provision of services of £2.1million in 2015/16 (also £2.1million in 2014/15). Whilst this is an accounting reflection of the financial performance of the Authority there are £2.8million of "book entries" included in order to be compliant with the Code of Practice that are not costs to be met by the General Fund or funded by Council tax. In particular, the capital charges for depreciation and impairment of assets and the impact of future retirement benefits. These adjustments are listed in note 7 to the accounts. Once these are removed, there is a net surplus that adds to the General Fund of £0.7million. The remaining increase in the general fund balance is a transfer from earmarked reserves of £0.3million.
- 3.2 The Authority provides regular reports to its Cabinet on forecasts of revenue spend. This is to allow the Cabinet to undertake its role in monitoring the Authority's income and expenditure. The end of year report was presented to Cabinet on 14 June 2016. When expenditure forecasts are presented to Cabinet they reflect the way that the Authority has structured itself, rather than the service categories that are required to be presented in the Statement of Accounts. The four areas that are reported are: Chief Executive; Customer Services; Finance, Policy and Governance; and Planning, Housing and Enterprise. Further details of what makes up these areas can be found on the Authority's website <http://www.north-herts.gov.uk/home/council-and-democracy/council-departments>. Note 40 provides a reconciliation between the way that income and expenditure is reported in revenue monitoring reports and how it is shown in this Statement of Accounts.
- 3.3 The end of year revenue monitor report also includes:
- Explanations for variances from the working budget (latest planned spend), including the impact on future year budgets. Whilst there were a number of variances, there were not any individual significant matters reported.
  - The level of reserves and balances.

# Narrative Report

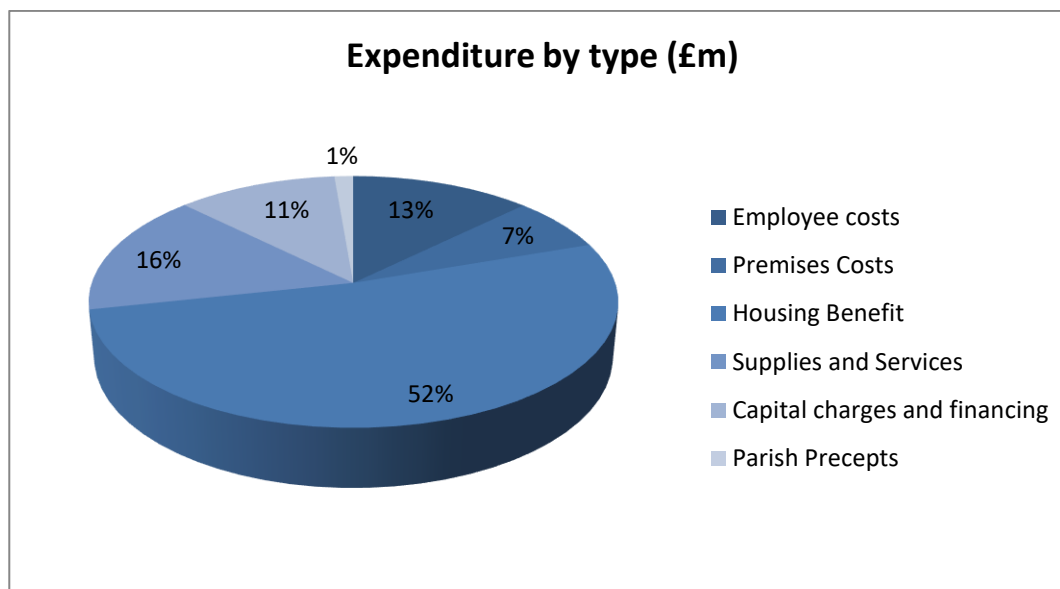
- Key corporate financial health indicators. These are areas that could have a significant impact on the Authority’s budget, and are generally subject to external influences. Of the 5 measures, 4 performed better than budgeted and 1 (Building Control fees) performed worse.
- 3.4 Although not reported in either the revenue monitor report or the Statement of Accounts, it can be helpful to think about income in terms of where its source and expenditure in terms of what it has been spent on. The next two paragraphs provide this analysis.
- 3.5 The Authority receives three main types of income:
- Service specific income, which includes specific Government grants and the fees and charges paid by those who use Council services. There is also some income received that relates to contributions and reimbursements. The main specific grant is for Housing Benefit subsidy, which was £38.3million in 2015/16 (£38.8million in 2014/15). The income from fees and charges was £8.2million (£8.7million in 2014/15). On the Comprehensive Income and Expenditure Statement these income sources are shown against the services that they relate to. Overall they total £49.6million, which is 71% of total income.
  - Amounts received from investing cash balances and rent received from renting out investment properties. These were £0.5million and £1.0million respectively (the same amount as in 2014/15). This is 2% of total income.
  - Income from taxation and non-specific grants. This includes Council Tax, the retained share of Business Rates (NNDR), Revenue Support Grant, New Homes Bonus and Capital Grants. These are detailed in note 10, and total £18.8million (27% of total income). As shown in the chart below, over recent years the balance of funding has started to shift from central grant funding to Council Tax. The Revenue Support Grant funding will disappear from 2017/18. The Authority has seen an increase in the amount of New Homes Bonus funding awarded over the last few years, although the eligibility for this funding is likely to change and it is expected to reduce in future years.



3.6 The 2015/16 gross expenditure for the Authority was £72.8million (£72.2m in 2014/15). This reflects all the Authority’s expenditure in the ‘Surplus or Deficit on Provision of Services’ line in the Comprehensive Income and Expenditure Statement. The largest single item of expenditure was housing benefit payments of £37.8 million, which account for 52% of all

## Narrative Report

expenditure. Capital financing charges account for 11% of the total and consist mainly of payments of interest on loans and contributions for capital expenditure. Employee costs (including associated costs such as training and recruitment costs) account for 13% of costs. Supplies and services, such as operating vehicles and purchase of goods and services represent 16% of the total expenditure. Premises costs (including rents, rates, utilities and repairs and maintenance) made up 7% of costs and the Parish Precept payments to the Parish and Town Councils in the District accounted for 1%.



#### 4. CAPITAL AND BORROWING

- 4.1 The capital budget for 2015/16 agreed in February 2015 was £11.3million, with a further £9.2million in future years (2016/17 to 2018/19). This budget was increased to £12.4million during the first quarter to reflect 2014/15 projects that had not been completed by the end of that year. The actual spend on capital schemes during the year was £3.5million, of which £1.4million was not funded in the accounts but paid for by drawing down cash investments and increasing the capital financing requirement. The remaining £2.1million was funded from capital receipts, government grants and third party contributions.
- 4.2 The economic climate had picked up during the year which meant that it was possible to complete some asset disposals (£5.5million compared with less than £0.1million in 2014/15). This resulted in a net increase in the capital receipts reserve of £4.6million, meaning that as at 31st March 2016 there was £5.5million available to fund future capital spend. The Authority still has surplus assets that it will dispose of over time, which will provide further contributions towards capital investment.
- 4.3 The Authority continues to be in the position of a negative capital financing requirement (CFR). This means the Authority does not have a debt liability and has not needed to make a minimum revenue provision towards the cost of capital in 2015/16. As at the end of 2015/16 the CFR value was negative £18.83million. This means that the Authority could invest this amount in capital projects without needing to make a Minimum Revenue Provision (MRP). MRP is a charge to the General Fund (and therefore Council Tax) so when required it increases the cost of capital investment. Whilst there is not a need for a MRP, the only revenue cost of capital spend is the lost income on investment balances. Interest on cash investments is at an historic low. As a result, the Authority will continue to invest to capital schemes, but will focus on those schemes that generate income or reduce ongoing running costs. This will therefore help to balance the revenue budget as funding levels reduce.



## Narrative Report

- 4.4 In previous years the Authority has funded part of the capital programme from loans. The value of loans owed to external parties for capital spending amount to £1.5million as at 31 March 2016. The redemption fees for paying off these loans early means that it is not worth doing so, even though the Authority has the cash investments (£38.0million at 31 March 2016) to be able to do so. Just over £1.0million of these loans will be repaid during 2016/17. This borrowing should be viewed in relation to the value of the assets, which are valued by a combination of replacement cost and historic cost, and have a net book value of £88.1million.
- 4.5 For 2016/17 - 2019/20 the Authority has an approved capital programme of £19.7million. This was approved by Council on 11 February 2016 and further details can be found on the Authority's website, including the full list of projects and amount of investment. This was budgeted to be funded by:

| £000                                           | 2016/17      | 2017/18      | 2018/19      | 2019/20      | Total         |
|------------------------------------------------|--------------|--------------|--------------|--------------|---------------|
| Capital Receipts                               | 2,404        | 1,175        | 800          | 800          | <b>5,179</b>  |
| Government Grants and Other Contributions      | 1,145        | 270          | 255          | 255          | <b>1,925</b>  |
| Revenue Contributions                          | 88           | 0            | 0            | 0            | <b>88</b>     |
| Unfunded- drawdown on investments (CFR impact) | 4,982        | 4,750        | 2,600        | 150          | <b>12,482</b> |
| <b>Total</b>                                   | <b>8,619</b> | <b>6,195</b> | <b>3,655</b> | <b>1,205</b> | <b>19,674</b> |

The use of capital receipts funding assumes that around £3.8million of additional receipts would be generated from the sale of surplus assets during 2016/17 and 2017/18.

- 4.6 The actual spend in 2016/17 will now be around £16.0million, which reflects that a number of schemes were not completed during 2015/16 and therefore have been reprogrammed in to 2016/17. This is also reflected in the capital receipts balance and negative CFR value being higher than what was budgeted. The Authority will still try and secure grant funding and other contributions, before making use of other funding sources.

### 5. PERFORMANCE

- 5.1 A performance report is presented to Overview and Scrutiny Committee on a quarterly basis, with an end of year report presented in June/ July. The year end report for 2015/16 was presented to the Committee on 19 July 2016 and it can be found on the Authority's website. The end of year report highlights performance against 30 performance indicators. For each indicator the current performance is shown, alongside previous performance, direction of travel and target level (where applicable).
- 5.2 Two indicators were below the target level 2015/16, which were the number of households who had potential homelessness prevented, and the number of planning applications where the fee has been refunded due to the application not being determined within 26 weeks.
- 5.3 There were 134 households for whom the intervention by the Authority was successful in preventing homelessness, which was lower than target (260) and performance in the previous year (236). This was due to continuing difficulties in accessing the private rented sector, which is generally the most effective prevention tool. Work is underway to improve this access, but is expected to take some time to have an impact. The revenue outturn report (Cabinet report, 14 June 2016) highlighted an overspend of £0.037million in relation to homelessness, and the need to use Bed and Breakfast accommodation as a short-term alternative.

## Narrative Report

- 5.4 There were 2 planning applications where the fee had to be refunded due to meeting the 26 week deadline, which was higher than the previous year and target (both 0). An external consultant was appointed to process the two planning applications due to a legal dispute with a local resident. As the applicant would not agree to extend the statutory periods the fees were returned in line with regulations. The amount returned was £770. Overall planning application fee income was still higher than budget.
- 5.5 There were four indicators in relation to waste that did not meet the target set, but were within agreed tolerances. These indicators related to volumes of household waste and how much of this can be recycled, reused or composted. The Authority still performed well compared with other authorities, achieving levels in the top quartile.
- 5.6 Of the remaining indicators, 10 had targets and 13 are just tracked against previous levels. Of the 10 that had targets and met them, 9 showed an improved position compared to the previous year. Of the 13 that are tracked, 8 of them performed better than in the previous year.

### 6. INTERESTS IN COMPANIES AND OTHER ENTITIES

- 6.1 Local Authorities have to consider all their interests, subsidiaries, associates and joint ventures and where material include the value of the interest in Group Accounts.
- 6.2 The Authority is engaged in a jointly controlled operation for the provision and management of CCTV in the Hertfordshire and Bedfordshire area. This arrangement is with Stevenage Borough Council, North Hertfordshire Council, East Hertfordshire Council and Hertsmere Borough Council. Each member of the arrangement accounts for their share of the assets, liabilities and cash flows of the CCTV in their accounts. In 2013/14 all partner authorities agreed to incorporate a new company to conduct the commercial trading affairs of the CCTV partnership. This new company, Hertfordshire CCTV Partnership Ltd, started trading on the 1 April 2015. The Authority's interest in this company is not considered to be material, and therefore it is not included within the Statement of Accounts or as Group accounts.
- 6.3 It was agreed by Cabinet on 15 December 2015 that the Authority should proceed with setting up a joint Building Control Company with six other Hertfordshire Authorities. It is expected that the company will begin trading in summer 2016. It is expected that the company will enable access to further areas of work and help to spread the cost of managing a building control service. It is considered that there are not any assets or liabilities arising from this arrangement as at the balance sheet date and therefore nothing is disclosed in the Statement of Accounts.

### 7. POST BALANCE SHEET EVENT

- 7.1 Events may occur between the balance sheet date and the date the accounts are signed by the Strategic Director of Finance, Policy and Governance which may have a bearing on the financial results of the year. Under IAS 10 (Events after the reporting period) there is a requirement to disclose the date after which events will not have been recognised in the Statement of Accounts. This date is 30th June 2016; this being the date the un-audited statement of accounts are signed by the Strategic Director
- 7.2 Following the majority vote to end the UK's membership of the European Union (EU) in the Referendum held on 23 June 2016 there is increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating. The Council's Treasury Strategy requires that investments are only made in UK institutions and the balancing of the maturity profile of investments. This reduces the risk from changes in foreign financial institution ratings and short-term interest rate reductions. The Authority also has a significantly negative Capital Financing Requirement (CFR) and consequently has no obligation to raise any further external finance in the medium term. There could be an impact on our investment property valuations if confidence in the wider UK property market falls. The valuation of the Council's defined benefit pension obligations

## Narrative Report

may also be affected, although this will be reduced by the long-term nature of these investments. It is too early to estimate the quantum of any impact on the financial statements, and there could be significant ongoing uncertainty for a number of years while the UK renegotiates its relationships with the EU and other nations. For the purposes of these financial statements, the Referendum is considered a non-adjusting event.

### 8. FURTHER INFORMATION

- 8.1 Where references are made to reports that are presented to Council, Cabinet and Overview and Scrutiny, these reports can be found on the Authority's website. They can be found by selecting the link to 'view meetings, agendas, minutes and reports' on this page: <http://www.north-herts.gov.uk/home/council-and-democracy/council-and-committee-meetings>.
- 8.2 Further information about the accounts can be obtained by contacting the Strategic Director of Finance, Policy and Governance at the Council Offices, Gernon Road, Letchworth Garden City, Herts. SG6 3JF.

# Statement of Accounting Policies

## 1. GENERAL

- 1.1. The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and the position at the year-end of 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003. Those Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. All disclosures are subject to materiality as the intention of the statement of accounts is to present a 'true and fair' view of financial position, financial performance and cashflows.

## 2. ACCRUALS OF INCOME AND EXPENDITURE

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards or ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- 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.
- Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- 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.

### Principal and Agent Accounting

- 2.2 The majority of Council activity is completed with the Council acting entirely on its own behalf with full ownership of any risks and rewards of the transaction. This is known as the Council acting as a Principal.
- 2.3 There are some situations, however, whereby the Council is acting as an intermediary for all or part of a transaction or service. This is known as the Council acting as an Agent. The two main instances where this occurs are in relation to the collection and distribution of Council Tax and National Non-Domestic Business Rates. The Council collects Council Tax and

# Statement of Accounting Policies

Business Rates income on behalf of itself and preceptors (Hertfordshire County Council, Hertfordshire Police and Crime Commissioner and local town and parish councils in relation to Council Tax and the Department for Communities and Local Government (DCLG) and Hertfordshire County Council in relation to Business Rates).

- 2.4 Any balance sheet transactions at the year end in relation to these Agent relationships are split between the principal parties and, therefore, the balances contained on the Balance Sheet for a particular debt are the Council's own proportion of the debt and associated balances. The proportions of transactions that relate to the other parties to the relationship are shown as debtors or creditors due from/to these parties.
- 3. ACQUIRED AND DISCONTINUED OPERATIONS**
- Acquired Operations**
- 3.1. Acquired operations are those which the Authority has acquired during the accounting period. Transactions in relation to newly acquired functions are disclosed separately on the face of the Comprehensive Income and Expenditure Statement and distinguished from the other continuing functions. Functions that are transferred from another Authority are also disclosed separately in the comparative year. Examples of acquired operations are:
- Services and/or geographical areas for which responsibility has passed to the Authority due to the reorganisation of local government, or
  - Services acquired as a consequence of legislation, e.g. a new statutory responsibility transferred from another entity.
- Discontinued Operations**
- 3.2 Discontinued operations are activities which the Authority has ceased completely (and not simply transferred to another part of the public sector). Transactions in relation to operations that are discontinued are presented separately on the face of the Comprehensive Income and Expenditure Statement and the Balance Sheet (including prior period comparatives).
- 4. BUSINESS IMPROVEMENT DISTRICTS**
- 4.1 Business Improvement District (BID) schemes apply in Hitchin, Royston and Letchworth. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority acts as an agent only under the scheme and so income is not shown in the Comprehensive Income and Expenditure Statement since the BID levies are collected on behalf of the relevant BID body.
- 5. CASH AND CASH EQUIVALENTS**
- 5.1. Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.
- 5.2. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.
- 6. EMPLOYEE BENEFITS**
- Benefits Payable During Employment**
- 6.1. Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as salaries, paid annual leave, paid sick leave, and banked hours in the flexi scheme 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

## Statement of Accounting Policies

accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

- 6.2. 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. They are charged on an accruals basis in the Comprehensive Income and Expenditure Statement and recognised at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring that involves the payment of termination benefits.
- 6.3. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### Post Employment Benefits

- 6.4. As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although these benefits will not actually be payable until the employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.
- 6.5. The Authority participates in one pension scheme, the Local Authority Pension Scheme, administered locally by Hertfordshire County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

### The Local Government Pension Scheme

- 6.6. The Local Government Pension Scheme is accounted for as a defined benefits scheme:
- The liabilities of the Hertfordshire Local Government Pension Scheme 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 projections of earnings for current employees.
  - Liabilities are discounted to their value at current prices, using a discount rate based on the indicative current rate of return on high quality corporate bonds of equivalent currency and term as the liabilities (rated at the level of AA or equivalent).
  - The assets of the Hertfordshire Local Government Pension Scheme attributable to the Authority are included in the balance sheet at their fair value:
 

|                     |                                      |
|---------------------|--------------------------------------|
| quoted securities   | – bid price                          |
| unquoted securities | – professional estimate              |
| united securities   | – average of the bid and offer rates |
| property            | – market value.                      |

## Statement of Accounting Policies

- 6.7. 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 in the financial year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

**Past service cost** – the increase in liabilities arising from current year decisions 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 (asset)** – i.e. the 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 in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any charges in the net defined benefit liability during the period as a result of contribution and benefit payments.

**Re-measurements comprising:**

**The return on plan assets** – excluding amounts included in net interest on the net defined benefit liability – 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 Hertfordshire Pension Scheme** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

- 6.8. In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, 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 are earned by employees.

**Discretionary Benefits**

- 6.9. The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### 7. EVENTS AFTER THE BALANCE SHEET DATE

- 7.1. Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:
- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
  - Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of

## Statement of Accounting Policies

events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

- 7.2. Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### 8. EXCEPTIONAL ITEMS

- 8.1. When items of income and expenditure are material and significant to the understanding of the Council's financial performance, their nature and amount is disclosed separately in the notes to the accounts.

### 9. FINANCIAL INSTRUMENTS

- 9.1. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities.

#### Financial Liabilities

- 9.2. Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For the Council's borrowings, the amount presented in the Balance Sheet is the outstanding principal repayable; and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.
- 9.3. Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.
- 9.4. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

#### FINANCIAL ASSETS

- 9.5. Financial assets are classified into two types:
- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
  - Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments
- 9.6. The Authority does not have any available for sale assets.



# Statement of Accounting Policies

## Loans and Receivables

- 9.7. Assets of this type will arise where the Council provides money, goods or services to another party and contracts to defer the settlement of the debt that arises, but in the meantime will not plan to trade the receivable on the market. Loans and receivables 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 the loans that the Authority has made this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.
- 9.8. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.
- 9.9. Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## 10. GOVERNMENT GRANTS AND CONTRIBUTIONS

- 10.1. Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:
- The Authority will comply with the conditions attached to the payments, and
  - The grants or contributions will be received.
- 10.2. Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.
- 10.3. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Where revenue grants have been ring-fenced to a specific service and have not been spent at the Balance Sheet date they are reversed out of the General Fund Balance and posted to an ear-marked reserve (revenue grants with less than £1,000 left unspent at the Balance Sheet date are treated as Creditors and not transferred to an ear-marked reserve).
- 10.4. Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are

# Statement of Accounting Policies

transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## 11. HERITAGE ASSETS

### **Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)**

- 11.1 Heritage assets have historical, artistic, scientific, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture. The Authority's Heritage Assets consist of collections of assets or artefacts either exhibited or stored in the Authority's Museums (Letchworth and Hitchin Museums and Art Galleries) or the Museum Resource Centre, and items of public Sculpture and Artwork.
- 11.2 Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as described below. The Authority's heritage assets are accounted for as follows:
- 11.3 Art Collection
- The art collection includes paintings (both oil and watercolour) and sketches and consists of approximately 2,600 items. The Museums' Manager undertakes an annual programme of valuations by reviewing the archives of auctions houses to identify similar paintings by the same artist which have sold in the recent past.
  - Other than a small number of items of significant interest the majority of the art collection is not considered to have a material monetary value and so the Authority does not recognise the collection on the Balance Sheet. Much of the art collection has been donated from local painting societies and therefore is not by artists who would attract value for their work. The small number that are recognised on the Balance Sheet are deemed to have indeterminate lives and a high residual value; hence the authority does not consider it appropriate to charge depreciation.
  - Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by the Museum's Manager or external valuer with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.
- 11.4 Archaeology
- The Authority does not consider that reliable cost or valuation information can be obtained for all but one of the items held in its archaeological collection (approximately 360,000 items). This is because of the diverse nature of the assets held and lack of comparable market values. Consequently, the Authority does not recognise these assets on the Balance Sheet.
  - The exception to this rule is a silver coin collection which is valued in the same way as described for the art collection above.
  - Acquisitions are principally by donation. The Authority does not (normally) make any purchases of archaeological items.
- 11.5 Other Museum Collections
- Other collections include ceramics and glass (approximately 600 items), costume and costume accessories (approximately 4,500 items), documents (approximately 20,000 items), military (approximately 1,000 items), natural sciences (approximately 500,000 items), photography (approximately 500,000 items) and social history (approximately 22,000 items).
  - The Authority considers that obtaining valuations for the vast majority of these collections would involve a disproportionate cost in comparison to the benefits to the users of the Authority's financial statements. This is because of the diverse nature of

## Statement of Accounting Policies

the assets held and the lack of comparable values. The Authority does not recognise these collections on the Balance Sheet.

- Acquisitions are recognised at cost or, if bequeathed or donated at nil consideration, at valuation.

### 11.6 Public Sculptures / Artwork

- Where the Authority has commissioned and installed public sculptures and/or artwork in the District the items are recognised on the balance sheet at cost or market valuation, if available.
- Acquisitions are initially recognised at cost with valuations provided by the Museums Manager or external valuer, if appropriate.

11.7 The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see section 18.14 in this summary of significant accounting policies.

11.8 The Authority has a policy for the acquisition and disposal of Museum collections. The policy states there is a strong presumption against the disposal of any items in the museum's collection and decisions to dispose of items will not be made with the principal aim of generating funds. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment.

## 12. INTANGIBLE ASSETS

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

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

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

12.4. Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

12.5. Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## Statement of Accounting Policies

### 13. INVENTORIES AND LONG TERM CONTRACTS

- 13.1. Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Work in Progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.
- 13.2. Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

### 14. INVESTMENT PROPERTY

- 14.1. Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.
- 14.2. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged in an orderly transaction between participants at the measurement date, and assuming that highest and best use is made of that asset. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.
- 14.3. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### 15. JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS

- 15.1. Jointly controlled operations are activities undertaken by the Authority in conjunction with other partners that involve the use of the assets and resources of the partners rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs, and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.
- 15.2. Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other partners, with the assets being used to obtain benefits for the partners. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

### 16. LEASES

- 16.1. 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.
- 16.2. 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.

## Statement of Accounting Policies

### **The Authority as Lessee**

#### **Finance Leases**

- 16.3. Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the 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.
- 16.4. 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).
- 16.5. Property, plant and equipment recognised under finance leases are 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).
- 16.6. The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### **Operating Leases**

- 16.7. 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**

- 16.8. Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, 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 and loss on disposal. A gain, representing the Authority's net investment in the lease, is 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), matched by a lease (long-term debtor) asset in the Balance Sheet.
- 16.9. 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).

## Statement of Accounting Policies

- 16.10. The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.
- 16.11. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **Operating Leases**

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

## **17. OVERHEADS AND SUPPORT SERVICES**

- 17.1. The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:
- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation.
  - Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.
- 17.2. These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

## **18. PROPERTY, PLANT AND EQUIPMENT**

- 18.1. 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 classed as Property, Plant and Equipment.

### **Recognition**

- 18.2. Expenditure, above the de-minimis level, on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis. 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) or is below the de-minimis level, is charged as an expense when it is incurred.
- 18.3. The Authority's de-minimis level is £20,000 for property and £10,000 for vehicles, plant and equipment.

## Statement of Accounting Policies

### Measurement

- 18.4. Assets are initially measured at cost, comprising:
- The purchase price.
  - Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
  - The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.
- 18.5. The Authority capitalises any borrowing costs directly incurred whilst an asset is under construction. Borrowing costs are not permitted to be capitalised once an asset is operational.
- 18.6. The cost of assets acquired other than by purchase is deemed to be its current value. Where an acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority) and is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.
- 18.7. Donated assets are measured initially at current value. The difference between current value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.
- 18.8. Assets are then carried in the Balance Sheet using the following measurement bases:
- Infrastructure, community assets and assets under construction – depreciated historical cost.
  - All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- 18.9. Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. In such cases an estimate of the cost to re-build a similar asset (to provide the same function), using modern building practices and the latest information from the Building Cost Information Services is used as the value of the asset.
- 18.10. Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.
- 18.11. Assets included in the balance sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of a loss previously charged to a service.
- 18.12. Where decreases in value are identified, they are accounted for by:
- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
  - Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

## Statement of Accounting Policies

- 18.13. 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

- 18.14. 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.
- 18.15. Where impairment losses are identified, they are accounted for by:
- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
  - Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.
- 18.16. Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

- 18.17. Depreciation is provided for all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).
- 18.18. Depreciation is calculated on a straight line allocation over the useful life of the property as estimated by the valuer. There is no depreciation in the year of disposal but a full year's depreciation charge in the year of acquisition. Assets are typically depreciated over the following lives:

| <b>Fixed Asset</b>    | <b>Life</b>    |
|-----------------------|----------------|
| Operational Buildings | Up to 50 years |
| Vehicles & Plant      | 5 to 10 years  |
| Community Assets      | Up to 50 years |
| Infrastructure        | Up to 40 years |

- 18.19. 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.
- 18.20. An individual item of property, plant or equipment is componentised and each resultant significant component is recognised and depreciated separately subject to the following principles:
- Individual assets with a carrying value less than £500k are disregarded for componentisation (subject to an assessment of the materiality of any group of assets that have been disregarded).
  - A component is judged to be significant and hence recognised and depreciated separately if the cost of the component is at least 20% of the overall cost of the asset and the components useful life and required method of depreciation is different to the overall asset.



## Statement of Accounting Policies

- The significance of a component relative to the overall asset is determined when an asset is enhanced, acquired or revalued (e.g. as part of the five-year rolling programme).
  - The cost of a component is based on best estimates where historical cost of assets and components is not available.
- 18.21. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.
- Disposals and Non-current Assets Held for Sale**
- 18.22. When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.
- 18.23. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.
- 18.24. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.
- 18.25. 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.
- 18.26. Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.
- 18.27. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.
- 19. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS**
- 19.1. Prior period adjustments may arise as a result of a change in accounting policy 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.

## Statement of Accounting Policies

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

### 20. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

#### Provisions

- 20.1. Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.
- 20.2. Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.
- 20.3. 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.
- 20.4. 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 obligation is settled.

#### Contingent Liabilities

- 20.5. 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 not be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

#### Contingent Assets

- 20.6. A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### 21. RESERVES

- 21.1. The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund

## Statement of Accounting Policies

Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

### **22. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

- 22.1. Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a long term asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

- 22.2. 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.

- 22.3. While the Authority has a de-minimis level for capitalising expenditure on its own assets there is no de-minimis level for revenue expenditure funded from capital under statute.

### **23. TRUST FUNDS AND THIRD PARTY ASSETS**

- 23.1. Where the Authority acts as sole managing trustee for a Trust the net balance of the transactions incurred in running the Trust is included in the Comprehensive Income and Expenditure Statement. The Authority also holds income received for S106 legal agreements and unilateral undertakings relating to the submission of planning applications and these are treated as receipts in advance in the Balance Sheet before they are applied.

### **24. VAT**

- 24.1. 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.

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

| 2014/15       |                 |               | Note                                                             | 2015/16       |                 |                 |
|---------------|-----------------|---------------|------------------------------------------------------------------|---------------|-----------------|-----------------|
| £'000         | £'000           | £'000         |                                                                  | £'000         | £'000           | £'000           |
| 4,069         | (1,124)         | 2,945         | Central Services to the public                                   | 4,376         | (1,225)         | 3,151           |
| 5,455         | (507)           | 4,948         | Cultural & Related Services                                      | 5,827         | (495)           | 5,332           |
| 8,833         | (3,627)         | 5,206         | Environmental & Regulatory Services                              | 9,290         | (3,366)         | 5,924           |
| 2,536         | (1,245)         | 1,291         | Planning Services                                                | 2,663         | (1,110)         | 1,553           |
| 43,045        | (41,179)        | 1,866         | Housing Services                                                 | 42,833        | (40,475)        | 2,358           |
| 2,502         | (2,800)         | (298)         | Highways & Transport Services                                    | 2,265         | (2,815)         | (550)           |
| 2,740         | (6)             | 2,734         | Corporate and Democratic Core                                    | 2,711         | (13)            | 2,698           |
| 16            | (16)            | 0             | Public Health                                                    | 111           | (141)           | (30)            |
| 31            | 0               | 31            | Non Distributed Costs                                            | 33            | 0               | 33              |
| <b>69,227</b> | <b>(50,504)</b> | <b>18,723</b> | <b>Cost of Services</b>                                          | <b>70,109</b> | <b>(49,640)</b> | <b>20,469</b>   |
|               |                 | 922           | Other Operating Expenditure                                      | 8             |                 | 802             |
|               |                 | 549           | Financing and Investment Income & Expenditure                    | 9             |                 | (399)           |
|               |                 | (18,140)      | Taxation and Non-Specific Grant Income & Expenditure             | 10            |                 | (18,790)        |
|               |                 | <b>2,054</b>  | <b>(Surplus) or Deficit on Provision of Services</b>             |               |                 | <b>2,082</b>    |
|               |                 | (217)         | (Surplus) or Deficit on Revaluation of non-current assets        |               |                 | (1,026)         |
|               |                 | 0             | (Surplus) or Deficit on revaluation of available for sale assets |               |                 | (2,500)         |
|               |                 | 7,204         | Re-measurements of the net defined benefit liability             | 15            |                 | (10,013)        |
|               |                 | <b>6,987</b>  | <b>Other Comprehensive Income and Expenditure</b>                |               |                 | <b>(13,539)</b> |
|               |                 | <b>9,041</b>  | <b>Total Comprehensive Income and Expenditure</b>                |               |                 | <b>(11,457)</b> |

### Service Reporting Code of Practice:

The above revenue service analysis is compliant with the latest accounting code of practice.

## Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes and reflect the adjustments between the accounting basis and the funding basis under regulations. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

|                                                                                          | General<br>Fund<br>Balance | Earmarked<br>Reserves | Capital<br>Receipts<br>Reserve | Capital<br>Grants<br>Unapplied | Total<br>Usable<br>Reserves | Unusable<br>Reserves | Total<br>Authority<br>Reserves |
|------------------------------------------------------------------------------------------|----------------------------|-----------------------|--------------------------------|--------------------------------|-----------------------------|----------------------|--------------------------------|
|                                                                                          | £'000                      | £'000                 | £'000                          | £'000                          | £'000                       | £'000                | £'000                          |
| <b>Balance at 31 March 2014</b>                                                          | 3,932                      | 4,002                 | 1,339                          | 1,064                          | 10,337                      | 64,923               | 75,260                         |
| <b>Movement in Reserves during 2014/15:</b>                                              |                            |                       |                                |                                |                             |                      |                                |
| Surplus or (deficit) on provision of services                                            | (2,054)                    | 0                     | 0                              | 0                              | (2,054)                     | 0                    | (2,054)                        |
| Other Comprehensive Expenditure and Income                                               | 0                          | 0                     | 0                              | 0                              | 0                           | (6,987)              | (6,987)                        |
| <b>Total Comprehensive Expenditure and Income</b>                                        | <b>(2,054)</b>             | <b>0</b>              | <b>0</b>                       | <b>0</b>                       | <b>(2,054)</b>              | <b>(6,987)</b>       | <b>(9,041)</b>                 |
| Adjustments between accounting basis & funding basis under regulations ( <b>Note 7</b> ) | 5,079                      | 0                     | (489)                          | (83)                           | 4,507                       | (4,507)              | 0                              |
| <b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>                    | <b>3,025</b>               | <b>0</b>              | <b>(489)</b>                   | <b>(83)</b>                    | <b>2,453</b>                | <b>(11,494)</b>      | <b>(9,041)</b>                 |
| Transfers to/from Earmarked Reserves ( <b>Note 38</b> )                                  | (936)                      | 936                   | 0                              | 0                              | 0                           | 0                    | 0                              |
| <b>Increase / (Decrease) in Year</b>                                                     | <b>2,089</b>               | <b>936</b>            | <b>(489)</b>                   | <b>(83)</b>                    | <b>2,453</b>                | <b>(11,494)</b>      | <b>(9,041)</b>                 |
| <b>Balance at 31 March 2015</b>                                                          | <b>6,021</b>               | <b>4,938</b>          | <b>850</b>                     | <b>981</b>                     | <b>12,790</b>               | <b>53,429</b>        | <b>66,219</b>                  |
| <b>Movement in Reserve during 2015/16</b>                                                |                            |                       |                                |                                |                             |                      |                                |
| Surplus or (deficit) on provision of services                                            | (2,082)                    | 0                     | 0                              | 0                              | (2,082)                     | 0                    | (2,082)                        |
| Other Comprehensive Expenditure and Income                                               | 0                          | 0                     | 0                              | 0                              | 0                           | 13,538               | 13,538                         |
| <b>Total Comprehensive Expenditure and Income</b>                                        | <b>(2,082)</b>             | <b>0</b>              | <b>0</b>                       | <b>0</b>                       | <b>(2,082)</b>              | <b>13,538</b>        | <b>11,456</b>                  |
| Adjustments between accounting basis & funding basis under regulations ( <b>Note 7</b> ) | 2,812                      | 0                     | 4,603                          | (16)                           | 7,399                       | (7,399)              | 0                              |
| <b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>                    | <b>730</b>                 | <b>0</b>              | <b>4,603</b>                   | <b>(16)</b>                    | <b>5,317</b>                | <b>6,139</b>         | <b>11,456</b>                  |
| Transfers to/from Earmarked Reserves ( <b>Note 38</b> )                                  | 333                        | (333)                 | 0                              | 0                              | 0                           | 0                    | 0                              |
| <b>Increase / (Decrease) in Year</b>                                                     | <b>1,063</b>               | <b>(333)</b>          | <b>4,603</b>                   | <b>(16)</b>                    | <b>5,317</b>                | <b>6,139</b>         | <b>11,456</b>                  |
| <b>Balance at 31 March 2016</b>                                                          | <b>7,084</b>               | <b>4,605</b>          | <b>5,453</b>                   | <b>965</b>                     | <b>18,107</b>               | <b>59,568</b>        | <b>77,675</b>                  |

## Balance Sheet as at 31 March 2016

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

| 31 March<br>2015<br>£'000 |                                      | Note | 31 March<br>2016<br>£'000 |
|---------------------------|--------------------------------------|------|---------------------------|
| 71,843                    | Property, Plant and Equipment        | 23   | 72,511                    |
| 586                       | Heritage Assets                      | 28   | 670                       |
| 14,530                    | Investment Property                  | 24   | 14,794                    |
| 187                       | Intangible Assets                    | 29   | 135                       |
| 7,758                     | Long Term Investments (non-property) | 34   | 7,750                     |
| 112                       | Mortgages                            | 34   | 4                         |
| 19                        | Loans                                | 34   | 16                        |
| 2,036                     | Other Long Term Debtors              | 34   | 2,000                     |
| <b>97,071</b>             | <b>Long Term Assets</b>              |      | <b>97,880</b>             |
| 70                        | Inventories                          | 31   | 138                       |
| 7,205                     | Short Term Debtors                   | 32   | 4,745                     |
| 25,479                    | Short Term Non Property Investments  | 34   | 21,997                    |
| 2,000                     | Assets Held for Sale                 | 25   | 0                         |
| 2,030                     | Cash & Cash Equivalents              | 11   | 12,614                    |
| <b>36,784</b>             | <b>Current Assets</b>                |      | <b>39,494</b>             |
| (66)                      | Short Term Borrowing                 | 34   | (1,043)                   |
| (3,281)                   | Short Term Creditors                 | 33   | (3,243)                   |
| (4,676)                   | Receipts in Advance                  | 33   | (4,764)                   |
| <b>(8,023)</b>            | <b>Current Liabilities</b>           |      | <b>(9,050)</b>            |
| (1,515)                   | Long Term Borrowing                  | 34   | (480)                     |
| (1,139)                   | Long Term Creditors                  | 30   | (1,136)                   |
| (1,009)                   | Provisions (> 1 year)                | 36   | (955)                     |
| (55,632)                  | Liability related to Pension Scheme  | 15   | (47,836)                  |
| 49                        | Deferred Credits                     |      | 49                        |
| (367)                     | Capital Grants Receipt in Advance    | 17   | (290)                     |
| <b>(59,613)</b>           | <b>Long Term Liabilities</b>         |      | <b>(50,648)</b>           |
| <b>66,219</b>             | <b>Net Assets</b>                    |      | <b>77,676</b>             |
| 12,789                    | Usable Reserves                      | 38   | 18,107                    |
| 53,430                    | Unusable Reserves                    | 39   | 59,569                    |
| <b>66,219</b>             | <b>Total Reserves</b>                |      | <b>77,676</b>             |

The un-audited accounts were issued on 30 June 2016. The audited accounts were authorised for issue on the 22 September 2016.

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

| <b>2014/15</b>                                                          | <b>2015/16</b> |
|-------------------------------------------------------------------------|----------------|
| <b>£'000</b>                                                            | <b>£'000</b>   |
| (2,054) Net surplus or (deficit) on the provision of services           | (2,082)        |
| 5,197 Adjustments for non-cash movements                                | 10,103         |
| 3,057 Adjustments for items that are investing and financing activities | (3,031)        |
| <b>6,200 Net cash flows from operating activities</b>                   | <b>4,990</b>   |
| (3,518) Investing Activities                                            | 4,146          |
| (1,892) Financing Activities                                            | 1,448          |
| <b>790 Net Increase or (decrease) in cash and cash equivalents</b>      | <b>10,584</b>  |
| 1,240 Cash and Cash Equivalents at the beginning of the year            | 2,030          |
| <b>2,030 Cash and Cash Equivalents at the end of the year</b>           | <b>12,614</b>  |

# Notes to the Core Financial Statements

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# Notes to the Core Financial Statements

## INTRODUCTION

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015 (the Code) and the accounting policies set out prior to the financial statements. The notes that follow (1 to 44) set out supplementary information to assist readers of the accounts.

### 1. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. The standards adopted in the 2016/17 (from 1 April 2016) will need to be applied from 1 April 2016. The changes are:

- IAS 19 Employee Benefits - changes to the way that Pension Fund accounts are presented.
- IFRS 11 Joint Arrangements - relates to the acquisition of an interest in a joint operation that constitutes a business.
- IAS 16 Property Plant and Equipment - relates to Highways Network Assets and options available for treating depreciation and impairments when an asset is revalued.
- IAS 1 Presentation of Financial Statements - changes to the format of the Comprehensive Income and Expenditure Statement and introduction of an Expenditure and Funding Analysis.
- Annual Improvements to IFRSs 2010-12 Cycle - includes IFRS 2 Share-based Payment, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement and IAS 24 Related Party disclosures.
- Annual Improvements to IFRSs 2012-14 Cycle - includes IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting.

A number of the above changes do not affect North Hertfordshire District Council, and where they do, the change is not material (if they had been adopted in 2015/16 or in the expected impact in 2016/17).

### 2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies (see the Statement of Accounting Policies), the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication of the degree to which the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Authority has determined that the lease of Letchworth multi-storey car park from Letchworth Garden City Heritage Foundation is a finance lease and has recognised the property as an asset on the balance sheet with a carrying value at the 31 March 2016 of £145,200. A liability for the lease repayments has also been recognised. This judgement has been made due to; the length of the lease being most of the useful life of the building, the significant capital investment by the Authority in the building and the materiality of the income earned from operating the property.

## Notes to the Core Financial Statements

- The majority of the Authority's investment properties are industrial sites which attract rental income at the market rate. As such, the properties clearly meet the definition for classification as investment. The Authority has determined that the ownership of the Churchgate site in Hitchin is also an investment property (carrying value of £1.6million) as there is no alternative policy for ownership other than for rental income or capital appreciation.
- The Authority launched a Local Authority Mortgage Scheme during 2012/13. The Scheme is a national Scheme which operates in a uniform and consistent manner and is open to all local authorities and all mortgage lenders. Participating local authorities set aside a sum of money to support a financial indemnity for the partner mortgage lender(s). This indemnity enables the applicant to apply for a mortgage with only a 5% deposit as opposed to the deposits of around 10% to 20% required by most mortgage lenders. A total of £2million was provided to back the scheme of which £1million was provided by this Authority and £1million provided by Hertfordshire County Council. The cash advance has been judged to be financial assistance as the advance payment is used "towards" the acquisition of a house by the mortgagor, although it does not result in Local Authority expenditure. As such, the advance is judged to comply with the statutory definition of capital expenditure in the regulations. A long term debtor has been recognised in the accounts which will be paid on termination of the scheme.

### 3. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2016 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

| Item                          | Uncertainties                                                                                                                                                                                                                                                                                                                                                                                                             | Effect if Actual Results Differ from Assumptions                                                                                                                                                                                                                                                                                           |
|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Property, Plant and Equipment | Assets are depreciated over estimated useful lives. If for any reason an individual asset should deteriorate at a quicker rate than expected then this could bring into doubt the useful lives assigned to individual assets. This could happen, for example, if the current period of austerity meant the necessary programme of repairs and maintenance was delayed.                                                    | If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £112,000 for every year that useful lives had to be reduced.                                                                               |
| Investment Properties         | Investment Properties are not depreciated but are revalued annually according to market conditions. In the current economic climate it is uncertain if there will be a significant change in property prices over the next 12 months. However, the majority of the Authority's investment properties are ground leases which are considered to be relatively secure investments and less liable to large swings in value. | A yield of 7.5% has been used in the calculation of the value of investment properties. A 0.5% reduction in the yield would reduce the carrying value of investment property by approximately £1million (this is a simple estimation for illustration only and does not consider the complexities and circumstances of individual assets). |
| Debtors                       | At 31 March 2016 the Authority had a balance of short term debtors of £6.5million. A review of the trend in collection rates and the age profile of the outstanding debt suggested an impairment of £1.7million was appropriate. However, in the current economic climate it is not certain if such an allowance is sufficient.                                                                                           | If collection rates were to deteriorate, a doubling of the amount of impairment of the doubtful debt would require an additional £1.7million to be set aside.                                                                                                                                                                              |

## Notes to the Core Financial Statements

| Item                                                | Uncertainties                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Effect if Actual Results Differ from Assumptions                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| National Non Domestic Rates – Provision for Appeals | The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013. The Authority, acting as an agent on behalf of the major preceptors, central government and itself (as principal) is required to make provisions in accordance with the requirements of the Code and legislation for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This includes amounts relating to non-domestic rates charged to businesses in 2012-13 and earlier financial years. | A provision of £910,000 has been made, as at 31 March 2016, for the Authority's share of refunding outstanding appeals that are successful. This amount is based on the amount of outstanding appeals with the Valuation Office Agency, as at 31 March 2016, after applying a success factor of 25% and likely reduction in RV of 16%. An increase of 1% in the success factor would increase the amount of provision required by £238,000.          |
| Pensions Liability                                  | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.                                                                                                                                                                                                                                                                                                                                                      | The effects on the net pensions liability of changes in individual assumptions can be measured and the sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out in the table below. The assumptions interact in complex ways. During 2015/16, the Authority's actuaries advised that the net pensions liability had reduced by £8million. This is due to the discount rate increasing from 3.1% to 3.4%. |

| Change in assumptions at year ended 31 March 2016 | Approximate % Increase to Employer Liability | Approximate Monetary Amount £'000 |
|---------------------------------------------------|----------------------------------------------|-----------------------------------|
| 0.5% decrease in Real Discount Rate               | 12%                                          | 18,624                            |
| 1 year increase in Member Life Expectancy         | 3%                                           | 4,584                             |
| 0.5% increase in the Salary Increase Rate         | 4%                                           | 5,924                             |
| 0.5% increase in the pension increase rate        | 8%                                           | 12,395                            |

#### 4. MATERIAL ITEMS OF INCOME AND EXPENSE

The Code of Practice requires the disclosure of the nature and amount of any material items of income and expenditure which are not separately disclosed on the face of the Comprehensive Income and Expenditure Statement.

The following material items of income and expenditure are included in the Cost of Services in the Comprehensive Income and Expenditure Statement:

| Category                     | Description of Material Item     | Comment                                                                                                                                                                                                                              |
|------------------------------|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Housing Services             | Housing and Council Tax Benefits | The Authority paid a total of £37.8million of Housing Benefit payments in 2015/16 (£38.4million in 2014/15). This was funded by a grant subsidy from the Department for Work and Pensions of £37.5million (£37.9million in 2014/15). |
| Highways                     | Off Street Car Parking Income    | Off Street Car Parking income received by the authority totalled £1.5million in 2015/16 (£1.4million in 2014/15).                                                                                                                    |
| Environmental and Regulatory | Waste Contract                   | The Veolia Waste Contract payments totalled £2.0million in 2015/16 (£2.0million in 2014/15).                                                                                                                                         |

## Notes to the Core Financial Statements

### 5. ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired or discontinued operations during 2015/16 or 2014/15. These would normally arise following boundary changes or from legislation, neither of which affected North Hertfordshire District Council during 2015/16. All operations are therefore classified as 'continuing operations'.

### 6. PRIOR PERIOD ADJUSTMENTS

There were no prior period adjustments that needed disclosing in 2015/16.

### 7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

The first table shows the adjustments made in the comparative year 2014/15:

| 2014/15                                                                                                                     | Usable Reserves               |                                   |                                   | Movement in Unusable Reserves<br>£'000 |
|-----------------------------------------------------------------------------------------------------------------------------|-------------------------------|-----------------------------------|-----------------------------------|----------------------------------------|
|                                                                                                                             | General Fund Balance<br>£'000 | Capital Receipts Reserve<br>£'000 | Capital Grants Unapplied<br>£'000 |                                        |
| <b>Adjustments Primarily involving the Capital Adjustment Account:</b>                                                      |                               |                                   |                                   |                                        |
| Reversal of items debited or credited to the comprehensive Income and Expenditure Statement.                                |                               |                                   |                                   |                                        |
| Charges for depreciation and impairment of non-current assets                                                               | (2,382)                       | 0                                 | 0                                 | 2,382                                  |
| Amortisation of Intangible Assets                                                                                           | (67)                          | 0                                 | 0                                 | 67                                     |
| Capital Grants and contributions applied                                                                                    | 653                           | 0                                 | 83                                | (736)                                  |
| Revenue Expenditure funded from capital under statute                                                                       | (805)                         | 0                                 | 0                                 | 805                                    |
| <b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>                    |                               |                                   |                                   |                                        |
| Statutory Provision for the financing of capital investment                                                                 | 10                            | 0                                 | 0                                 | (10)                                   |
| Capital Expenditure charged against the General Fund                                                                        | 65                            | 0                                 | 0                                 | (65)                                   |
| <b>Adjustments involving the Capital Receipts Reserve:</b>                                                                  |                               |                                   |                                   |                                        |
| Use of the Capital Receipts Reserve to finance new capital expenditure                                                      | 0                             | 541                               | 0                                 | (541)                                  |
| Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool              | (1)                           | 1                                 | 0                                 | 0                                      |
| Transfer from deferred capital receipts reserve upon receipt of cash                                                        | 0                             | (53)                              | 0                                 | 53                                     |
| <b>Adjustments primarily involving the Pension Reserve:</b>                                                                 |                               |                                   |                                   |                                        |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (3,904)                       | 0                                 | 0                                 | 3,904                                  |
| Employers pensions contributions and direct payments to pensioners payable in year                                          | 1,848                         | 0                                 | 0                                 | (1,848)                                |

## Notes to the Core Financial Statements

| <b>Adjustments primarily involving the Collection Fund Account:</b>        |                |            |           |              |
|----------------------------------------------------------------------------|----------------|------------|-----------|--------------|
| Movement in the Authority's share of the Collection Fund surplus / deficit | (484)          | 0          | 0         | 484          |
| <b>Adjustments primarily involving the Accumulated Absences Account:</b>   |                |            |           |              |
| Accrued employee absence adjustment                                        | (11)           | 0          | 0         | 11           |
| <b>Total Adjustments</b>                                                   | <b>(5,078)</b> | <b>489</b> | <b>83</b> | <b>4,506</b> |

The following table shows the adjustments made in 2015/16:

| 2015/16                                                                                                                      | Usable Reserves               |                                   |                                   | Movement in Unusable Reserves<br>£'000 |
|------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-----------------------------------|-----------------------------------|----------------------------------------|
|                                                                                                                              | General Fund Balance<br>£'000 | Capital Receipts Reserve<br>£'000 | Capital Grants Unapplied<br>£'000 |                                        |
| <b>Adjustments Primarily involving the Capital Adjustment Account:</b>                                                       |                               |                                   |                                   |                                        |
| Reversal of items debited or credited to the comprehensive Income and Expenditure Statement:                                 |                               |                                   |                                   |                                        |
| Charges for depreciation and impairment of non-current assets                                                                | (2,772)                       | 0                                 | 0                                 | 2,772                                  |
| Movements in the market value of Investment Properties                                                                       | 855                           | 0                                 | 0                                 | (855)                                  |
| Amortisation of Intangible Assets                                                                                            | (59)                          | 0                                 | 0                                 | 59                                     |
| Capital Grants and contributions applied                                                                                     | 1,278                         | 0                                 | 16                                | (1,294)                                |
| Revenue Expenditure funded from capital under statute                                                                        | (808)                         | 0                                 | 0                                 | 808                                    |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal                           | (5,317)                       | 0                                 | 0                                 | 5,317                                  |
| <b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>                     |                               |                                   |                                   |                                        |
| Statutory Provision for the financing of capital investment                                                                  | 10                            | 0                                 | 0                                 | (10)                                   |
| <b>Adjustments involving the Capital Receipts Reserve:</b>                                                                   |                               |                                   |                                   |                                        |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account. | 5,488                         | (5,488)                           | 0                                 | 0                                      |
| Use of the Capital Receipts Reserve to finance new capital expenditure                                                       | 0                             | 877                               | 0                                 | (877)                                  |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals                   | (10)                          | 10                                | 0                                 | 0                                      |
| Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool               | (2)                           | 2                                 | 0                                 | 0                                      |
| Transfer from deferred capital receipts reserve upon receipt of cash                                                         | 0                             | (4)                               | 0                                 | 4                                      |
| <b>Adjustments primarily involving the Pension Reserve:</b>                                                                  |                               |                                   |                                   |                                        |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement  | (4,035)                       | 0                                 | 0                                 | 4,035                                  |
| Employers pensions contributions and direct payments to pensioners payable in year                                           | 1,818                         | 0                                 | 0                                 | (1,818)                                |

## Notes to the Core Financial Statements

| <b>Adjustments primarily involving the Collection Fund Account:</b>        |                |                |           |              |
|----------------------------------------------------------------------------|----------------|----------------|-----------|--------------|
| Movement in the Authority's share of the Collection Fund surplus / deficit | 748            | 0              | 0         | (748)        |
| <b>Adjustments primarily involving the Accumulated Absences Account:</b>   |                |                |           |              |
| Accrued employee absence adjustment                                        | (6)            | 0              | 0         | 6            |
| <b>Total Adjustments</b>                                                   | <b>(2,812)</b> | <b>(4,603)</b> | <b>16</b> | <b>7,399</b> |

### 8. OTHER OPERATING EXPENDITURE

| 2014/15<br>£000 |                                                          | 2015/16<br>£000 |
|-----------------|----------------------------------------------------------|-----------------|
| 920             | Parish council precepts                                  | 966             |
| 2               | Payments to the Government Housing Capital Receipts Pool | 2               |
| 0               | (Gains)/losses on the disposal of non-current assets     | (166)           |
| <b>922</b>      | <b>Total</b>                                             | <b>802</b>      |

### 9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| 2014/15<br>£000 |                                                               | 2015/16<br>£000 |
|-----------------|---------------------------------------------------------------|-----------------|
| 170             | Interest payable and similar charges                          | 164             |
| 1,902           | Pensions interest cost and expected return on pensions assets | 1,731           |
| (529)           | Interest receivable and similar income                        | (485)           |
| (994)           | Income and expenditure in relation to investment properties   | (1,809)         |
| <b>549</b>      | <b>Total</b>                                                  | <b>(399)</b>    |

### 10. TAXATION & NON-SPECIFIC GRANT INCOME AND EXPENDITURE

| 2014/15<br>£000  |                                                     | 2015/16<br>£000 | 2015/16<br>£000  |
|------------------|-----------------------------------------------------|-----------------|------------------|
| (10,531)         | Council Tax Income                                  |                 | (10,802)         |
| (3,384)          | Revenue Support Grant                               |                 | (2,742)          |
|                  | National Non-Domestic Business Rates (NNDR)         |                 |                  |
| (15,149)         | Share of total collectible                          | (15,232)        |                  |
| 12,657           | Less NNDR Tariff                                    | 12,792          |                  |
| 505              | Less NNDR Collection Fund Deficit                   | 536             |                  |
| (1,987)          | Net Recognised NNDR                                 |                 | (1,904)          |
| (1,991)          | New Homes Bonus                                     |                 | (2,401)          |
| (247)            | Capital Grants and Contributions (see below)        |                 | (941)            |
| <b>(18,140)</b>  |                                                     |                 | <b>(18,790)</b>  |
| 2014/15<br>£'000 | <b>Capital Grants and Contributions</b>             |                 | 2015/16<br>£'000 |
| 118              | S106 Developer Contributions                        |                 | 402              |
| 21               | Electric Charging Points Grant                      |                 | 0                |
| 100              | Museum Lottery Funding                              |                 | 534              |
| 8                | Co-Mingled Recycling Bins and Flats Recycling Grant |                 | 0                |
| 0                | Westmill Community Centre                           |                 | 5                |
| <b>247</b>       | <b>Total</b>                                        |                 | <b>941</b>       |

## Notes to the Core Financial Statements

In 2013/14 there was a change to the method for distributing and accounting for national non-domestic business rates (NNDR) income. Prior to 1 April 2013 NNDR were collected by the Council and paid over to the Government, who then redistributed these sums across the country in the form of the Non-Domestic rates grant. The Business Rates Retention Scheme came into effect on 1 April 2013 and from this date 50% of the business rates collected for the area is retained locally (North Hertfordshire Council (40%), Hertfordshire County Council (10%)). The remaining 50% is paid to central government. In addition the government has set a base level of business rates for each Council and either a top-up grant is received (if business rates collected are below this base level) or a tariff is paid to central government (if business rates collected are above this base level). North Hertfordshire District Council is a tariff Authority and paid £12.744million in 2015/16. If a local authority increases its business rates income it is allowed to retain a proportion of this increased income, whilst paying 50% across to central government. This payment is known as a levy payment. The Government has also stated that no local authority will suffer a reduction in business rate income of more than 7.5% of its Business Rates funding baseline. If business rates income falls below this 7.5% level then the Government will make a safety net payment. In 2015/16 NHDC were required to make a levy payment of £40k.

### 11. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

| <b>31 March<br/>2015<br/>£000</b> |                                                   | <b>31 March<br/>2016<br/>£000</b> |
|-----------------------------------|---------------------------------------------------|-----------------------------------|
| 5                                 | Cash held by the Authority                        | 4                                 |
| 1,975                             | Bank current accounts                             | 4,085                             |
| 50                                | Short-term Deposits with Banks/Building Societies | 3,000                             |
| 0                                 | Short-term Deposits with other Local Authorities  | 5,000                             |
| 0                                 | Short-term Deposits with Money Markets Funds      | 525                               |
| <b>2,030</b>                      | <b>Total</b>                                      | <b>12,614</b>                     |

### 12. UNDISCHARGED OBLIGATIONS ARISING FROM LONG TERM CONTRACTS

The Authority is committed to making payments estimated at £12.1 million in 2016/17. The estimated liability of the contracts from 1st April 2016 to contract expiry is £15.4 million. Those contracts with an annual value of over £25,000 and with more than one year left to run are shown below.

| <b>Contractor</b>                  | <b>Service</b>    | <b>Payment<br/>15/16<br/>£'000</b> | <b>Contract expiry date</b> |
|------------------------------------|-------------------|------------------------------------|-----------------------------|
| Northgate Public Services (UK) Ltd | Revenues          | 48                                 | 30 November 2020            |
| Britannic Technologies             | Customer Services | 55                                 | 09 November 2018            |
| Hitchin Markets Ltd                | Leisure           | 28                                 | 31 July 2018                |
| Veolia                             | Waste Management  | 6,159                              | 08 May 2018                 |
| Mavern Ltd                         | Finance           | 90                                 | 31 March 2018               |
| SSE Contracting Limited            | Property Services | 115                                | 31 March 2018               |
| Travelers Lot 1 Acre Lot 5         | Finance           | 161                                | 31 March 2018               |
| Birkin Cleaning Services           | Property Services | 69                                 | 30 September 2017           |
| Jade Security Services             | Parking Services  | 30                                 | 19 May 2017                 |
| <b>Total</b>                       |                   | <b>6,755</b>                       |                             |
| Other Contract Payments in 16/17   |                   | 5,305                              |                             |
| <b>Total Contract Payments</b>     |                   | <b>12,060</b>                      |                             |

# Notes to the Core Financial Statements

## 13. TRADING OPERATIONS

The Council has no trading operations.

## 14. CONTRIBUTION TO HOUSING POOLED CAPITAL RECEIPTS

The Council transferred its housing stock in March 2003. However, capital receipts of £2,082 relating to the remaining outstanding right to buy mortgages were received in 2015/16. The payment to the pool of £1,562 is shown in the Comprehensive Income and Expenditure Account under Other Operating Expenditure (See Note 8).

## 15. PENSION SCHEMES

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

The Authority participates in one pension scheme; the Local Government Pension Scheme (LGPS), administered locally by Hertfordshire County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Further information concerning the scheme can be found in Hertfordshire County Council Pension Fund's Annual Report, which is available upon request from Hertfordshire County Council, Corporate Services, County Hall, Hertford, Herts. SG13 8DQ.

The Authority recognises the cost of retirement benefits in the Cost of Services when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge the Authority is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| <b>Local Government Pension Scheme</b>                                                              | <b>2014/15</b> | <b>2015/16</b> |
|-----------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Comprehensive Income and Expenditure Account:</b>                                                | <b>£'000</b>   | <b>£'000</b>   |
| Cost of Services:                                                                                   |                |                |
| Service cost comprising:                                                                            |                |                |
| Current Service Cost *                                                                              | 1,989          | 2,304          |
| Past Service Costs                                                                                  | 13             | 0              |
| Financing and Investment Income and Expenditure:                                                    |                |                |
| Net Interest Expense                                                                                | 1,902          | 1,731          |
| <b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b> | <b>3,904</b>   | <b>4,035</b>   |
| Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:        |                |                |
| Re-measurement of the net defined liability comprising:                                             |                |                |
| Return on Plan Assets                                                                               | (9,379)        | 1,661          |
| Actuarial (gains) and losses arising on changes in demographic assumptions                          | 0              | 0              |
| Actuarial (gains) and losses arising on changes in financial assumptions                            | 17,850         | (9,676)        |
| Other                                                                                               | (1,253)        | (1,993)        |
| <b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>  | <b>11,122</b>  | <b>(5,973)</b> |



## Notes to the Core Financial Statements

| <b>Movement in Reserves Statement:</b>                                                                                                        | <b>2014/15</b> | <b>2015/16</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                                                               | <b>£'000</b>   | <b>£'000</b>   |
| Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | (3,904)        | (4,035)        |
| Actual Amount charged against the General Fund balance for pensions in the year:                                                              |                |                |
| • Employers' contributions payable to the scheme **                                                                                           | 1,835          | 1,823          |
| Net chargeable amount against the General Fund balance                                                                                        | <u>1,835</u>   | <u>1,823</u>   |

\* The service cost figures include an allowance for administration expenses of 0.4% of payroll.

\*\* The figure of £1.823million for employers contributions to the scheme in 2015/16 was an estimate for the year, used by the Actuary, based on the first nine months contributions. The actual amount paid in the general fund in 2015/16 was £1.818million (£5k less than shown). There is a corresponding adjustment in the actuarial gain recognised in the Income and Expenditure Statement.

### Pensions Assets and Liabilities Recognised in the Balance Sheet

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

| <b>Local Government Pension Scheme</b>                       | <b>2014/15</b>         | <b>2015/16</b>         |
|--------------------------------------------------------------|------------------------|------------------------|
|                                                              | <b>£'000</b>           | <b>£'000</b>           |
| Present value of the defined benefit obligation              | (161,422)              | (152,804)              |
| Fair Value of plan assets                                    | 105,790                | 104,968                |
| Sub-total                                                    | <u>(55,632)</u>        | <u>(47,836)</u>        |
| Other movements in the liability (asset)                     | 0                      | 0                      |
| <b>Net liability arising from defined benefit obligation</b> | <b><u>(55,632)</u></b> | <b><u>(47,836)</u></b> |

### Reconciliation of the Movements in the Fair Value of Scheme Assets:

| <b>Local Government Pension Scheme</b>                                               | <b>2014/15</b>        | <b>2015/16</b>        |
|--------------------------------------------------------------------------------------|-----------------------|-----------------------|
|                                                                                      | <b>£'000</b>          | <b>£'000</b>          |
| Opening fair value of scheme assets                                                  | 95,081                | 105,790               |
| Interest Income                                                                      | 3,845                 | 3,243                 |
| Re-measurement gain / (loss):                                                        |                       |                       |
| The return on plan assets, excluding the amount included in the net interest expense | 9,379                 | (1,661)               |
| Other                                                                                |                       |                       |
| The effect of changes in foreign exchange rates                                      |                       |                       |
| Contributions from employer                                                          | 1,862                 | 1,823                 |
| Contributions from employees into the scheme                                         | 587                   | 574                   |
| Benefits paid                                                                        | <u>(4,964)</u>        | <u>(4,801)</u>        |
| <b>Closing fair value of scheme assets</b>                                           | <b><u>105,790</u></b> | <b><u>104,968</u></b> |

### Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

| <b>Local Government Pension Scheme</b>                                     | <b>2014/15</b> | <b>2015/16</b> |
|----------------------------------------------------------------------------|----------------|----------------|
|                                                                            | <b>£'000</b>   | <b>£'000</b>   |
| Opening balance at 1 April                                                 | 141,453        | 161,422        |
| Current service cost                                                       | 1,989          | 2,304          |
| Interest cost                                                              | 5,747          | 4,974          |
| Contributions from scheme participants                                     | 587            | 574            |
| Re-measurement (gains) and losses:                                         |                |                |
| Actuarial (gains) / losses arising from changes in demographic assumptions | 0              | 0              |

## Notes to the Core Financial Statements

|                                                                          |                |                |
|--------------------------------------------------------------------------|----------------|----------------|
| Actuarial (gains) / losses arising from changes in financial assumptions | 17,850         | (9,676)        |
| Other                                                                    | (1,253)        | (1,993)        |
| Past Service Cost                                                        | 13             | 0              |
| Benefits paid                                                            | (4,964)        | (4,801)        |
| <b>Closing balance at 31 March</b>                                       | <b>161,422</b> | <b>152,804</b> |

Local Government Pension Scheme assets comprised:

|                                    | Fair Value of scheme assets (Quoted Prices) |                               |                   |                         |                               |                   |
|------------------------------------|---------------------------------------------|-------------------------------|-------------------|-------------------------|-------------------------------|-------------------|
|                                    | 31 March 2015                               |                               |                   | 31 March 2016           |                               | % of total assets |
|                                    | Active Markets<br>£'000                     | Not in Active Markets<br>£000 | % of total assets | Active Markets<br>£'000 | Not in Active Markets<br>£000 |                   |
| Cash and cash equivalents          | 2,790                                       | 0                             | 3%                | 3,336                   | 0                             |                   |
| Equity instruments:                |                                             |                               |                   |                         |                               |                   |
| Consumer                           | 9,341                                       | 0                             | 9%                | 8,527                   | 0                             | 8%                |
| Manufacturing                      | 11,066                                      | 0                             | 10%               | 7,780                   | 0                             | 7%                |
| Energy and utilities               | 3,054                                       | 0                             | 3%                | 1,824                   | 0                             | 2%                |
| Financial Institutions             | 9,508                                       | 0                             | 9%                | 7,977                   | 0                             | 8%                |
| Health and care                    | 1,569                                       | 0                             | 1%                | 1,390                   | 0                             | 1%                |
| Information technology             | 6,571                                       | 0                             | 6%                | 4,964                   | 0                             | 5%                |
| Other                              | 780                                         | 0                             | 1%                | 242                     | 0                             | 0%                |
| Sub-total equity                   | 41,889                                      | 0                             | 39%               | 32,704                  | 0                             | 31%               |
| Bonds:                             | 0                                           | 0                             | 0%                | 0                       | 0                             | 0%                |
| Private equity:                    |                                             |                               |                   |                         |                               |                   |
| All                                | 0                                           | 4,382                         | 4%                | 0                       | 4,506                         | 4%                |
| Real Estate:                       |                                             |                               |                   |                         |                               |                   |
| UK Property                        | 0                                           | 0                             | 0%                | 0                       | 4,688                         | 4%                |
| Overseas Property                  | 0                                           | 0                             | 0%                | 0                       | 2,740                         | 3%                |
| Sub-total real estate              | 0                                           | 0                             | 0%                | 0                       | 7,428                         | 7%                |
| Investment funds and Unit Trusts:  |                                             |                               |                   |                         |                               |                   |
| Equities                           | 15,200                                      | 0                             | 14%               | 21,308                  | 0                             | 20%               |
| Bonds                              | 28,218                                      | 0                             | 28%               | 28,742                  | 0                             | 27%               |
| Commodities                        | 458                                         | 0                             | 0%                | 496                     | 0                             | 0%                |
| Infrastructure                     | 0                                           | 94                            | 0%                | 0                       | 135                           | 0%                |
| Other                              | 332                                         | 12,656                        | 12%               | 428                     | 6,271                         | 6%                |
| Sub-total other investment funds   | 44,208                                      | 12,750                        | 54%               | 50,974                  | 6,406                         | 53%               |
| Derivatives:                       |                                             |                               |                   |                         |                               |                   |
| Forward foreign exchange contracts | 0                                           | (229)                         | 0%                | 0                       | (386)                         | 0%                |
| <b>Total assets</b>                | <b>88,887</b>                               | <b>16,903</b>                 |                   | <b>87,014</b>           | <b>17,954</b>                 |                   |

All scheme assets have fair values based on quoted prices. Some of these assets are in active markets and some are in non-active markets. An active market has a high volume and frequency of transactions which provides better pricing information and means that the asset is more liquid.

The scheme history is as follows:

|                              | 31 March<br>2012<br>£'000 | 31 March<br>2013<br>£'000 | 31 March<br>2014<br>£'000 | 31 March<br>2015<br>£'000 | 31 March<br>2016<br>£'000 |
|------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Present Value of Liabilities | (130,858)                 | (148,476)                 | (141,453)                 | (161,422)                 | (152,804)                 |
| Fair Value of Assets         | 85,630                    | 96,018                    | 95,081                    | 105,790                   | 104,968                   |
| <b>Deficit in the scheme</b> | <b>(45,228)</b>           | <b>(52,458)</b>           | <b>(46,372)</b>           | <b>(55,632)</b>           | <b>(47,836)</b>           |

## Notes to the Core Financial Statements

The liabilities show the underlying commitments that the Authority has in the long run to pay for post employment (retirement) benefits. The total liability of £152,804million has a substantial impact on the net worth of the Authority, as recorded in the Balance Sheet, resulting in a negative overall balance of £47,836million. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The contributions paid by the Authority are set by the Fund Actuary at each triennial actuarial valuation (the most recent being as at 31 March 2013), or at any other time as instructed to do so by the Administering Authority. The contributions payable over the period to 31 March 2017 are set out in the Rate and Adjustments certificate. Further details on the approach adopted to set contribution rates for the Authority are available in the 2013 actuarial valuation report dated 28 March 2013.

The total contributions expected to be made to the Local Government Pension scheme by the Authority in the year to 31 March 2017 is £1,822,000.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The pension fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates being based on the latest formal valuation of the Fund as at 31 March 2016. The significant assumptions used in their calculations are:

|                                                       | 31 March<br>2015<br>% | 31 March<br>2016<br>% |
|-------------------------------------------------------|-----------------------|-----------------------|
| Mortality Assumptions:                                |                       |                       |
| Longevity at 65 for current pensioners*:              |                       |                       |
| Men                                                   | 22.3                  | 22.3                  |
| Women                                                 | 24.5                  | 24.5                  |
| Longevity at 65 for future pensioners**               |                       |                       |
| Men                                                   | 24.3                  | 24.3                  |
| Women                                                 | 26.7                  | 26.7                  |
| Rate of inflation                                     | 2.1                   | 2.1                   |
| Rate of increase in salaries                          | 3.5                   | 3.6                   |
| Rate of increase in pensions                          | 2.1                   | 2.1                   |
| Rate for discounting scheme liabilities               | 3.1                   | 3.4                   |
| Proportion of Employees opting to take a commuted sum |                       |                       |
| - pre April 2008 service                              | 50.0                  | 50.0                  |
| - post April 2008 service                             | 75.0                  | 75.0                  |

\* Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2010 model assuming current rates of improvement have peaked and will converge to a long term rate 1.25% p.a. Based on these assumptions the average future life expectancies at age 65 are as shown. Mortality rates are identical to those used in the previous accounting period. \*\*Figures assume members aged 45 as at the last formal valuation date.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for

## Notes to the Core Financial Statements

men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, is on an actuarial basis using the projected unit credit method.

|                                                 | Impact on the Defined Benefit Obligation in the scheme |                          |
|-------------------------------------------------|--------------------------------------------------------|--------------------------|
|                                                 | % Increase to Liability<br>£'000                       | Monetary amount<br>£'000 |
| Longevity (increase in 1 year)                  | 3%                                                     | 4,584                    |
| Real Discount Rate (decrease by 0.5%)           | 12%                                                    | 18,624                   |
| Rate of increase in salaries (increase by 0.5%) | 4%                                                     | 5,924                    |
| Rate of increase in pensions (increase by 0.5%) | 8%                                                     | 12,395                   |

### 16. AGENCY SERVICES

The Authority provided highway verge maintenance and ground maintenance at Letchworth Library for Hertfordshire County Council. It also provides a grounds and building maintenance service to Royston Town Council. Income and expenditure relating to these services are listed below:

|                                                                                                                                        | 2014/15<br>£'000 | 2015/16<br>£'000 |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Expenditure incurred in providing highway verge and grounds maintenance services at Letchworth Library to Hertfordshire County Council | 407              | 332              |
| Management fee payable by the County Council                                                                                           | (346)            | (269)            |
| <b>Net deficit arising on the agency agreement</b>                                                                                     | <b>61</b>        | <b>63</b>        |
| Expenditure incurred in providing a grounds and building maintenance service to Royston Town Council                                   | 7                | 5                |
| Management fee payable by the Town Council                                                                                             | (5)              | (2)              |
| <b>Net deficit arising on the agency agreement</b>                                                                                     | <b>2</b>         | <b>3</b>         |

### 17. GRANT INCOME RECOGNISED IN THE COST OF SERVICES

The Authority credited the following **capital** grants, contributions and donations to the net cost of services in the Comprehensive Income and Expenditure Statement:

|                                           | 2014/15<br>£'000 | 2015/16<br>£'000 |
|-------------------------------------------|------------------|------------------|
| Disabled Facilities Grant                 | 296              | 361              |
| Developer Contribution                    | 110              | 82               |
| S106 Refund for Housing Association Grant | 0                | (106)            |
| <b>Total</b>                              | <b>406</b>       | <b>337</b>       |

The Authority credited the following **revenue** grants, contributions and donations to the net cost of services in the Comprehensive Income and Expenditure Statement:

|                                                        | 2014/15<br>£'000 | 2015/16<br>£'000 |
|--------------------------------------------------------|------------------|------------------|
| Benefits Administration and Fraud Initiative Grants    | 984              | 888              |
| Housing and Council Tax Benefit Subsidy                | 37,875           | 37,518           |
| Waste minimisation – Herts County Council contribution | 606              | 469              |
| Waste Service Transport Subsidy                        | 17               | 24               |
| National Non-Domestic Rates Administration Grant       | 193              | 181              |

## Notes to the Core Financial Statements

|                                                  | 2014/15<br>£'000 | 2015/16<br>£'000 |
|--------------------------------------------------|------------------|------------------|
| HCC Locality Grants Traffic Schemes              | 8                | 0                |
| Homelessness Prevention Grant                    | 58               | 3                |
| Community Safety Grants                          | 24               | 25               |
| Individual Electronic Registration Grant         | 54               | 40               |
| Council Tax Reduction Scheme – New Burdens Grant | 82               | 28               |
| DCLG Neighbourhood Plans                         | 30               | 15               |
| Public Health Grant                              | 16               | 120              |
| Community Right to Bid                           | 16               | 0                |
| Inspire Grant – Defra                            | 2                | 5                |
| Get Active Grant                                 | 0                | 20               |
| Air Monitoring, HCC                              | 0                | 20               |
| Local Land Charges                               | 0                | 119              |
| DCLG Waste Grants for Flats Recycling            | 74               | 78               |
| Hertfordshire Museums – Lottery Fund             | 0                | 3                |
| Satellite Clubs                                  | 0                | 3                |
| <b>Total</b>                                     | <b>40,039</b>    | <b>39,559</b>    |

### CAPITAL GRANTS RECEIVED IN ADVANCE

The Authority received a grant in 2012/13 from the DCLG for the Weekly Collection Support Scheme. This grant is recognised as income in the Comprehensive Income and Expenditure Statement over the life of the scheme as there are conditions attached that may require the monies to be returned if the criteria of the grant are not met. The balance at the 31 March 2016 is £289,602.

### 18. EMPLOYEES REMUNERATION

The Authority is required to include in the notes to the accounts the number of employees in the accounting period whose remuneration was in excess of £50,000. The remuneration is shown in each bracket of a scale in multiples of £5,000. For this purpose remuneration means all amounts paid to or receivable by an employee, other than employers pension contributions, and includes sums due by way of taxable expenses and the estimated money value of any benefits.

| Remuneration Band | 2014/15<br>Employees | 2015/16<br>Employees |
|-------------------|----------------------|----------------------|
| £50,000-54,999    | 10                   | 6                    |
| £55,000-£59,999   | 0                    | 5                    |
| £60,000-£64,999   | 5                    | 3                    |
| £65,000-£69,999   | 1                    | 1                    |
| £70,000-£74,999   | 0                    | 3                    |
| £75,000-£79,999   | 1                    | 0                    |
| £80,000-£84,999   | 0                    | 0                    |
| £85,000-£89,999   | 2                    | 0                    |
| £90,000-£114,999  | 0                    | 2                    |
| £115,000-£119,999 | 0                    | 0                    |
| £120,000-£124,999 | 1                    | 1                    |
| £125,000-£129,999 | 0                    | 0                    |
| <b>Total</b>      | <b>20</b>            | <b>21</b>            |

## Notes to the Core Financial Statements

### Senior Employee Remuneration in 2015/16

The Authority is also required to disclose individual remuneration details for senior employees whose salary is £50,000 or more per year. The first table which follows details the individual remuneration for senior employees whose salary was £50,000 or more in 2015/16. The second table details the equivalent information for the comparative year, 2014/15. The Authority is voluntarily opting to disclose the name of the Chief Executive and Strategic Directors. The actual salary for the financial year might be less than £50,000 if the employee only worked for part of the year.

| Post Title                                                         | Salary<br>(including<br>fees and<br>allowances)<br>£ | Expense<br>Allowances<br>£ | Total<br>Remuneration<br>(excluding<br>pension<br>contributions )<br>£ | Pension<br>contributions<br>£ | Total<br>Remuneration<br>(including<br>pension<br>contributions<br>2015/16)<br>£ |
|--------------------------------------------------------------------|------------------------------------------------------|----------------------------|------------------------------------------------------------------------|-------------------------------|----------------------------------------------------------------------------------|
| David Scholes*<br>Chief Executive                                  | 117,205                                              | 0                          | <b>117,205</b>                                                         | 17,547                        | 134,752                                                                          |
| Norma Atlay<br>Strategic Director of Finance Policy and Governance | 90,066                                               | 0                          | <b>90,066</b>                                                          | 13,340                        | 103,406                                                                          |
| John Robinson<br>Strategic Director of Customer Services           | 90,066                                               | 0                          | <b>90,066</b>                                                          | 13,340                        | 103,406                                                                          |
| Head of Development and Building Control                           | 72,986                                               | 0                          | <b>72,986</b>                                                          | 10,794                        | 83,780                                                                           |
| Head of Housing and Public Protection Service                      | 70,429                                               | 0                          | <b>70,429</b>                                                          | 10,287                        | 80,716                                                                           |
| Head of Policy Partnership and Community Development               | 63,621                                               | 0                          | <b>63,621</b>                                                          | 9,319                         | 72,940                                                                           |
| Head of Finance Performance and Asset Management**                 | 50,744                                               | 0                          | <b>50,744</b>                                                          | 0                             | 50,744                                                                           |
| Head of Revenues and Benefits                                      | 63,621                                               | 0                          | <b>63,621</b>                                                          | 9,319                         | 72,940                                                                           |
| Head of Leisure and Environmental Services                         | 72,529                                               | 0                          | <b>72,529</b>                                                          | 10,686                        | 83,215                                                                           |
| Corporate Human Resources Manager                                  | 55,026                                               | 0                          | <b>55,026</b>                                                          | 8,086                         | 63,112                                                                           |
| Corporate Legal Manager                                            | 60,115                                               | 85                         | <b>60,200</b>                                                          | 8,775                         | 68,975                                                                           |

\* The Chief Executive also held the position of Returning Officer for the Council and received £5,502 of expense allowances for this role in 2015/16

\*\* The Head of Finance Performance and Asset Management resigned with effect from 17 January 2016. The annualised salary for this post in 2015/16, excluding fees and allowances, was equal to £63,473.

## Notes to the Core Financial Statements

### Senior Employee Remuneration in 2014/15

| Post Title                                                         | Salary<br>(including fees<br>& allowances)<br><br>£ | Expense<br>Allowances<br><br>£ | Total<br>Remuneration<br>(excluding<br>pension<br>contributions)<br><br>£ | Pension<br>Contributions<br><br>£ | Total<br>Remuneration<br>(including pension<br>contributions<br>2013/14)<br><br>£ |
|--------------------------------------------------------------------|-----------------------------------------------------|--------------------------------|---------------------------------------------------------------------------|-----------------------------------|-----------------------------------------------------------------------------------|
| David Scholes *<br>Chief Executive                                 | 114,628                                             | 0                              | 114,628                                                                   | 17,147                            | 131,775                                                                           |
| Norma Atlay<br>Strategic Director of Finance Policy and Governance | 88,378                                              | 0                              | 88,378                                                                    | 13,079                            | 101,457                                                                           |
| John Robinson<br>Strategic Director of Customer Services           | 88,378                                              | 8                              | 88,386                                                                    | 13,079                            | 101,465                                                                           |
| Head of Development and Building Control                           | 76,928                                              | 0                              | 76,928                                                                    | 11,381                            | 88,309                                                                            |
| Head of Housing and Public Protection Service                      | 68,609                                              | 0                              | 68,609                                                                    | 10,085                            | 78,694                                                                            |
| Head of Policy Partnership and Community Development               | 62,443                                              | 0                              | 62,443                                                                    | 9,136                             | 71,579                                                                            |
| Head of Finance Performance and Asset Management                   | 61,090                                              | 6                              | 61,096                                                                    | 0                                 | 61,096                                                                            |
| Head of Revenues and Benefits                                      | 62,443                                              | 787                            | 63,230                                                                    | 9,136                             | 72,366                                                                            |
| Head of Leisure and Environmental Services                         | 62,565                                              | 0                              | 62,565                                                                    | 9,136                             | 71,701                                                                            |
| Corporate Human Resources Manager                                  | 54,006                                              | 462                            | 54,468                                                                    | 7,902                             | 62,370                                                                            |
| Corporate Legal Manager**                                          | 36,679                                              | 0                              | 36,679                                                                    | 8,652                             | 45,331                                                                            |

\* The Chief Executive also held the position of Returning Officer for the Council and received £7,286 of expense allowances for this role in 2014/15.

\*\* The Corporate Legal Manager had taken maternity leave from August 2014.

## Notes to the Core Financial Statements

### 19. TERMINATION BENEFITS AND EXIT PACKAGES

The Authority terminated the contracts of four employees in 2015/16, incurring liabilities of £2,562 (£102,155 in 2014/15).

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

| (a)<br>Exit package cost band (including special payments) | (b)<br>Number of compulsory redundancies |         | (c)<br>Number of other agreed departures |         | (d)<br>Total number of exit packages by cost band |         | (e)<br>Total cost of exit packages in each band |              |
|------------------------------------------------------------|------------------------------------------|---------|------------------------------------------|---------|---------------------------------------------------|---------|-------------------------------------------------|--------------|
|                                                            | 2014/15                                  | 2015/16 | 2014/15                                  | 2015/16 | 2014/15                                           | 2015/16 | 2014/15                                         | 2015/16      |
|                                                            |                                          |         |                                          |         |                                                   |         | £                                               | £            |
| £0 - £49,999                                               | 5                                        | 1       | 1                                        | 3       | 6                                                 | 4       | 102,155                                         | 2,562        |
| £50,000 - £74,999                                          | 0                                        | 0       | 0                                        | 0       | 0                                                 | 0       | -                                               | -            |
| <b>Total Cost included in bandings and in CIES</b>         |                                          |         |                                          |         |                                                   |         | <b>102,155</b>                                  | <b>2,562</b> |

### 20. MEMBERS' ALLOWANCES

The following table shows the amount of Members' allowances paid in 2015/16 compared to the previous financial year:

|              | 2014/15<br>£'000 | 2015/16<br>£'000 |
|--------------|------------------|------------------|
| Allowances   | 329              | 320              |
| Expenses     | 15               | 12               |
| <b>Total</b> | <b>344</b>       | <b>332</b>       |

### 21. FEES PAYABLE TO THE AUTHORITY'S APPOINTED EXTERNAL AUDITORS

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and for non-audit services provided by the Authority's external auditors. The 2015/16 audit fees have been estimated for the element of grant based audit work in conjunction with the Council's external auditors.

|                                                                                                       | 2014/15<br>£'000 | 2015/16<br>£'000 |
|-------------------------------------------------------------------------------------------------------|------------------|------------------|
| Fees payable with regard to external audit services carried out by the appointed auditor for the year | 68               | 52               |
| Fees payable to the Audit Commission with regard to external audit services.                          | (16)             | 0                |
| Fees payable for the certification of grant claims and returns for the year                           | 11               | 8                |
| Fees payable in respect of other services provided by external auditors during the year               | 0                | 0                |
| <b>Total</b>                                                                                          | <b>63</b>        | <b>60</b>        |



# Notes to the Core Financial Statements

## 22. RELATED PARTY TRANSACTIONS

The Authority is required to disclose material transactions with related parties - bodies or individuals that have potential to control or influence the Authority or to be controlled or influenced by the Authority.

Central Government has significant influence over the general operations of the Authority - it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. housing benefits).

Key management personnel also have significant influence over the operations of the authority. Key management personnel are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

Members have direct control over the Authority's financial and operating policies. During 2015/16, works and services to the value of £12,784 were commissioned from companies in which 4 Members had an interest. No additional grants were paid to voluntary organisations in which Members had an interest. Details of all of these transactions are recorded in the Register of Members' Interest and Disclosure of Personal Interest at Meetings. Both these documents are available for public inspection at Council Offices, Gernon Road, Letchworth Garden City, Hertfordshire.

Two Council Members have a place on the board of North Hertfordshire Homes. Income recorded from Service Level Agreements (SLA's) between the Authority and North Hertfordshire Homes (NHH) totalled £321,196, with an outstanding debtor balance at 31<sup>st</sup> March 2016 of £4,235. £99,086 was paid to NHH under reciprocal SLA's. In addition, an NHDC invoice for £30,204 was raised to NHH in March 2016 in relation to Section 106 obligations. This was recorded as a debtor balance at 31 March 2016.

No Officers of the Council with influence over key procurement decisions, nor their spouses or partners, have declared any interests with NHDC related parties.

The Authority has no substantial interests in companies or joint ventures.

## 23. PROPERTY, PLANT AND EQUIPMENT

The movement on property, plant and equipment balances during the year and in the 2014/15 comparable year is detailed in the following tables.

Within each classification heading are the following types of assets:

|                       |                                                                                    |
|-----------------------|------------------------------------------------------------------------------------|
| Land & Buildings      | – Offices, Depots, Leisure Facilities, Community Centres,<br>Museums and Pavilions |
| Infrastructure Assets | – Capital Works to Public Roads and Drainage Schemes                               |
| Community Assets      | – Commons and Parks                                                                |

### REVALUATIONS

The Authority has a 5 year rolling revaluation programme for its properties. The Authority's Investment properties are valued annually. Revaluations completed during the year are reflected as at 1 April of the financial year when the valuation takes place. Valuations of the Authority's properties are overseen by the Estates Surveyor, who is a professional member of the Royal Institution of Chartered Surveyors. When necessary, specialist external valuers are used for assets which require particular knowledge of the asset valued.

Revaluations have been undertaken in 2015/16 in line with the 5 year rolling programme. These have resulted in a net increase to the carrying value of property, plant and equipment of just over £460,000.

## Notes to the Core Financial Statements

The following table shows which class of assets have been revalued over the last 4 years:

| 2012/13                 | 2013/14               | 2014/15               | 2015/16                 |
|-------------------------|-----------------------|-----------------------|-------------------------|
| Industrial Properties   | Industrial Properties | Industrial Properties | Industrial Properties   |
| Investment Properties   | Investment Properties | Investment Properties | Investment Properties   |
| Burial Grounds          | Agriculture           | Access Licence        | Amenity Land            |
| Car Parks               | Allotments            | Depot/Storage         | Garden Licence          |
| Community Centres       | Amenity Land          | Garden Licence        | Play Areas              |
| Land in advance of need | Bridges               | Minor Letting         | Land in advance of need |
| Leisure Centres         | Markets               | Ransom Strip          | Recreation Grounds      |
| Museums                 | Play Areas            | Sub Stations          | Storage                 |
| Pavilions               | Public Open Spaces    | Wayleaves             |                         |
| Public Conveniences     | Recreation Grounds    |                       |                         |
| Public Halls            |                       |                       |                         |
| Storage                 |                       |                       |                         |
| Swimming Pools          |                       |                       |                         |
| Trust Property          |                       |                       |                         |
| Wells                   |                       |                       |                         |

The Authority measures some of its non-financial assets, such as surplus assets and investment properties, 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 Authority uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

Level 1 Quoted Prices in active markets for identical assets accessible at the measurement date.

Level 2 Observable (either directly or indirectly) other than quoted prices at Level 1

Level 3 Unobservable

The Authority's investment properties and surplus assets have been assessed as Level 2 for valuation purposes.

An impairment review was completed as at 31 March 2016 to ascertain if the carrying value of the assets had decreased materially since the last revaluation. The value of the pavilion at King George V playing field, Hitchin was impaired by £302,597, King George V Bungalow and Garage by £159,070 and the garages at Garrison Court, Hitchin were impaired by £32,000.

### DISPOSALS

The Authority sold three sites during 2015/16: Land at Lloyd Way Kimpton, land at Meadow Way and the old Coal Gas site at Lumen Road. The combined carrying value of these three assets at the time of disposal was £5.32million. The combined total of receipts received was £5.46million.

## Notes to the Core Financial Statements

### MOVEMENT ON BALANCES OF PROPERTY, PLANT AND EQUIPMENT IN 2014/15

|                                                                            | Land &<br>Buildings | Vehicles,<br>Plant<br>& Equipment | Infrastructure<br>Assets | Community<br>Assets | Surplus<br>Assets | Assets<br>Under<br>Construction | Total<br>Property, Plant<br>& Equipment |
|----------------------------------------------------------------------------|---------------------|-----------------------------------|--------------------------|---------------------|-------------------|---------------------------------|-----------------------------------------|
|                                                                            | £'000               | £'000                             | £'000                    | £'000               | £'000             | £'000                           | £'000                                   |
| <b>Cost of Valuation</b>                                                   |                     |                                   |                          |                     |                   |                                 |                                         |
| <b>At 1 April 2014</b>                                                     | <b>64,808</b>       | <b>8,723</b>                      | <b>93</b>                | <b>6,086</b>        | <b>3,232</b>      | <b>1,796</b>                    | <b>84,738</b>                           |
| Additions                                                                  | 232                 | 299                               | 0                        | 8                   | 0                 | 3,007                           | 3,546                                   |
| Disposals                                                                  | 0                   | 0                                 | 0                        | 0                   | 0                 | 0                               | 0                                       |
| Reclassifications                                                          | 659                 | 31                                | 0                        | 95                  | 0                 | (785)                           | 0                                       |
| Write Off to Revenue                                                       | 0                   | 0                                 | 0                        | 0                   | 0                 | (43)                            | (43)                                    |
| Upward and Downward Revaluations taken to Revaluation Reserve              | 88                  | 0                                 | 0                        | 0                   | 0                 | 0                               | 88                                      |
| Impairments recognized in the Surplus/Deficit on the Provision of Services | 0                   | 0                                 | 0                        | 0                   | (120)             | 0                               | (120)                                   |
| <b>At 31 March 2015</b>                                                    | <b>65,787</b>       | <b>9,053</b>                      | <b>93</b>                | <b>6,189</b>        | <b>3,112</b>      | <b>3,975</b>                    | <b>88,209</b>                           |
| <b>Depreciation &amp; Impairments</b>                                      |                     |                                   |                          |                     |                   |                                 |                                         |
| At 1 April 2014                                                            | (7,276)             | (6,164)                           | (28)                     | (725)               | (10)              | 0                               | (14,203)                                |
| Depreciation Charge for 2014/15                                            | (1,567)             | (550)                             | (2)                      | (138)               | (4)               | 0                               | (2,261)                                 |
| Disposals                                                                  | 0                   | 0                                 | 0                        | 0                   | 0                 | 0                               | 0                                       |
| Reclassifications                                                          | 0                   | 0                                 | 0                        | 0                   | 0                 | 0                               | 0                                       |
| Depreciation written out to the Revaluation Reserve                        | 86                  | 0                                 | 0                        | 12                  | 0                 | 0                               | 98                                      |
| <b>At 31 March 2015</b>                                                    | <b>(8,757)</b>      | <b>(6,714)</b>                    | <b>(30)</b>              | <b>(851)</b>        | <b>(14)</b>       | <b>0</b>                        | <b>(16,366)</b>                         |
| <b>Balance Sheet amount at 31 March 2015</b>                               | <b>57,030</b>       | <b>2,339</b>                      | <b>63</b>                | <b>5,338</b>        | <b>3,098</b>      | <b>3,975</b>                    | <b>71,843</b>                           |
| <b>Balance Sheet amount at 1 April 2014</b>                                | <b>57,532</b>       | <b>2,559</b>                      | <b>65</b>                | <b>5,361</b>        | <b>3,222</b>      | <b>1,796</b>                    | <b>70,535</b>                           |

## Notes to the Core Financial Statements

### MOVEMENT ON BALANCES OF PROPERTY, PLANT AND EQUIPMENT IN 2015/16

|                                                                            | Land & Buildings | Vehicles, Plant & Equipment | Infra-structure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant & Equipment |
|----------------------------------------------------------------------------|------------------|-----------------------------|------------------------|------------------|----------------|---------------------------|-----------------------------------|
|                                                                            | £'000            | £'000                       | £'000                  | £'000            | £'000          | £'000                     | £'000                             |
| <b>Cost of Valuation</b>                                                   |                  |                             |                        |                  |                |                           |                                   |
| <b>At 1 April 2015</b>                                                     | <b>65,787</b>    | <b>9,053</b>                | <b>93</b>              | <b>6,189</b>     | <b>3,112</b>   | <b>3,975</b>              | <b>88,209</b>                     |
| Additions                                                                  | 251              | 513                         | 0                      | 0                | 0              | 1,958                     | 2,722                             |
| Disposals                                                                  | (127)            | 0                           | 0                      | 0                | 0              | 0                         | (127)                             |
| Reclassifications                                                          | (115)            | 107                         | 0                      | 0                | 43             | (126)                     | (91)                              |
| Write Off to Revenue                                                       | 0                | 0                           | 0                      | 0                | 0              | 0                         | 0                                 |
| Upward and Downward Revaluations taken to Revaluation Reserve              | 187              | 0                           | 0                      | 0                | 746            | 0                         | 933                               |
| Impairments recognized in the Surplus/Deficit on the Provision of Services | (450)            | 0                           | 0                      | 0                | (25)           | 0                         | (475)                             |
| <b>At 31 March 2016</b>                                                    | <b>65,533</b>    | <b>9,673</b>                | <b>93</b>              | <b>6,189</b>     | <b>3,876</b>   | <b>5,807</b>              | <b>91,171</b>                     |
| <b>At 1 April 2015</b>                                                     | <b>(8,757)</b>   | <b>(6,715)</b>              | <b>(30)</b>            | <b>(851)</b>     | <b>(14)</b>    | <b>0</b>                  | <b>(16,367)</b>                   |
| Depreciation Charge for 2015/16                                            | (1,566)          | (582)                       | (2)                    | (141)            | (5)            | 0                         | (2,296)                           |
| Disposals                                                                  | 0                | 0                           | 0                      | 0                | 0              | 0                         | 0                                 |
| Reclassifications                                                          | 0                | 0                           | 0                      | 0                | 0              | 0                         | 0                                 |
| Depreciation written out to the Revaluation Reserve                        | 3                | 0                           | 0                      | 0                | 0              | 0                         | 3                                 |
| <b>At 31 March 2016</b>                                                    | <b>(10,320)</b>  | <b>(7,297)</b>              | <b>(32)</b>            | <b>(992)</b>     | <b>(19)</b>    | <b>0</b>                  | <b>(18,660)</b>                   |
| <b>Balance Sheet amount at 31 March 2016</b>                               | <b>55,213</b>    | <b>2,376</b>                | <b>61</b>              | <b>5,197</b>     | <b>3,857</b>   | <b>5,807</b>              | <b>72,511</b>                     |
| <b>Balance Sheet amount at 1 April 2015</b>                                | <b>57,030</b>    | <b>2,339</b>                | <b>63</b>              | <b>5,338</b>     | <b>3,098</b>   | <b>3,975</b>              | <b>71,843</b>                     |

## Notes to the Core Financial Statements

### 24. INVESTMENT PROPERTIES

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

|                                                            | 2014/15<br>£'000 | 2015/16<br>£'000 |
|------------------------------------------------------------|------------------|------------------|
| Rental Income from Investment Property                     | (1,021)          | (995)            |
| Deminimis land sales                                       | 0                | 0                |
| Direct Operating Expenses arising from Investment Property | 27               | 41               |
| <b>Net Gain / (Loss)</b>                                   | <b>(994)</b>     | <b>(954)</b>     |

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

The future minimum lease payments (rental income) expected from contractual obligations are:

|                                                   | 2014/15<br>£'000 | 2015/16<br>£'000 |
|---------------------------------------------------|------------------|------------------|
| Not later than one year                           | (875)            | (993)            |
| Later than one year and not later than five years | (3,500)          | (3,973)          |
| Later than five years                             | (61,547)         | (60,189)         |

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

|                                                  | 2014/15<br>£'000 | 2015/16<br>£'000 |
|--------------------------------------------------|------------------|------------------|
| <b>Balance at Start of the Year</b>              | <b>14,530</b>    | <b>14,530</b>    |
| Net Gains / (Losses) from Fair Value adjustments | 0                | 863              |
| Disposal                                         | 0                | (690)            |
| Transfers to/from Property, Plant and Equipment  | 0                | 91               |
| <b>Balance at End of Year</b>                    | <b>14,530</b>    | <b>14,794</b>    |

### 25. ASSETS HELD FOR SALE (Non-Current)

|                                           | 2014/15<br>£'000 | 2015/16<br>£'000 |
|-------------------------------------------|------------------|------------------|
| <b>Balance at Start of the Year</b>       | <b>2,000</b>     | <b>2,000</b>     |
| Assets newly classified as held for sale  | 0                | 0                |
| Assets sold                               | 0                | (2,000)          |
| <b>Balance Outstanding at End of Year</b> | <b>2,000</b>     | <b>0</b>         |

# Notes to the Core Financial Statements

## 26. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Of the total expenditure of £3.52million, only £2.16million has been financed immediately, resulting in an increase of £1.37million in the Capital Financing Requirement (CFR). This is a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR remains negative (£18.83million at 31 March 2016) because the Authority has set aside capital receipts which exceed the amount of outstanding loans and borrowings.

|                                                       | 2014/15<br>£'000 | 2015/16<br>£'000 |
|-------------------------------------------------------|------------------|------------------|
| <b>Capital Investment:</b>                            |                  |                  |
| <b>Operational Assets</b>                             |                  |                  |
| Land & Buildings                                      | 232              | 251              |
| Vehicles, Plant & Equipment                           | 305              | 513              |
| Community Assets                                      | 2                | 0                |
| Investment Properties                                 | 0                | 1                |
| <b>Non-Operational Assets</b>                         |                  |                  |
| Assets Under Construction                             | 3,007            | 1,959            |
| Intangible Assets - Software                          | 196              | 7                |
| Revenue Expenditure Funded from Capital under Statute | 790              | 793              |
| <b>Total Capital Investment</b>                       | <b>4,532</b>     | <b>3,524</b>     |
| <b>Sources of Finance:</b>                            |                  |                  |
| Capital Receipts                                      | 566              | 877              |
| Government Grants and Other Contributions             | 737              | 1,279            |
| Sums set aside from Revenue                           | 65               | 0                |
| <b>Total Finance Sources</b>                          | <b>1,368</b>     | <b>2,156</b>     |
| <b>Increase / (Decrease) in CFR</b>                   | <b>3,164</b>     | <b>1,368</b>     |

Capital expenditure and income is accounted for on an accruals basis, and is financed in the year the accrual appears in the accounts.

## 27. CONSTRUCTION CONTRACTS

As at the 31 March 2016 the Council had committed to £781,000 of capital expenditure for a number of capital schemes within the capital programme (see the Narrative Report, page 10). These are as follows:

| Capital Scheme                     | Commitment<br>£'000 |
|------------------------------------|---------------------|
| DCO Refurbishment                  | 124                 |
| Glazed Walkway Lairage Car Park    | 119                 |
| Mandatory Disabled Facility Grants | 196                 |
| Museum & Community Facility        | 203                 |
| Premises Enhancement Programme     | 63                  |
| Smithsons Recreation Ground        | 27                  |
| Splash Park Priory Memorial        | 49                  |
| <b>Total Commitments</b>           | <b>781</b>          |

# Notes to the Core Financial Statements

## 28. HERITAGE ASSETS

Reconciliation of the Carrying Value of Heritage Assets Held by the Authority.

|                      | <b>Museum<br/>Collections</b> | <b>Public<br/>Sculpture /<br/>Artwork</b> | <b>Total<br/>Heritage<br/>Assets</b> |
|----------------------|-------------------------------|-------------------------------------------|--------------------------------------|
|                      | <b>£'000</b>                  | <b>£'000</b>                              | <b>£'000</b>                         |
| 1 April 2014         | 510                           | 46                                        | 556                                  |
| In year Movements    | 30                            | 0                                         | 30                                   |
| <b>31 March 2015</b> | <b>540</b>                    | <b>46</b>                                 | <b>586</b>                           |
| 1 April 2015         | 540                           | 46                                        | 586                                  |
| Additions            | 59                            | 0                                         | 59                                   |
| Revaluations         | 25                            | 0                                         | 25                                   |
| <b>31 March 2016</b> | <b>624</b>                    | <b>46</b>                                 | <b>670</b>                           |

### Museum Collections

A small number of items in the Authority's art collection and one item of the Authority's archaeology collection are reported in the Balance Sheet at insurance valuations which are based on market values. These valuations are updated annually.

Many of the paintings owned by the Authority have been donated by local painting societies and are, therefore, not by artists who would attract value for their work. Of the grand total of 2,600 items in the art collection many of them are simple sketches which have no value.

The items of the art collection recognised on the Balance Sheet include eight paintings of note by William Ratcliffe. The Authority has been donated a number of Ratcliffe paintings, prints and drawings and has added to the collection by the occasional purchase. The collection is documented in a book on William Ratcliffe published by the Authority in 2011.

Other individual items of the Museum's collections, recognised on the Balance Sheet, include a Henry Moore Sculpture, an oil painting by Spencer Gore called The Road and "The Wymondley Hoard", which consists of 600 silver Tudor coins. There are a number of other paintings in the collection, of the local area. These are of local interest but do not have a significant monetary value to a national audience.

The Authority's Museums Manager carried out a full valuation of the collections as at 31 March 2012 and reviewed these valuations as at 31 March 2016. The valuations were based on commercial markets, including transaction information from auctions where similar paintings are regularly being purchased.

The principal museum collections are not considered to have a significant monetary value and include (all numbers are approximations):

- Archaeological (small finds such as coins, jewellery, nails) – 10,000 items
- Archaeological (other finds such as pots and broken pottery, human and animal bone, building materials) – 350,000 items
- Art collection – 2,600 items
- Ceramics and glass – 600 items
- Costume and costume accessories – 4,500 items
- Documents – 20,000 items
- Military – 1,000 items
- Natural Sciences – 500,000 items
- Photography – 500,000 items
- Social History – 22,000 items

## Notes to the Core Financial Statements

The majority of the collections are not recognised in the Authority's Balance Sheet since there is no readily available information on the cost or market value of such items and to obtain such information would involve a disproportionate cost in comparison to the benefits to the users of the Authority's financial statements. The unvalued collections are insured for £2million as at 31 March 2016.

### **Public Sculpture / Artwork**

The Authority has two items of public sculpture in Letchworth. These are the Bronze Statue of Sappho installed in Howard Gardens during 2011 and the centenary artwork 'Paradise Is' located next to the Town Hall on Gernon Road.

The Authority's civic regalia is not recognised in the financial statements. There are four ceremonial chains, which are insured in total for £9,750.

The Authority's sculpture of a bronze bust of Erica Lee by Reginald Hine and an M4 painting by Richard Smith is not recognised in the financial statements. These are insured for £7,000 and £5,000 respectively.

There are other Authority assets which could be considered to have attributes consistent with the definition of Heritage Assets. However, because it is deemed that they are maintained for purposes other than for their contribution to knowledge and culture they have been classified in the financial statements as Community Assets. These include the Hitchin War Memorial and open spaces and parks such as Priory Memorial Gardens in Royston and Broadway Gardens in Letchworth.

### **Heritage Asset Transactions**

A summary of the transactions relating to Heritage Assets over the period 1 April 2015 to 31 March 2016 is as follows:

The Authority received 3 major loans and 7 separate donations or groups of donations in the year.

The loans are as follows: 'Pond at Letchworth' oil painting by Spencer Gore, value £120,000; silver flagon, St Paul's Walden church, value £10,000; and 'Stages', oil painting by Carl Laubin, value £5000.

The donations are of generally low value, and include a trimmed penny of Ecgberht of Wessex (802-839), used in jewellery, from Barley; an advertising postcard for Philpotts, furniture store in Hitchin in 2009; and a leaflet about introduction of electric services on the Outer Suburban Rail line in 1977.

The Museum Service a watercolour of Miss Maureen Bentley, by Theodore Kern, 1940s, for £200. This is a study for an oil painting already in the museum collection.

The Authority have added two assets on the Heritage Asset Register; Sir Stanley Matthews Football Boots and Bert Trautmann's Neck Brace. These were donated with the rest of the Football Collection over thirty years ago. Following an increase in their valuation as the end of this year, the assets are included on the Asset Register.

There have been no significant disposals and no impairments have been recognised.



# Notes to the Core Financial Statements

## 29. INTANGIBLE ASSETS

|                                | <b>Purchased Software<br/>Licences<br/>£'000</b> |
|--------------------------------|--------------------------------------------------|
| Original Cost                  | 1,579                                            |
| Amortisations to 1 April 2015  | (1,392)                                          |
| <b>Balance at 1 April 2015</b> | <b>187</b>                                       |
| <br>                           |                                                  |
| Expenditure in Year            | 7                                                |
| Written off to Revenue in Year | (59)                                             |
| <b>Balance at 1 April 2016</b> | <b>135</b>                                       |

## 30. ASSETS HELD UNDER LEASE AND FOR LEASE

### Operating Leases

#### Vehicles, Plant and Equipment

The Authority uses service vans and I.T. equipment financed under terms of an operating lease. The amount paid under these arrangements in 2015/16 was £55,270 (2014/15 at £48,583).

#### Property

The Authority paid £50,174 in rent / leasing charges for properties in 2015/16. The most significant amount of £24,000 was paid for the King James Way Car Park. This agreement is due to expire in January 2024.

#### Commitments under operating leases

The Authority was committed at 31 March 2016 to making payments of £1.343 million under operating leases over the following periods:

|                                                   | <b>31 March<br/>2015<br/>£'000</b> | <b>31 March<br/>2016<br/>£'000</b> |
|---------------------------------------------------|------------------------------------|------------------------------------|
| Not later than one year                           | 85                                 | 70                                 |
| Later than one year and not later then five years | 167                                | 194                                |
| Later than five years                             | 1,100                              | 1,079                              |
|                                                   | <b>1,352</b>                       | <b>1,343</b>                       |

#### Authority as Lessor

The Authority has granted various leases to commercial and industrial organisations under terms of an operating lease. The amount received under these arrangements in 2015/16 was £996,220 (2014/15 £1,022,074). The gross value of assets held for these leases is £14.794 million and the minimum lease payments (rental income) expected from the contractual obligations are broken down over future periods in Note 24, Investment Properties.

## Notes to the Core Financial Statements

### Finance leases

The Authority leases the Letchworth multi-storey car park from the Letchworth Garden City Heritage Foundation. The lease term is 60 years from 19 April 1977.

The assets acquired under this lease are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

|                             | 31 March<br>2015<br>£'000 | 31 March<br>2016<br>£'000 |
|-----------------------------|---------------------------|---------------------------|
| Other Land and Buildings    | 158                       | 145                       |
| Vehicles, Plant & Equipment | 0                         | 0                         |
|                             | 158                       | 145                       |

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

|                               | 31 March<br>2015<br>£'000 | 31 March<br>2016<br>£'000 |
|-------------------------------|---------------------------|---------------------------|
| Finance Lease-Liabilities     | 149                       | 139                       |
| Finance costs in future years | 177                       | 164                       |
| <b>Minimum Lease Payments</b> | <b>326</b>                | <b>303</b>                |

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

|                                                   | Minimum Lease<br>Payments |                           | Finance Lease<br>Liabilities |                           |
|---------------------------------------------------|---------------------------|---------------------------|------------------------------|---------------------------|
|                                                   | 31 March<br>2015<br>£'000 | 31 March<br>2016<br>£'000 | 31 March<br>2015<br>£'000    | 31 March<br>2016<br>£'000 |
| Not later than one year                           | 23                        | 14                        | 10                           | 3                         |
| Later than one year and not later than five years | 58                        | 58                        | 12                           | 13                        |
| Later than five years                             | 245                       | 231                       | 127                          | 123                       |
|                                                   | <b>326</b>                | <b>303</b>                | <b>149</b>                   | <b>139</b>                |

### 31. INVENTORIES

|                             | 31 March<br>2015<br>£'000 | 31 March<br>2016<br>£'000 |
|-----------------------------|---------------------------|---------------------------|
| Inventory:                  |                           |                           |
| Paper and Stationery        | 5                         | 8                         |
| Postage                     | 6                         | 2                         |
| Waste & Recycling equipment | 14                        | 13                        |
| Museum merchandise          | 13                        | 14                        |
| Careline Telecare equipment | 30                        | 93                        |
| Electrical equipment        | 2                         | 7                         |
| Other                       | 0                         | 1                         |
| <b>Total</b>                | <b>70</b>                 | <b>138</b>                |

## Notes to the Core Financial Statements

### 32. DEBTORS

|                                                  | 31 March<br>2015<br>£'000 | 31 March<br>2016<br>£'000 |
|--------------------------------------------------|---------------------------|---------------------------|
| Central Government Bodies                        | 1,189                     | 106                       |
| Impairment                                       | 0                         | 0                         |
| <b>Net Total Central Government Bodies</b>       | <b>1,189</b>              | <b>106</b>                |
| Other Local Authorities                          | 1,447                     | 1,001                     |
| Impairment                                       | 0                         | 0                         |
| <b>Net Total Other Local Authorities</b>         | <b>1,447</b>              | <b>1,001</b>              |
| Ratepayers/Council Tax payers                    | 1,962                     | 1,929                     |
| Impairment                                       | (773)                     | (818)                     |
| <b>Net Total Ratepayers / Council Tax payers</b> | <b>1,189</b>              | <b>1,111</b>              |
| Housing Benefit Overpayments                     | 1,851                     | 1,669                     |
| Impairment                                       | (481)                     | (604)                     |
| <b>Net Total Housing Benefit Overpayments</b>    | <b>1,370</b>              | <b>1,065</b>              |
| Other Entities and Individuals                   | 2,334                     | 1,770                     |
| Impairment                                       | (324)                     | (308)                     |
| <b>Net Total Other Entities and Individuals</b>  | <b>2,010</b>              | <b>1,462</b>              |
| <b>Total Net Debtors</b>                         | <b>7,205</b>              | <b>4,745</b>              |

### 33. SHORT TERM CREDITORS AND RECEIPTS IN ADVANCE

| Short Term Creditors            | 31 March<br>2015<br>£000 | 31 March<br>2016<br>£000 |
|---------------------------------|--------------------------|--------------------------|
| Central government bodies       | 1,588                    | 1,157                    |
| Other local authorities         | 393                      | 451                      |
| NHS bodies                      | 1                        | 1                        |
| Other entities and individuals* | 1,299                    | 1,634                    |
| <b>Total</b>                    | <b>3,281</b>             | <b>3,243</b>             |

\* As at 31 March 2016 there was £93k of prepayments received in the last couple of days of the year (£8k as at 31 March 2015).

| Receipts in Advance            | 31 March<br>2015<br>£000 | 31 March<br>2016<br>£000 |
|--------------------------------|--------------------------|--------------------------|
| Central government bodies      | 36                       | 58                       |
| Other local authorities        | 200                      | 114                      |
| Other entities and individuals | 4,440                    | 4,592                    |
| <b>Total</b>                   | <b>4,676</b>             | <b>4,764</b>             |

# Notes to the Core Financial Statements

## 34. FINANCIAL INSTRUMENTS

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

|                                                  | Long-term                 |                           | Current                   |                           |
|--------------------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                                                  | 31 March<br>2015<br>£'000 | 31 March<br>2016<br>£'000 | 31 March<br>2015<br>£'000 | 31 March<br>2016<br>£'000 |
| <b>Financial Liabilities at amortised cost:</b>  |                           |                           |                           |                           |
| Creditors payable in one year                    | 0                         | 0                         | 3,281                     | 1,967                     |
| Borrowing                                        | 1,515                     | 480                       | 66                        | 1,043                     |
| <b>Total Financial Liabilities:</b>              | <b>1,515</b>              | <b>480</b>                | <b>66</b>                 | <b>3,010</b>              |
| <b>Financial Assets (loans and receivables):</b> |                           |                           |                           |                           |
| Debtors                                          | 2,167                     | 2,020                     | 7,205                     | 3,529                     |
| Investments                                      | 7,758                     | 7,750                     | 25,479                    | 21,997                    |
| Cash & Cash Equivalents                          | 0                         | 0                         | 2,030                     | 12,614                    |
| <b>Total Financial Assets:</b>                   | <b>9,925</b>              | <b>9,770</b>              | <b>34,714</b>             | <b>38,140</b>             |

The gains and losses recognised in the Comprehensive Income and Expenditure Account in relation to financial instruments are made up as follows:

|                                                   | Financial<br>Liabilities |              | Financial<br>Assets    |            | Total        |              |
|---------------------------------------------------|--------------------------|--------------|------------------------|------------|--------------|--------------|
|                                                   | At amortised<br>cost     |              | Loans &<br>Receivables |            | £'000        |              |
|                                                   | £'000                    | £'000        | £'000                  | £'000      | £'000        | £'000        |
| Interest Expense                                  | (171)                    | (164)        | 0                      | 0          | (171)        | (164)        |
| <b>Interest Payable &amp;<br/>Similar Charges</b> | <b>(171)</b>             | <b>(164)</b> | <b>0</b>               | <b>0</b>   | <b>(171)</b> | <b>(164)</b> |
| Interest Income                                   | 0                        | 0            | 530                    | 485        | 530          | 485          |
| <b>Interest &amp; investment income</b>           | <b>0</b>                 | <b>0</b>     | <b>530</b>             | <b>485</b> | <b>530</b>   | <b>485</b>   |
| <b>Net gain/(loss) for year</b>                   | <b>(171)</b>             | <b>(164)</b> | <b>530</b>             | <b>485</b> | <b>359</b>   | <b>321</b>   |

Financial Liabilities and financial assets represented by loans and receivables are carried on the Balance Sheet at amortised cost. Their fair value is assessed as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, using the following assumptions:

- A 'premature repayment' set of rates, supplied by the Council's financial advisors, in force on the 31 March 2016 has been used to supply the fair value for loans
- Transaction costs on all financial liabilities and financial assets are immaterial (transaction costs do not include internal administrative costs)
- Interest payable and receivable reflects market rates
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The Council is required to classify the valuation of financial instruments into three levels according to the quality and reliability of information used to determine fair value:

Level 1 Quoted Prices in active markets for identical assets accessible at the measurement date.

# Notes to the Core Financial Statements

Level 2 Observable (either directly or indirectly) other than quoted prices at Level 1

Level 3 Unobservable

The valuation basis adopted below uses Level 2 inputs – i.e. inputs other than quoted prices that are observable for the financial asset/liability.

The fair values are calculated as follows:

|                              | 31 March 2015   |            | 31 March 2016   |            |
|------------------------------|-----------------|------------|-----------------|------------|
|                              | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
|                              | £'000           | £'000      | £'000           | £'000      |
| <b>Financial Liabilities</b> | 4,852           | 5,617      | 3,490           | 4,159      |

The fair value of the financial liabilities is more than the carrying amount because the Authority's portfolio of loans includes fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the Authority would have to pay if the lender requested or agreed to early repayment of the loans.

|                                | 31 March 2015   |            | 31 March 2016   |            |
|--------------------------------|-----------------|------------|-----------------|------------|
|                                | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
|                                | £'000           | £'000      | £'000           | £'000      |
| <b>Loans &amp; Receivables</b> | 42,837          | 42,837     | 47,910          | 48,243     |

The fair value of the loans & receivables is more than the carrying amount because valuation is made by comparison of the fixed term investment with a comparable investment with the same/similar lender for the remaining period of the deposit.

## Nature and Extent of Risks Arising from Financial Instruments

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

- Credit risk – the possibility that other parties might fail to pay amounts due
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a Central Treasury Team, under policies approved in the annual Treasury Management Strategy. The Authority provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, the Treasury Management Strategy ensured that its counterparty lists and limits reflected a prudent attitude towards organisations with whom funds were deposited, and limited its investment activities to the instruments, methods and techniques referred to in the Treasury Management Practices

## Notes to the Core Financial Statements

adopted by the Authority. It also maintains a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements. There were no defaults on investments in 2015/16 or 2014/15. The table below details the investment limits for 2015/16.

|                                               | Maximum Amount<br>of Investment<br>Allowable | Amount<br>Invested as at<br>31 March 2016*<br>£'000 |
|-----------------------------------------------|----------------------------------------------|-----------------------------------------------------|
| UK Clearing Banks                             | 10% of Investments                           | 11,000                                              |
| UK Clearing Banks (Wholly owned Subsidiaries) | 10% of Investments                           | 0                                                   |
| Building Societies (Assets £4.5bn)            | 10% of Investments                           | 9,000                                               |
| Building Societies (Assets £2.5bn - £4.5bn)   | 10% of Investments                           | 0                                                   |
| Building Societies (Assets £1bn to £2.5bn)    | 10% of Investments                           | 3,500                                               |
| Building Societies (Assets £0.3bn to £1bn)    | 10% of Investments                           | 9,000                                               |
| Money Market Funds                            | 10% of Investments                           | 525                                                 |
| Other Local Authorities                       | 10% of Investments                           | 5,000                                               |
| <b>Total Invested</b>                         |                                              | <b>38,025</b>                                       |

\* This column shows the total invested in all counterparties in the group (for example, there was £9.0million invested in five separate building societies, assets £0.3bn to £1bn, as at 31 March 2016). The Council has not invested above the maximum allowable per counterparty at any time during the year.

The analysis of the £38.025million of investments by credit rating at year end is as follows:

|             | AAA or<br>equivalent<br>£'000 | AA / AA-<br>or<br>equivalent<br>£'000 | A / A- or<br>equivalent<br>£'000 | BBB+/BBB<br>or<br>equivalent<br>£'000 | AAA money<br>market<br>fund<br>£'000 | Not<br>rated*<br>£'000 |
|-------------|-------------------------------|---------------------------------------|----------------------------------|---------------------------------------|--------------------------------------|------------------------|
| Investments | 0                             | 0                                     | 12,000                           | 8,000                                 | 525                                  | 17,500                 |

\* Many Building Societies do not pay to be credit rated. The Authority has chosen not to exclude Building Societies from its counterparty list for this reason alone and has continued to make cash deposits with Building Societies during the year. The Authority has chosen not to invest in any foreign financial institutions.

The Authority does not allow credit facilities for customers with relation to payments for the provision of services, such that £447k of the total £794k sundry debtor balance at 31 March 2016 has passed its due date for payment. The risk of default is accounted for through the corresponding bad debt provision, which is determined primarily by the age of the sundry debtor outstanding. The sundry debtor balance and corresponding provision is presented in the table below.

| Age of Debt                   | Sundry<br>Debtors<br>£'000 | Provision<br>Percentage | Provision<br>Required<br>£'000 | Net Sundry<br>Debtors<br>£'000 |
|-------------------------------|----------------------------|-------------------------|--------------------------------|--------------------------------|
| Within payment terms          | 347                        | 0%                      | 0                              | 347                            |
| 1-3 months over term          | 185                        | 0%                      | 0                              | 185                            |
| 3-12 months overdue           | 28                         | 25%                     | (7)                            | 21                             |
| 12-24 months overdue          | 14                         | 75%                     | (11)                           | 3                              |
| More than 24 months overdue   | 220                        | 100%                    | (220)                          | 0                              |
| <b>Total at 31 March 2016</b> | <b>794</b>                 |                         | <b>(238)</b>                   | <b>556</b>                     |

## Notes to the Core Financial Statements

The equivalent position at the end of 2014/15 is shown in the table below:

| Age of Debt                   | Sundry Debtors<br>£'000 | Provision Percentage | Provision Required<br>£'000 | Net Sundry Debtors<br>£'000 |
|-------------------------------|-------------------------|----------------------|-----------------------------|-----------------------------|
| Within payment terms          | 630                     | 0%                   | 0                           | 630                         |
| 1-3 months over term          | 439                     | 0%                   | 0                           | 439                         |
| 3-12 months overdue           | 34                      | 25%                  | (9)                         | 25                          |
| 12-24 months overdue          | 56                      | 75%                  | (42)                        | 14                          |
| More than 24 months overdue   | 199                     | 100%                 | (199)                       | 0                           |
| <b>Total at 31 March 2016</b> | <b>1,359</b>            |                      | <b>(250)</b>                | <b>1,108</b>                |

### Liquidity Risk

As the Authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority reviews its borrowing requirements as part of its annual Treasury Management Strategy and the standard policy has been to limit the amount of borrowing and reduce the exposure to liquidity risk. The strategy during 2015/16 was to utilize capital receipts set aside reserves and no new long term borrowing was taken out.

The total financial liability is made up as follows:

|                                  | 31 March<br>2015<br>£'000 | 31 March<br>2016<br>£'000 |
|----------------------------------|---------------------------|---------------------------|
| Public Works Loan Board          | 573                       | 515                       |
| Banks and Other Monetary Sectors | 1,000                     | 1,000                     |
| <b>Total Borrowing</b>           | <b>1,573</b>              | <b>1,515</b>              |
| Less: Debt Maturing in 12 Months | 58                        | 1,035                     |
| <b>Total Long Term Borrowing</b> | <b>1,515</b>              | <b>480</b>                |

At 31 March 2016 the average rates of interest on the different varieties of loans were as follows:

|                         | %      |
|-------------------------|--------|
| Other Loans             | 10.125 |
| Public Works Loan Board | 9.21   |

The consolidated rate of interest, the rate used for internal transactions, was 10.92%.

The maturity analysis of the long term financial liabilities is as follows:

|                                                | P.W.L.B.<br>£'000 | Banks<br>etc.<br>£'000 | Other<br>£'000 | Total<br>£'000 |
|------------------------------------------------|-------------------|------------------------|----------------|----------------|
| Maturing in more than 1 and less than 2 years  | 25                | 0                      | 0              | 25             |
| Maturing in more than 2 and less than 5 years  | 50                | 0                      | 0              | 50             |
| Maturing in more than 5 and less than 10 years | 100               | 0                      | 0              | 100            |
| Maturing in more than 10 years                 | 305               | 0                      | 0              | 305            |
| <b>Total</b>                                   | <b>480</b>        | <b>0</b>               | <b>0</b>       | <b>480</b>     |

### Market Risk

#### Interest rate risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

## Notes to the Core Financial Statements

- Borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise
- Investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Account. However, changes in interest payable and receivable on variable rate borrowings and investments will be included in the Surplus or Deficit on Provision of Services and affect the General Fund Balance pound for pound. Movements in the fair value of fixed rate investments will be reflected in the Other Comprehensive Income and Expenditure.

The Authority has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 30% of borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is mitigated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The Authority has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2016 if interest rates had been 1% higher with all other variables held constant, the effects seen in the Income and Expenditure Statement would have been an increase of £20k in interest receivable from cash investments. The fair value of the loans outstanding would have been £11k higher (cost of repayment would have increased). This is shown below:

|                                                              | <b>£'000</b> |
|--------------------------------------------------------------|--------------|
| Increase in interest receivable on variable rate investments | (20)         |
| <b>Impact on Income and Expenditure Account</b>              | <b>(20)</b>  |
| Decrease in fair value of fixed rate loans                   | 11           |

### Price risk

The Council does not have any equity shares or shareholdings and thus has no exposure to a loss arising from movements in the prices of shares.

### Foreign exchange risk

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

## 35. INSURANCE

The Council maintains and reviews an insurance reserve which at 31 March 2016 had a balance of £36,313, a decrease of £1,364 from the balance at 31 March 2015. The reserve is in place to cover the self-insurance of a number of items for which there is no external insurance cover.

The Council does not insure its own properties against the perils of malicious damage, accidental damage and subsidence. Theft from buildings (such as lead) is not covered although theft of contents is insured.



## Notes to the Core Financial Statements

The Council has decided to self-insure some assets such as Town Centre CCTV equipment (£232,200), damage to car park machines (£186,610 total value at risk) and reprographics equipment (£303,768), vehicle electric charging points (£13,720) and other miscellaneous items totalling £106,409.

### 36. PROVISIONS

#### Provisions (> 1year)

|                                       | Insurance<br>Fund<br>£'000 | NNDR<br>Appeals<br>£'000 | Other<br>Provisions<br>£'000 | Total<br>£'000 |
|---------------------------------------|----------------------------|--------------------------|------------------------------|----------------|
| <b>Balance at 1 April 2015</b>        | (40)                       | (951)                    | (17)                         | (1,008)        |
| Additional provisions made in 2015/16 | (24)                       | 0                        | 0                            | (24)           |
| Amounts used in 2015/16               | 36                         | 41                       | 0                            | 77             |
| Unused amounts reversed in 2015/16    | 0                          | 0                        | 0                            | 0              |
| Unwinding of discounting in 2015/16   | 0                          | 0                        | 0                            | 0              |
| <b>Balance at 31 March 2016</b>       | <b>(28)</b>                | <b>(910)</b>             | <b>(17)</b>                  | <b>(955)</b>   |

#### Insurance Provision

The insurance provision covers the uninsured aspect of outstanding insurance claims (the amount of our policy excess and any self-insured losses to be covered by the Insurance Fund). This varies throughout the year and the provision amount is adjusted at the end of each quarter on receipt of revised estimates from insurers.

#### NNDR Appeals Provision

From 1 April 2013 the Authority is required to recognise a provision for NNDR appeals liabilities. The total appeals figure for 2014/15 was £2.38million and, as this is shared between North Herts, Herts County Council and Central Government, the North Herts proportion reflected in the balance sheet was £951k. In 2015/16 the authority has reduced the appeals provision by £103k to a total of £2.275million, with the NHDC provision for appeals recorded in the balance sheet standing at £910k.

#### Other Provisions

A provision has been retained for rebuilding Baldock Road pavilion, which was burnt down a number of years ago. The monies were generated as a result of an insurance claim.

### 37. TRUST FUNDS AND THIRD PARTY FUNDS

#### Trust Funds

The Authority acts as the sole managing trustee for the following trusts:

- Hitchin Town Hall Gymnasium and Workman's Hall Trust
- King George V Playing Fields Trust.
- Smithson Recreation Ground Trust

Without the annual contribution from the Council, the Trusts would not have had adequate resources to manage the facilities during the year. The Trust's accounts reflect the fixed assets and the in year expenditure and income incurred in running the facilities. The net balance of these transactions, as at the 31 March 2015, is included in the Authority's accounts. A summary of the value of assets held by the trusts and the amounts administered by the authority is provided in the table below;

# Notes to the Core Financial Statements

|                                                      | Fixed<br>Assets<br>Closing Net<br>Book Value<br>£'000 | Directly<br>Attributable<br>Expenditure<br>£'000 | Externally<br>Generated<br>Income<br>£'000 |
|------------------------------------------------------|-------------------------------------------------------|--------------------------------------------------|--------------------------------------------|
| Hitchin Town Hall Gymnasium and Workman's Hall Trust | 160                                                   | 10                                               | 0                                          |
| King George V Playing Fields Trust.                  | 246                                                   | 42                                               | 0                                          |
| Smithson Recreation Ground Trust                     | 3                                                     | 4                                                | 0                                          |

### Third Party Funds

The Authority holds income received for S106 legal agreements or unilateral undertakings relating to the submission of planning applications. This income is 'ring-fenced' to different types of capital expenditure/locations within the district. The funds will be used to finance the Council's capital programme, when schemes meet the funding criteria. Until then the funds are treated as a receipt in advance in the Balance Sheet, under current liabilities.

The total value of all S106 contributions as at the 31 March 2016, available to fund capital and revenue activities is £3,339,974. (2014/15 £3,598,900)

### 38. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and the following notes.

|                              | Balance<br>at<br>1 April<br>2015<br>£'000 | Net Movement<br>in Year<br>£'000 | Balance<br>at<br>31 March<br>2016<br>£'000 |
|------------------------------|-------------------------------------------|----------------------------------|--------------------------------------------|
| Usable Capital Receipts      | 850                                       | 4,604                            | 5,454                                      |
| Earmarked Reserves           | 4,938                                     | (333)                            | 4,605                                      |
| Capital Grants Unapplied     | 980                                       | (16)                             | 964                                        |
| General Fund Reserve         | 6,021                                     | 1,063                            | 7,084                                      |
| <b>Total Usable Reserves</b> | <b>12,789</b>                             | <b>5,318</b>                     | <b>18,107</b>                              |

|                                                                          | 2014/15<br>£'000 | 2015/16<br>£'000 |
|--------------------------------------------------------------------------|------------------|------------------|
| <b>Usable Capital Receipts</b>                                           |                  |                  |
| Amounts receivable                                                       | 53               | 5,491            |
| Amounts applied to finance new capital investment                        | (541)            | (877)            |
| Contribution towards administrative costs of non current-asset disposals | 0                | (9)              |
| Payments to Capital Receipts Pool                                        | (1)              | (2)              |
| <b>Total increase in realised capital resources</b>                      | <b>(489)</b>     | <b>4,603</b>     |
| Balance brought forward at 1 April                                       | 1,339            | 850              |
| <b>Balance carried forward at 31 March</b>                               | <b>850</b>       | <b>5,453</b>     |

### Earmarked Reserves

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

## Notes to the Core Financial Statements

|                                    | Balance as at<br>1 April 2014 | Transfers out<br>2014/15 | Transfers in<br>2014/15 | Balance at<br>31 March<br>2015 | Transfers out<br>2015/16 | Transfers in<br>2015/16 | Balance at<br>31 March<br>2016 |
|------------------------------------|-------------------------------|--------------------------|-------------------------|--------------------------------|--------------------------|-------------------------|--------------------------------|
|                                    | £'000                         | £'000                    | £'000                   | £'000                          | £'000                    | £'000                   | £'000                          |
| Special Reserve                    | 1,767                         | (47)                     | 0                       | 1,720                          | 0                        | 0                       | 1,720                          |
| Housing & Planning Delivery        | 243                           | (112)                    | 128                     | 259                            | (7)                      | 118                     | 370                            |
| Information Technology Reserve     | 293                           | (141)                    | 0                       | 152                            | (70)                     | 0                       | 82                             |
| Environmental Warranty Reserve     | 209                           | 0                        | 0                       | 209                            | 0                        | 0                       | 209                            |
| Insurance Reserve                  | 28                            | 0                        | 10                      | 38                             | (4)                      | 2                       | 36                             |
| Cemetery Mausoleum Reserve         | 96                            | 0                        | 7                       | 103                            | 0                        | 15                      | 118                            |
| S106 Monitoring Reserve            | 87                            | (16)                     | 24                      | 95                             | (15)                     | 4                       | 84                             |
| Museum Exhibits Reserve            | 13                            | 0                        | 0                       | 13                             | 0                        | 0                       | 13                             |
| Property Maintenance Reserve       | 28                            | 0                        | 30                      | 58                             | (10)                     | 10                      | 58                             |
| Hitchin Museum Donations           | 0                             | 0                        | 0                       | 0                              | 0                        | 0                       | 0                              |
| Leisure Management Maintenance     | 49                            | 0                        | 20                      | 69                             | 0                        | 20                      | 89                             |
| Performance Reward Grant           | 50                            | 0                        | 0                       | 50                             | (50)                     | 0                       | 0                              |
| DWP Additional Grants Reserve      | 28                            | (26)                     | 41                      | 43                             | (84)                     | 54                      | 13                             |
| Homelessness Reserve               | 28                            | (6)                      | 0                       | 22                             | (22)                     | 33                      | 33                             |
| Climate Change Grant Reserve       | 53                            | (4)                      | 0                       | 49                             | (19)                     | 0                       | 30                             |
| Children's Services Reserve        | 7                             | (5)                      | 10                      | 12                             | (9)                      | 6                       | 9                              |
| Paintings Conservation Reserve     | 13                            | 0                        | 1                       | 14                             | (2)                      | 0                       | 12                             |
| Community Right to Challenge       | 29                            | (1)                      | 16                      | 44                             | 0                        | 0                       | 44                             |
| Traffic Regulation Orders          | 180                           | (11)                     | 0                       | 169                            | 0                        | 53                      | 222                            |
| Town Centre Maintenance            | 31                            | (2)                      | 9                       | 38                             | (11)                     | 8                       | 35                             |
| Street Furniture                   | 3                             | (4)                      | 4                       | 3                              | (1)                      | 4                       | 6                              |
| Office Move IT Works               | 7                             | 0                        | 0                       | 7                              | 0                        | 0                       | 7                              |
| LAMS Interest Reserve              | 31                            | 0                        | 25                      | 56                             | 0                        | 25                      | 81                             |
| DCLG Grants Reserve                | 492                           | (235)                    | 788                     | 1,045                          | (1,493)                  | 997                     | 549                            |
| Growth Area Fund Reserve           | 53                            | 0                        | 0                       | 53                             | 0                        | 0                       | 53                             |
| Community Development Reserve      | 1                             | 0                        | 0                       | 1                              | 0                        | 0                       | 1                              |
| Land Charges Reserve               | 152                           | (4)                      | 38                      | 186                            | (142)                    | 137                     | 181                            |
| Street Name Plates                 | 4                             | (4)                      | 0                       | 0                              | 0                        | 8                       | 8                              |
| Individual Electronic Registration | 9                             | (9)                      | 0                       | 0                              | 0                        | 0                       | 0                              |
| Taxi Reserve                       | 18                            | (15)                     | 0                       | 3                              | 0                        | 4                       | 7                              |
| Waste Reserve                      | 0                             | 0                        | 387                     | 387                            | 0                        | 93                      | 480                            |
| Neighbourhood Plan Reserve         | 0                             | 0                        | 40                      | 40                             | (10)                     | 25                      | 55                             |
| <b>Total Earmarked Reserves</b>    | <b>4,002</b>                  | <b>(642)</b>             | <b>1,578</b>            | <b>4,938</b>                   | <b>(1,949)</b>           | <b>1,616</b>            | <b>4,605</b>                   |

The Authority has taken the decision to set aside resources in a number of Earmarked Reserves to be used for specific purposes. The Reserves are reviewed annually during the budget estimate process to ensure the balance available is appropriate for the purpose. A description of each earmarked reserve is provided below:

## Notes to the Core Financial Statements

The **Special Reserve** was originally the residual balance from the HRA that was used to fund the realignment of costs of the Authority following stock transfer. As part of the Authority's medium term financial strategy to manage budget movements, this reserve is maintained for any special financial pressures such as pump priming for initiatives for shared services, changes in working practice, major contract renewals, unexpected contract variation and other financial pressures.

The **Housing & Planning Delivery Reserve** was first formed when in 2002 the Government announced additional funding to Authorities in the form of the Planning Delivery Grant (PDG), to realise the Government's Communities Plan Objectives. The Council has taken a medium to long term approach to the allocation of HPDG funding (the grant was renamed Housing & Planning Delivery). HPDG spending plans are approved by Cabinet and unspent funding is held in a specific reserve to meet approved spending in subsequent years. The Authority has also made a commitment to the Local Development Framework and funds are held in this reserve for this purpose.

The **Information Technology Reserve** is used to ensure the Authority has adequate resources to purchase hardware and software items when they are required.

The **Environmental Warranty Reserve** is required because an environmental warranty was provided to North Herts Homes on the transfer of the Housing stock. The Authority needs to make a provision for these warranties and a sum of £208,845 was set aside for this purpose.

The **Insurance Reserve** is used to finance potential claims for risks that are not covered by external policies together with higher excesses currently being borne by the Authority.

The **Cemetery Mausoleum reserve** is held to cover the Authority's obligation to supply Mausoleum niches at the Wilbury Hills Cemetery and is funded from the sale of currently available niches.

The **S106 Planning Monitoring** reserve is used to cover the cost of monitoring s106 obligations in future years.

The **Building Control Reserve** is required as in accordance with guidance. Building Control surpluses are held in a separate account. These surpluses are then available to be used to offset any projected future costs when carrying out reviews of Scheme Charges or to be reinvested into the service to improve quality and performance in line with the duty of providing best value.

The **Museum Exhibits Reserve** funds the purchase of museum exhibits and is funded from donations.

The **Property Maintenance Reserve** is to cover the cost of any unplanned emergency maintenance costs that may occur at any of the Authority's properties.

**Hitchin Museum Donations** fund the purchase of museum exhibits specifically related to Hitchin Museum.

The **Leisure Management Maintenance Reserve** is to cover the cost of any future repairs liabilities on the leisure facilities.

The **Performance Reward Grant** was awarded for success against targets in the Local Area Agreement. This earmarked reserve represents the revenue element of the grant and is allocated to schemes in the District.

**DWP Grants** are awarded to the Authority for different initiatives or changes relating to Housing & Council Tax benefit scheme. These grants will be used when the initiatives or changes are carried out.

The **Homelessness Grant** is awarded to help prevent homelessness in the district. The entire grant is earmarked for different homelessness projects or resources.

The **Climate Change Grant** was awarded to help combat the effects of climate change. The grant is used to help modify the Authority's buildings in order for them to be more energy efficient and other green projects.

The **Children's Services Reserve** is being used to help fund children's play projects in the district and is funded from grant income.

The **Paintings Conservation Reserve** is being used to help restore paintings. This is funded through donations and publication income.

**Town Wide Review / Town Centre Maintenance** are reserves for the implementation of the Town Wide Reviews and ad hoc town centre maintenance.

**Community Right to BID** represents the one-off grant funding received to recognize the additional burden of the new legislation.

## Notes to the Core Financial Statements

**Street Furniture** is a reserve to fund new street furniture as and when required.

**Office Move IT Works** is a reserve to cover the cost of moving cabling between Town Lodge and the other Authority buildings when required.

**LAMS Interest Reserve**, interest received from the Local Authority Mortgage scheme. Interest will remain in reserve for 5 years and if customers default on their mortgage the interest will be used to offset the cost. If nobody defaults the interest will go back into the general fund.

**DCLG Grants Reserve**, reserve where ad hoc grants from DCLG will be transferred if not spent within the financial year, ready to be drawn down when grant is spent.

**Growth Area Fund Reserve**, reserve where revenue Growth Area Grant has been transferred.

**Community Development Reserve** – various grants for Community Development.

**Land Charges Reserve** – reserve established to help meet the potential cost should the financial risk of the repayment of personal search fees occur.

**Street Name Plate Reserve** is a reserve to fund Street Name Plates as and when required.

**Individual Electronic Registration Reserve** is where a grant from the electoral commission for the IER project will be spent. This government led project will see a change from households registering to vote to each individual in the household registering to vote.

**Taxi Reserve** is a reserve where any surplus from the taxi service will be transferred to the earmarked reserve where it can be used to offset any future deficit or to fund investment in the taxi service.

**Waste Reserve** – is a new reserve where AFM monies will be transferred to help mitigate any potential risk to the waste service for example construction of potential Northern Transfer Station.

**Neighbourhood Plan Reserve** – This is a new reserve where funds received for neighbourhood Plans from the DCLG will be transferred. DCLG gave funding to authorities who received neighbourhood plans as funding will be needed in future years as plans are developed and public examinations and public referendums are required

### 39. UNUSABLE RESERVES

|                                                      | Balance at<br>1 April<br>2015<br>£'000 | Net<br>Movement<br>in Year<br>£'000 | Balance at<br>31 March<br>2016<br>£'000 |
|------------------------------------------------------|----------------------------------------|-------------------------------------|-----------------------------------------|
| Revaluation Reserve (note 39A)                       | 26,295                                 | 2,704                               | 28,999                                  |
| Capital Adjustment Account (note 39B)                | 84,099                                 | (5,100)                             | 78,999                                  |
| Deferred Capital Receipts (note 39C)                 | 7                                      | (2)                                 | 5                                       |
| Pensions Reserve (note 39D)                          | (55,632)                               | 7,796                               | (47,836)                                |
| Short Term Accumulating Compensated Absences Account | (112)                                  | (7)                                 | (119)                                   |
| Collection Fund Adjustment Account (note 39E)        | (1,227)                                | 748                                 | (479)                                   |
| <b>Total Unusable Reserves</b>                       | <b>53,430</b>                          | <b>6,139</b>                        | <b>59,569</b>                           |

#### Note 39A – Revaluation Reserve

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

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

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

## Notes to the Core Financial Statements

|                                                                                                                       | 2014/15<br>£'000 | 2015/16<br>£'000 |
|-----------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Balance at 1 April</b>                                                                                             | <b>26,661</b>    | <b>26,295</b>    |
| Upward revaluation of assets                                                                                          | 217              | 3,654            |
| Downward revaluation of assets and Impairment losses not charged to the surplus/deficit on the Provision of Services. | 0                | (128)            |
| Difference between fair value depreciation and historical cost depreciation.                                          | (583)            | (572)            |
| Accumulated gains on assets sold or scrapped.                                                                         | 0                | (250)            |
| <b>Balance at 31 March</b>                                                                                            | <b>26,295</b>    | <b>28,999</b>    |

### Note 39B – Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations which are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement. The Account has also been credited with all the Housing capital receipts required by regulation to be set aside at the time of the Housing stock transfer in 2003.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

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

Note 7 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

|                                                                                                                                                         | 2014/15<br>£'000 | 2015/16<br>£'000 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Balance at 1 April</b>                                                                                                                               | <b>85,470</b>    | <b>84,099</b>    |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:                            |                  |                  |
| Depreciation and impairment of non-current assets                                                                                                       | (2,355)          | (2,744)          |
| Amortisation of Intangible assets                                                                                                                       | (67)             | (59)             |
| Revenue expenditure funded from capital under statute                                                                                                   | (805)            | (808)            |
| General Fund expenditure previously recognised as capital expenditure                                                                                   | 0                | 0                |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive Income & Expenditure Statement. | (0)              | (5,067)          |
| <b>Sub-Total</b>                                                                                                                                        | <b>(3,227)</b>   | <b>(8,678)</b>   |
| Adjusting amounts written out of the Revaluation Reserve.                                                                                               | 555              | 544              |

## Notes to the Core Financial Statements

|                                                                                                 | 2014/15<br>£'000 | 2015/16<br>£'000 |
|-------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Capital Financing applied in the year:</b>                                                   |                  |                  |
| Use of the Capital Receipts Reserve to finance new capital expenditure                          | 541              | 877              |
| Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement | 653              | 1,293            |
| Application of grants to capital financing from the Capital Grants Unapplied Account            | 83               | 1                |
| Statutory provision for the financing of capital investment charged against the General Fund    | (41)             | 8                |
| Capital expenditure charged against the General Fund                                            | 65               | 0                |
| <b>Sub-Total</b>                                                                                | <b>1,301</b>     | <b>2,179</b>     |
| Movements in the market value of investment properties                                          | 0                | 855              |
| <b>Balance carried forward at 31 March</b>                                                      | <b>84,099</b>    | <b>78,999</b>    |

### Note 39C – Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. These arise principally from mortgages on sales of Council Houses and form the main part of mortgages held under long term debtors. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

|                                                               | 2014/15<br>£'000 | 2015/16<br>£'000 |
|---------------------------------------------------------------|------------------|------------------|
| <b>Balance at 1st April</b>                                   | <b>9</b>         | <b>7</b>         |
| Transfer to the Capital Receipts Reserve upon receipt of cash | (2)              | (2)              |
| <b>Balance at 31st March</b>                                  | <b>7</b>         | <b>5</b>         |

### Note 39D – Pension Reserve

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

## Notes to the Core Financial Statements

|                                                                                                                                                                                    | 2014/15<br>£'000 | 2015/16<br>£'000 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Balance at 1st April</b>                                                                                                                                                        | <b>(46,372)</b>  | <b>(55,632)</b>  |
| Actuarial gains or losses on pension assets and liabilities                                                                                                                        | (7,204)          | 10,013           |
| Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement | (1,915)          | (1,731)          |
| Employer's pensions contributions and direct payments to pensioners payable in the year.                                                                                           | (141)            | (486)            |
| Capitalisation of Pension Costs                                                                                                                                                    | 0                | 0                |
| <b>Balance at 31st March</b>                                                                                                                                                       | <b>(55,632)</b>  | <b>(47,836)</b>  |

### Note 39E – Collection Fund Adjustment Account

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

|                                                                            | 2014/15<br>£'000 | 2015/16<br>£'000 |
|----------------------------------------------------------------------------|------------------|------------------|
| <b>Balance at 1 April</b>                                                  | <b>(743)</b>     | <b>(1,227)</b>   |
| Movement in the Authority's share of the Collection Fund surplus / deficit | (484)            | 748              |
| <b>Balance at 31 March</b>                                                 | <b>(1,227)</b>   | <b>(479)</b>     |

### Note 39F Accumulated Absences Account

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

|                                                | 2014/15<br>£'000 | 2015/16<br>£'000 |
|------------------------------------------------|------------------|------------------|
| <b>Balance at 1 April</b>                      | <b>(102)</b>     | <b>(113)</b>     |
| Amounts accrued at the end of the current year | (11)             | (6)              |
| <b>Balance at 31 March</b>                     | <b>(113)</b>     | <b>(119)</b>     |

## 40. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of



## Notes to the Core Financial Statements

budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- Charges in relation to capital expenditure (depreciation, revaluation, impairment losses, amortisations and revenue expenditure funded by capital under statute charged to services in the Comprehensive Income and Expenditure Statement) are reported to the relevant directorates but reversed out on the bottom line reported to Cabinet.
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.
- Interest received and paid and income and expenditure relating to investment properties is reported (whereas it is included on the Comprehensive Income and Expenditure Statement below the net cost of services).
- Transfer to and from earmarked reserves are reported in the budget reports but excluded on the Comprehensive Income and Expenditure Statement.

The income and expenditure of the Authority's Directorates, recorded in the budget reports for the year, is as follows:

|                                           | Chief Executive | Planning, Housing & Enterprise | Customer Services | Finance, Policy & Governance | Total           |
|-------------------------------------------|-----------------|--------------------------------|-------------------|------------------------------|-----------------|
| <b>For the year ended 31 March 2016</b>   | <b>£000s</b>    | <b>£000s</b>                   | <b>£000s</b>      | <b>£000s</b>                 | <b>£000s</b>    |
| Fees, charges & other service income      | (3)             | (2,213)                        | (4,939)           | (1,134)                      | <b>(8,289)</b>  |
| Recharges to Other Services               | (1,541)         | (5,517)                        | (5,364)           | (9,498)                      | <b>(21,920)</b> |
| Investment Income                         | 0               | 0                              | (57)              | (996)                        | <b>(1,053)</b>  |
| Interest Income                           | (3,720)         | 0                              | 0                 | (8)                          | <b>(3,728)</b>  |
| Government grants                         | (191)           | (1,138)                        | (988)             | (39,043)                     | <b>(41,360)</b> |
| <b>Total Income</b>                       | <b>(5,455)</b>  | <b>(8,868)</b>                 | <b>(11,348)</b>   | <b>(50,679)</b>              | <b>(76,350)</b> |
| Employee expenses                         | (664)           | 3,781                          | 2,547             | 4,883                        | <b>10,547</b>   |
| Other operating expenses                  | 865             | 2,019                          | 10,069            | 41,317                       | <b>54,270</b>   |
| Interest Payments                         | 5,130           | 0                              | 0                 | 7                            | <b>5,137</b>    |
| Support Service Recharges                 | 2,377           | 6,923                          | 5,165             | 6,149                        | <b>20,614</b>   |
| Depreciation, amortisation and impairment | (1,497)         | 698                            | 2,217             | (129)                        | <b>1,289</b>    |
| <b>Total operating expenses</b>           | <b>6,211</b>    | <b>13,421</b>                  | <b>19,998</b>     | <b>52,227</b>                | <b>91,857</b>   |
| <b>Net Cost of Services</b>               | <b>756</b>      | <b>4,553</b>                   | <b>8,650</b>      | <b>1,548</b>                 | <b>15,507</b>   |

## Notes to the Core Financial Statements

The income and expenditure of the Authority's Directorates for the comparative year 2014/15 is as follows:

|                                           | Chief Executive | Planning, Housing & Enterprise | Customer Services | Finance, Policy & Governance | Total           |
|-------------------------------------------|-----------------|--------------------------------|-------------------|------------------------------|-----------------|
| <b>For the year ended 31 March 2015</b>   | <b>£'000</b>    | <b>£'000</b>                   | <b>£'000</b>      | <b>£'000</b>                 | <b>£'000</b>    |
| Fees, charges & other service income      | (5)             | (2,253)                        | (4,924)           | (1,583)                      | <b>(8,765)</b>  |
| Recharges to other services               | (834)           | (5,449)                        | (5,633)           | (9,496)                      | <b>(21,412)</b> |
| Investment property rentals               | 0               | 0                              | (57)              | (1,022)                      | <b>(1,079)</b>  |
| Interest income                           | (4,363)         | 0                              | 0                 | (11)                         | <b>(4,374)</b>  |
| Government grants                         | (156)           | (836)                          | (1,125)           | (39,234)                     | <b>(41,351)</b> |
| <b>Total Income</b>                       | <b>(5,358)</b>  | <b>(8,538)</b>                 | <b>(11,739)</b>   | <b>(51,346)</b>              | <b>(76,981)</b> |
| Employee expenses                         | (823)           | 3,556                          | 2,594             | 4,870                        | <b>10,197</b>   |
| Other operating expenses                  | 839             | 1,755                          | 10,042            | 41,644                       | <b>54,280</b>   |
| Interest payments                         | 5,907           | 0                              | 0                 | 11                           | <b>5,918</b>    |
| Support service recharges                 | 2,344           | 6,777                          | 5,525             | 6,020                        | <b>20,666</b>   |
| Depreciation, amortisation and impairment | (2,525)         | 617                            | 1,716             | 907                          | <b>715</b>      |
| <b>Total Operating Expenses</b>           | <b>5,742</b>    | <b>12,705</b>                  | <b>19,877</b>     | <b>53,452</b>                | <b>91,776</b>   |
| <b>Net Cost of Services</b>               | <b>384</b>      | <b>4,167</b>                   | <b>8,138</b>      | <b>2,106</b>                 | <b>14,795</b>   |

### Reconciliation of Directorate Income and Expenditure to Net Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

|                                                                                                      | 2014/15<br>£'000 | 2015/16<br>£'000 |
|------------------------------------------------------------------------------------------------------|------------------|------------------|
| Cost of Services in Service Analysis                                                                 | 14,795           | 15,507           |
| Add services not included in main analysis                                                           | 0                | 0                |
| Add amounts not reported by Directorate Analysis                                                     | 79               | 67               |
| Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement | 3,848            | 4,895            |
| <b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>                        | <b>18,722</b>    | <b>20,469</b>    |

## Notes to the Core Financial Statements

### Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

The reconciliation for 2015/16 is as follows:

| Reconciliation to Subjective Analysis                  | Service Analysis<br>£000s | Not reported to mgmt<br>£000s | Not included in I&E<br>£000s | Allocation of Recharges<br>£000s | Net Cost of Services<br>£000s | Corporate Amounts<br>£000s | Total<br>£000s  |
|--------------------------------------------------------|---------------------------|-------------------------------|------------------------------|----------------------------------|-------------------------------|----------------------------|-----------------|
| Fees, charges & other service income                   | (8,289)                   | 0                             | 0                            | 0                                | (8,289)                       | 0                          | (8,289)         |
| Recharges to Other Services                            | (21,919)                  | 0                             | 1,370                        | 0                                | (20,549)                      | 0                          | (20,549)        |
| Interest and investment income                         | (4,782)                   | 0                             | 4,724                        | 0                                | (58)                          | (1,481)                    | (1,539)         |
| Income from council tax                                | 0                         | 0                             | 0                            | 0                                | 0                             | (10,802)                   | (10,802)        |
| Government grants and contributions                    | (41,360)                  | 0                             | 0                            | 0                                | (41,360)                      | (7,987)                    | (49,347)        |
| <b>Total Income</b>                                    | <b>(76,350)</b>           | <b>0</b>                      | <b>6,094</b>                 | <b>0</b>                         | <b>(70,256)</b>               | <b>(20,270)</b>            | <b>(90,526)</b> |
| Employee expenses                                      | 10,547                    | 0                             | 1,984                        | 813                              | 13,344                        | 1,731                      | 15,075          |
| Other service expenses                                 | 54,271                    | 67                            | (253)                        | 4,180                            | 58,265                        | 0                          | 58,265          |
| Support Service recharges                              | 5,138                     | 0                             | (145)                        | (4,993)                          | 0                             | 0                          | 0               |
| Depreciation, amortisation and impairment              | 20,614                    | 0                             | 2,354                        | 0                                | 22,968                        | (814)                      | 22,154          |
| Interest Payments                                      | 1,287                     | 0                             | (5,137)                      | 0                                | (3,850)                       | 164                        | (3,686)         |
| Precepts & Levies                                      | 0                         | 0                             | 0                            | 0                                | 0                             | 966                        | 966             |
| Payments to Housing Capital Receipts Pool              | 0                         | 0                             | (2)                          | 0                                | (2)                           | 2                          | 0               |
| Gain or Loss on Disposal of Fixed Assets               | 0                         | 0                             | 0                            | 0                                | 0                             | (166)                      | (166)           |
| <b>Total operating expenses</b>                        | <b>91,857</b>             | <b>67</b>                     | <b>(1,199)</b>               | <b>0</b>                         | <b>90,725</b>                 | <b>1,883</b>               | <b>92,608</b>   |
| <b>Surplus or deficit on the provision of services</b> | <b>15,507</b>             | <b>67</b>                     | <b>4,895</b>                 | <b>0</b>                         | <b>20,469</b>                 | <b>(18,387)</b>            | <b>2,082</b>    |

The reconciliation for comparative year 2014/15 is as follows:

| Reconciliation to Subjective Analysis | Service Analysis<br>£'000 | Not reported to mgmt<br>£'000 | Not included in I&E<br>£'000 | Allocation of Recharges<br>£'000 | Net Cost of Services<br>£'000 | Corporate Amounts<br>£'000 | Total<br>£'000  |
|---------------------------------------|---------------------------|-------------------------------|------------------------------|----------------------------------|-------------------------------|----------------------------|-----------------|
| Fees, charges & other service income  | (8,764)                   | 0                             | 2                            | 0                                | (8,762)                       | 0                          | (8,762)         |
| Recharges to Other Services           | (21,412)                  | 0                             | 644                          | 0                                | (20,769)                      | 0                          | (20,769)        |
| Interest and investment income        | (5,453)                   | 0                             | 5,395                        | 0                                | (58)                          | (1,551)                    | (1,609)         |
| Income from council tax               | 0                         | 0                             | 0                            | 0                                | 0                             | (10,531)                   | (10,531)        |
| Government grants and contributions   | (41,351)                  | 0                             | 0                            | 0                                | (41,351)                      | (7,609)                    | (48,960)        |
| <b>Total Income</b>                   | <b>(76,980)</b>           | <b>0</b>                      | <b>6,041</b>                 | <b>0</b>                         | <b>(70,939)</b>               | <b>(19,691)</b>            | <b>(90,630)</b> |

## Notes to the Core Financial Statements

| Reconciliation to Subjective Analysis                    | Service Analysis<br>£'000 | Not reported to mgmt<br>£'000 | Not included in I&E<br>£'000 | Allocation of Recharges<br>£'000 | Net Cost of Services<br>£'000 | Corporate Amounts<br>£'000 | Total<br>£'000 |
|----------------------------------------------------------|---------------------------|-------------------------------|------------------------------|----------------------------------|-------------------------------|----------------------------|----------------|
| Employee expenses                                        | 10,197                    | 0                             | 1,842                        | 3,254                            | 15,293                        | 1,902                      | 17,195         |
| Other service expenses                                   | 54,278                    | 79                            | (553)                        | 17,323                           | 71,127                        | 0                          | 71,127         |
| Support Service recharges                                | 20,667                    | 0                             | (89)                         | (20,577)                         | 0                             | 0                          | 0              |
| Depreciation, amortisation and impairment                | 715                       | 0                             | 2,527                        | 0                                | 3,242                         | 27                         | 3,269          |
| Interest Payments                                        | 5,918                     | 0                             | (5,918)                      | 0                                | 0                             | 171                        | 171            |
| Precepts & Levies                                        | 0                         | 0                             | 0                            | 0                                | 0                             | 920                        | 920            |
| Payments to Housing Capital Receipts Pool                | 0                         | 0                             | (1)                          | 0                                | (1)                           | 1                          | 0              |
| Gain or Loss on Disposal of Fixed Assets                 | 0                         | 0                             | 0                            | 0                                | 0                             | 0                          | 0              |
| <b>Total operating expenses</b>                          | <b>91,774</b>             | <b>79</b>                     | <b>(2,193)</b>               | <b>0</b>                         | <b>89,661</b>                 | <b>3,022</b>               | <b>92,683</b>  |
| <b>(Surplus) or deficit on the provision of services</b> | <b>14,795</b>             | <b>79</b>                     | <b>3,848</b>                 | <b>0</b>                         | <b>18,722</b>                 | <b>(16,669)</b>            | <b>2,053</b>   |

#### 41. CONTINGENT ASSETS

There are no contingent assets for 2015/16.

#### 42. CONTINGENT LIABILITIES

##### Contractor Pension Fund Contributions

The Council has transferred the management of its waste collection service, leisure centres and grounds maintenance services to Veolia, Stevenage Leisure Ltd and John O'Connor Ltd, respectively. All of these bodies are members of the Hertfordshire Local Government Pension Fund. In order for these bodies to be admitted to the Pension Fund the Council has given a commitment to be ultimately liable for payments to the fund. In the event that the Contractor fails to make payment and there is no bond in place to cover the default, the Council would seek to offset the amount due from the contract price in the first instance. With regards to the contract with John O'Connor Ltd there is a bond in place with a value of £43,000 and that value is due for reassessment after 31 March 2017. The Council is liable only for the existing staff at the time of transfer of services to these bodies and as at the 31 March 2016 the Council has not been called upon to make any such payments.

##### Municipal Mutual Insurance Ltd Scheme of Arrangement

The Council has increased its levy, by a further 10% (to 25%) for the claw-back of claims under the MMI Scheme of Arrangement. The Council will still be liable to pay a levy on any future claims, and could also be required to pay an increased levy on the claims settled so far.

# Notes to the Core Financial Statements

## 43. EVENTS AFTER THE REPORTING PERIOD

### Building Control

In 2013/14 North Hertfordshire along with six other Hertfordshire Councils explored a collaborative working arrangement to provide their building control services. Update reports have been presented to Cabinet culminating in December 2015 with a resolution to delegate to officers the powers to complete the project. The collaborative arrangement is through a wholly owned local authority company to deliver the statutory building control function and another company to deliver other related functions. A holding company sits above these two companies. All three companies have been incorporated but had not started trading as at 31st March 2016. The staff transferred over on 15th August 2016 and the company started fully trading from this date. The change to the delivery of building control for North Hertfordshire is not expected to impact upon the 2015/16 Statement of Accounts.

### Referendum on UK membership of the European Union

It is too early to estimate the quantum of any impact on the financial statements following the majority vote to end the UK's membership of the European Union (EU) in the Referendum held on 23 June 2016, and there could be significant ongoing uncertainty for a number of years while the UK renegotiates its relationships with the EU and other nations. For the purposes of these financial statements, the Referendum is considered a non-adjusting event.

## 44. NOTES RELATING TO THE CASH FLOW STATEMENT

### Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

| 2014/15<br>£'000 |                                                 | 2015/16<br>£'000 |
|------------------|-------------------------------------------------|------------------|
| 562              | Interest Received                               | 467              |
| (173)            | Interest Paid                                   | (165)            |
| <b>389</b>       | <b>Net cash flows from operating activities</b> | <b>302</b>       |

The adjustments for non-cash movements are as follows:

| 2014/15<br>£'000 |                                                | 2015/16<br>£'000 |
|------------------|------------------------------------------------|------------------|
| 2,263            | Depreciation                                   | 2,297            |
| 120              | Impairments and downward revaluations          | 476              |
| 67               | Amortisation of intangible assets              | 59               |
| 746              | Movement in Creditors                          | (110)            |
| (612)            | Movement in Debtors                            | 1,149            |
| 11               | Movement in Inventories                        | (68)             |
| 2,056            | Pension Liability                              | 2,217            |
| 0                | Carrying amount of non-current assets sold     | 5,067            |
| 546              | Movement in other provisions                   | (984)            |
| 0                | Movement in the value of investment properties | 0                |
| <b>5,197</b>     | <b>Net Adjustment for non-cash movements</b>   | <b>10,103</b>    |

## Notes to the Core Financial Statements

The adjustments for items that are investing or financing activities are as follows:

| 2014/15      |                                                             | 2015/16      |
|--------------|-------------------------------------------------------------|--------------|
| £'000        |                                                             | £'000        |
| (653)        | Grants applied to the financing of capital expenditure      | (1,278)      |
| 3,711        | Proceeds from the sale of non-current assets                | (1,753)      |
| <b>3,058</b> | <b>Net Adjustment for investing or financing activities</b> | <b>3,031</b> |

### Cash Flow Statement - Investing Activities

| 2014/15        |                                                                                                    | 2015/16      |
|----------------|----------------------------------------------------------------------------------------------------|--------------|
| £'000          |                                                                                                    | £'000        |
| (4,316)        | Purchase of property, plant and equipment, investment property and intangible assets               | (2,760)      |
| (87,173)       | Purchase of short-term and long-term investments                                                   | (70,071)     |
| 0              | Other payments for investing activities                                                            | 0            |
| 53             | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 5,491        |
| 87,173         | Proceeds from short-term and long-term Investments                                                 | 70,071       |
| 745            | Other receipts from investing activities                                                           | 1,415        |
| <b>(3,518)</b> | <b>Net cash flows from investing activities</b>                                                    | <b>4,146</b> |

### Cash Flow Statement - Financing Activities

| 2014/15        |                                                               | 2015/16      |
|----------------|---------------------------------------------------------------|--------------|
| £'000          |                                                               | £'000        |
| 570            | Cash receipts of short and long-term borrowing                | 0            |
| (394)          | Council Tax and NNDR adjustments                              | 1,515        |
| (10)           | Cash payments for the reduction of finance leases liabilities | (10)         |
| (2,057)        | Repayments of short and long-term borrowing                   | (57)         |
| <b>(1,891)</b> | <b>Net Cash flows from financing activities</b>               | <b>1,448</b> |

## Collection Fund Accounts

The Collection Fund is a separate statutory fund under the provisions of the Local Government Act 1988. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and National Non-Domestic Rates and its distribution to local government bodies and the Government. The Authority's share of the assets and liabilities are included in the Authority's Balance Sheet and its income and expenditure is included within the cash flow statement.

The accounts have been prepared on an accruals basis.

### INCOME AND EXPENDITURE ACCOUNT

| Council<br>Tax<br>£'000                            | 2014/15<br>Business<br>Rates<br>£'000 | Total<br>£'000   | Note | Council<br>Tax<br>£'000 | 2015/16<br>Business<br>Rates<br>£'000 | Total<br>£'000   |
|----------------------------------------------------|---------------------------------------|------------------|------|-------------------------|---------------------------------------|------------------|
| <b>Income</b>                                      |                                       |                  |      |                         |                                       |                  |
| (70,507)                                           |                                       | (70,507)         | 2    | (72,611)                |                                       | (72,611)         |
|                                                    |                                       |                  |      |                         |                                       |                  |
|                                                    | (37,649)                              | (37,649)         | 1    |                         | (37,713)                              | (37,713)         |
|                                                    | 71                                    | 71               |      |                         | 0                                     | 0                |
| <b>Contribution towards previous year deficit:</b> |                                       |                  |      |                         |                                       |                  |
| 0                                                  | 0                                     | 0                | 3    | 0                       | (334)                                 | (334)            |
| 0                                                  |                                       | 0                | 3    | 0                       |                                       | 0                |
|                                                    |                                       |                  | 3    |                         | (1,668)                               | (1,668)          |
| 0                                                  | 0                                     | 0                | 3    | 0                       | (1,334)                               | (1,334)          |
| <hr/>                                              |                                       |                  |      |                         |                                       |                  |
| <b>(70,507)</b>                                    | <b>(37,578)</b>                       | <b>(108,085)</b> |      | <b>(72,611)</b>         | <b>(41,049)</b>                       | <b>(113,660)</b> |
| <b>Expenditure</b>                                 |                                       |                  |      |                         |                                       |                  |
| <b>Precepts, Demands and Shares</b>                |                                       |                  |      |                         |                                       |                  |
| 52,560                                             | 3,767                                 | 56,327           | 4    | 54,055                  | 3,816                                 | 57,871           |
| 6,944                                              |                                       | 6,944            |      | 7,002                   |                                       | 7,002            |
| 9,590                                              | 15,067                                | 24,657           |      | 9,854                   | 15,264                                | 25,118           |
| 920                                                |                                       | 920              |      | 966                     |                                       | 966              |
|                                                    | 18,501                                | 18,501           |      |                         | 19,079                                | 19,079           |
| <b>Distribution of previous years Surplus</b>      |                                       |                  |      |                         |                                       |                  |
| 240                                                |                                       | 240              |      | 169                     |                                       | 169              |
| 30                                                 |                                       | 30               |      | 24                      |                                       | 24               |
| <b>Charges to Collection Fund</b>                  |                                       |                  |      |                         |                                       |                  |
|                                                    |                                       |                  |      | 0                       | 1                                     | 1                |
| 0                                                  | 181                                   | 181              | 1    | 0                       | 181                                   | 181              |
|                                                    |                                       |                  |      |                         | 570                                   | 570              |
|                                                    |                                       |                  |      |                         | 37                                    | 37               |
| 175                                                | 435                                   | 610              | 1/2  | 260                     | 376                                   | 636              |
|                                                    | 1,038                                 | 1,038            | 1    |                         | (103)                                 | (103)            |
| 177                                                | (148)                                 | 29               | 1/2  | 114                     | 7                                     | 121              |
| <hr/>                                              |                                       |                  |      |                         |                                       |                  |
| <b>70,636</b>                                      | <b>38,841</b>                         | <b>109,477</b>   |      | <b>72,444</b>           | <b>39,228</b>                         | <b>111,672</b>   |
| <hr/>                                              |                                       |                  |      |                         |                                       |                  |
| <b>129</b>                                         | <b>1,263</b>                          | <b>1,392</b>     |      | <b>(167)</b>            | <b>(1,821)</b>                        | <b>(1,988)</b>   |
| (347)                                              | 1991                                  | 1,644            |      | (218)                   | 3,254                                 | 3,036            |
| <hr/>                                              |                                       |                  |      |                         |                                       |                  |
| <b>(218)</b>                                       | <b>3,254</b>                          | <b>3,036</b>     |      | <b>(385)</b>            | <b>1,433</b>                          | <b>1,048</b>     |

## Collection Fund Accounts

### Share of Balance

|              |              |                                            |              |              |              |
|--------------|--------------|--------------------------------------------|--------------|--------------|--------------|
| (125)        | 325          | 200 Hertfordshire County Council           | (227)        | 143          | (84)         |
| (18)         | 1302         | (18) Hertfordshire Police Authority        | (29)         |              | (29)         |
| (75)         |              | 1,227 North Hertfordshire District Council | (129)        | 573          | 444          |
|              | 1,627        | 1,627 Central Government                   |              | 717          | 717          |
| <b>(218)</b> | <b>3,254</b> | <b>3,036</b>                               | <b>(385)</b> | <b>1,433</b> | <b>1,048</b> |

#### 1. INCOME FROM BUSINESS RATES

The Council collects non-domestic rates (NNDR) from business across the District based on local rateable values provided by the Valuation Office Agency (VOA) and multiplied by a uniform rate set nationally by Central Government.

In previous financial years the total amount due, less certain allowances, was paid to a central pool (the NNDR pool) administered by Central Government, which, in turn, paid to Local Authorities their share of the pool, such shares being based on a standard amount per head of the local adult population.

In 2013/14, the local government finance regime was revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give Councils a greater incentive to grow businesses in the District. It does, however, also increase the financial risk to Councils, due to non-collection and the volatility of the NNDR tax base.

The scheme allows the Council to retain a proportion of the total NNDR received. The North Herts share is 40% with the remainder paid over to Hertfordshire County Council (10%) and Central Government (50%).

NNDR surpluses in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year.

The business rates shares payable for 2015/16 were estimated before the start of the financial year as £19.079 million to Central Government, £3.816 million to Hertfordshire County Council and £15.264 million to North Hertfordshire District Council. These sums have been paid in 2015/16 and charged to the collection fund.

When the scheme was introduced, Central Government set a baseline level for each Authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive the set baseline amount. North Hertfordshire paid a tariff of £12.743 million to Central Government from the General Fund in 2015/16.

The total net amount of NNDR income collectable in 2015/16, after all reliefs and deductions, was £37.713million. An increase of £382k has been made for the provision of outstanding amounts that are not subsequently paid (bad debts) bringing the total provision to £646k as at 31 March 2016. A total of £376k of outstanding business rates were written off during 2015/16.

In addition to the tariff arrangement the Council must pay a levy of 50% to Central Government for income received above the baseline. If income from business rates should fall to 92.5% of the set baseline then the safety net will ensure the Council is reimbursed. In 2015/16 the authority was a part of the Hertfordshire Business Rates Pool, which reduces the levy payment. The levy that would have been owed to the DCLG is £131k if North Herts had not been in the pool, this reduces to £40k by the pooling gain that Hertfordshire County Council has calculated as pool lead.

The retained business rates scheme has also meant responsibility for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating



## Collection Fund Accounts

list has transferred to the Authority, as the agent. As such it is necessary for the Authority to make provision for future successful appeals on behalf of itself the major preceptor and Central Government. A decrease of £103k has been made for the provision of outstanding appeals bringing the total provision to £2.27 million. This amount is based on the amount of outstanding appeals with the Valuation Office Agency, as at 31 March 2016, after applying an estimated overall success factor of 25%.

The total non-domestic rateable value for North Hertfordshire District Council is £97.0 million, (£96.3 million 2014/2015). The NNDR multiplier is 49.3p in the pound (48.2p in the pound in 2014/2015). The small business non domestic rating multiplier is 48.0p in the pound (47.1p in the pound in 2014/2015).

### 2. COUNCIL TAX

The amounts credited to the Collection Fund can be analysed as follows:

|                                              | 2014/15 |               | 2015/16 |               |
|----------------------------------------------|---------|---------------|---------|---------------|
|                                              | £'000   | £'000         | £'000   | £'000         |
| Original Debt                                | 84,788  |               | 86,567  |               |
| Additional Debt                              | 9,546   |               | 9,833   |               |
|                                              |         | <b>94,334</b> |         | <b>96,400</b> |
| Less:                                        |         |               |         |               |
| Council Tax Reductions                       |         | 6,722         |         | 6,698         |
| Transitional Relief                          |         | (2)           |         | (1)           |
| Discounts                                    |         | 6,592         |         | 6,606         |
| Amounts Written-off, Exemptions & Allowances |         | 10,515        |         | 10,486        |
|                                              |         | <b>70,507</b> |         | <b>72,611</b> |

Council tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Hertfordshire County Council, The Police and Crime Commissioner and the Council for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts). This basic amount of council tax for a Band D property, £1,496.92, (£1,470.78, 2014/2015) is multiplied by the proportion specified for a particular band to give an individual amount due.

Council tax bills were based on the following proportions for Bands A to H:

Proportion of Band D charge

| Band         | Property<br>Numbers | Proportion | Basic Amount<br>£ |
|--------------|---------------------|------------|-------------------|
| A            | 3,327               | 0.67       | 997.95            |
| B            | 8,795               | 0.78       | 1,164.27          |
| C            | 19,669              | 0.89       | 1,333.50          |
| D            | 9,871               | 1.00       | 1,496.92          |
| E            | 7,049               | 1.22       | 1,829.14          |
| F            | 4,452               | 1.44       | 2,162.22          |
| G            | 3,229               | 1.67       | 2,494.87          |
| H            | 336                 | 2.00       | 2,993.84          |
| <b>Total</b> | <b>56,728</b>       |            |                   |

An increase of £373k has been made for the provision of outstanding amounts that are not subsequently paid (bad debts) bringing the total provision to £1.79million as at 31 March 2016. A total of £259k of outstanding council tax was written off during 2015/2016.

## Collection Fund Accounts

### 3. PAYMENT OF SURPLUS/ DEFICITS FROM THE COLLECTION FUND

The element of the surplus/ deficit on the Collection Fund at 31 March 2016 will be distributed in subsequent financial years to Hertfordshire County Council, The Police and Crime Commissioner and the Council in proportion to the value of the respective precept demand made by the three Authorities on the Collection Fund. The apportioned (surplus)/deficit is shown at the bottom of the Income and Expenditure Statement.

### 4. PRECEPTS

|                                                                         | <b>2014/15</b> | <b>2015/16</b> |
|-------------------------------------------------------------------------|----------------|----------------|
|                                                                         | <b>£'000</b>   | <b>£'000</b>   |
| Hertfordshire County Council                                            | 52,560         | 54,055         |
| Hertfordshire Police                                                    | 6,944          | 7,002          |
| North Hertfordshire District Council and Local Town and Parish Councils | 10,510         | 10,820         |
|                                                                         | <b>70,014</b>  | <b>71,877</b>  |

Following the introduction of council tax on 1 April 1993, parish precepts are now payable from the Council's General Fund and not the Collection Fund.