

# Public Document Pack

## NORTH HERTFORDSHIRE DISTRICT COUNCIL

### COUNCIL

THURSDAY, 8TH JULY, 2021

### SUPPLEMENTARY AGENDA

Please find attached supplementary papers relating to the above meeting, as follows:

<b>Agenda No</b>	<b>Item</b>
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- |    |   |
|----|---|
| 7. | <b><u>ITEMS REFERRED FROM OTHER COMMITTEES</u></b> (Pages 3 - 86) |
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Any Items referred from other committees will be circulated as soon as they are available.

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## **ITEMS REFERRED FROM OTHER COMMITTEES**

### **7a. REFERRAL FROM CABINET 29 JUNE 2021: INVESTMENT STRATEGY (CAPITAL AND TREASURY) END OF YEAR REVIEW 2019/20**

7a.i Report Considered by Cabinet at The Meeting Held On 29 June 2021

7a.ii Appendix A – Capital Programme Detail including Funding 2020-21 Onwards

7a.iii Appendix B – Treasury Management Update

### **7b. REFERRAL FROM CABINET 29 JUNE 2021: REVENUE BUDGET OUTTURN 2020/21**

7b.i Report Considered by Cabinet at The Meeting Held On 29 June 2021

### **7c. REFERRAL FROM CABINET 29 JUNE 2021: ANNUAL REPORT ON RISK MANAGEMENT**

7c.i Annual Report on Risk Management: April 2020 to March 2021

### **7d. REFERRAL FROM FINANCE, AUDIT AND RISK COMMITTEE 23 JUNE 2021: FINANCE, AUDIT & RISK COMMITTEE ANNUAL REPORT**

7d.i Report Considered by Finance, Audit And Risk Committee at The Meeting Held On 23 June 2021

7d.ii Appendix A – Finance, Audit and Risk Committee Annual Report 2020-2021

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**7.a REFERRAL FROM CABINET 29 JUNE 2021: INVESTMENT STRATEGY (CAPITAL AND TREASURY) END OF YEAR REVIEW 2019/20**

***RECOMMENDED TO COUNCIL:***

- (1) That the actual 2020/21 prudential and treasury indicators be approved;
- (2) That the annual Treasury Report for 2020/21 be noted.

***REASONS FOR DECISIONS:***

- (1) Members are able to monitor, make adjustments within the overall budgetary framework and request appropriate action of Services who do not meet the budget targets set as part of the Corporate Business Planning process.
- (2) Changes to the Council's balances are monitored and approved.

The Service Director – Resources presented the referral from the Finance, Audit and Risk Committee held on 23 June 2021. The Service Director advised Cabinet that the FAR Committee had had a good discussion and were happy to forward the report to Cabinet.

The Executive Member for Finance and IT, Councillor Ian Albert, then presented the report entitled Investment Strategy (Capital And Treasury) End of Year Review 2020/21, including:

- The position on capital was summarised by the table on page 120. The intention at this time last year was that the Council would spend £13.4m this year.
- The outturn position was that the Council had spent under £2m;
- The lower than forecast spend meant that the Council had funded all their capital spend from contributions and capital reserves;
- Over £700k had been added to capital reserves during the year from finalising sales on surplus land and buildings;
- The position on treasury was summarised in paragraphs 8.11 through to 8.20, with more detail in Appendix B. The rates of return had been drastically impacted by Covid-19 with the average rate on new deals just 0.17%. There was little prospect that these rates would increase back up very quickly.
- As detailed in paragraph 8.20, the Council were progressing with new long-term investments in a property fund and multi-asset fund. These would help diversify our portfolio of investments, and it was hoped to provide a yield in line with the longer term investment risk being taken. This was being supported by the Council's treasury advisers.

Upon being put to the vote, it was:

**RESOLVED:**

- (1) That the expenditure of £1.883million in 2020/21 on the capital programme, paragraph 8.3 refers, and in particular the changes detailed in table 3 which resulted in a net increase on the working estimate of £0.001million, be noted;
- (2) That the adjustments to the capital programme for 2020/21 as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2021/22 by £0.522million (£0.527million re-profiled from 2020/21 and £0.005million from 2021/22 re-profiled into 2020/21), be approved.
- (3) That the position of the availability of capital resources, as detailed in table 4 paragraph 8.8 and the requirement to keep the capital programme under review for affordability, be noted.
- (4) That the application of £1.224million of capital receipts towards the 2020/21 capital programme and the drawdown of £0.417million from set aside receipts, paragraph 8.8 refers, be approved;
- (5) That the position of Treasury Management activity as at the end of March 2021, be noted.
- (6) That the report entitled Investment Strategy (Capital and Treasury) End of Year Review 2020/21 be recommended to Council.

**RECOMMENDED TO COUNCIL:**

- (1) That the actual 2020/21 prudential and treasury indicators be approved;
- (2) That the annual Treasury Report for 2020/21 be noted.

**REASONS FOR DECISIONS:**

- (1) Members are able to monitor, make adjustments within the overall budgetary framework and request appropriate action of Services who do not meet the budget targets set as part of the Corporate Business Planning process.
- (2) Changes to the Council's balances are monitored and approved.

## REPORT CONSIDERED BY CABINET AT THE MEETING HELD ON 29 JUNE 2021

### TITLE OF REPORT: INVESTMENT STRATEGY (CAPITAL AND TREASURY) END OF YEAR REVIEW 2020/21

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T.

COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

#### 1 EXECUTIVE SUMMARY

- 1.1 As at the end of financial year 2020/21, there is a reduction in Capital spend compared to quarter 3 of **£0.521million**. The majority of this change is due to revisions to the profile of planned project spend, with **£0.527million** that will now instead be incurred in 2021/22.
- 1.2 During the year the Council has generated **£0.184million** of interest from its investments. This is slightly below the budgeted total of £0.185million. The Council continued to invest in smaller Building Societies (subject to checks that compare the size of the Society with that of the investment).
- 1.3 The Council has repaid £0.018million of borrowing during the year as it has matured. The Council has £0.405million of remaining borrowing. This borrowing is at a fixed rate for a fixed period. The premium incurred from repaying this borrowing early means that it is not worthwhile to do so.
- 1.4 The Council complied with its legislative and regulatory requirements throughout the year.
- 1.5 The forecast for 2021/22 is that investment income will continue to reduce due to market conditions and the use of cash balances to fund the capital programme. To attempt to offset the reduction in interest received from short fixed term investments, the Council is looking at options to diversify its portfolio by investing in longer term, Property Funds and Multi Asset Income Funds. Paragraph 8.20 refers.

#### 2. RECOMMENDATIONS

- 2.1 That Cabinet notes expenditure of **£1.883million** in 2020/21 on the capital programme, paragraph 8.3 refers, and in particular the changes detailed in table 3 which resulted in a net increase on the working estimate of **£0.001million**.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2020/21 as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2021/22 by **£0.522million** (£0.527million re-profiled from 2020/21 and £0.005million from 2021/22 re-profiled into 2020/21).

- 2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 4 paragraph 8.8 and the requirement to keep the capital programme under review for affordability.
- 2.4 That Cabinet approves the application of **£1.224million** of capital receipts towards the 2020/21 capital programme and the drawdown of £0.417million from set aside receipts, paragraph 8.8 refers.
- 2.5 Cabinet is asked to note the position of Treasury Management activity as at the end of March 2021.
- 2.6 Cabinet is asked to recommend this report to Council and ask Council to:
- 1) Approve the actual 2020/21 prudential and treasury indicators.
  - 2) Note the annual Treasury Report for 2020/21.

### **3. REASONS FOR RECOMMENDATIONS**

- 3.1 Cabinet is required to approve adjustments to the capital programme and ensure the capital programme is fully funded.
- 3.2 To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

### **4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 Options for capital investment are considered as part of the Corporate Business Planning process.
- 4.2 The primary principles governing the Council's investment criteria are the security of its investments (ensuring that it gets the capital invested back) and liquidity of investments (being able to get the funds back when needed). After this the return (or yield) is then considered, which provides an income source for the Council. In relation to this the Council could take a different view on its appetite for risk, which would be reflected in the Investment Strategy. In general, greater returns can be achieved by taking on greater risk. Once the Strategy has been set for the year, there is limited scope for alternative options as Officers will seek the best return that is in accordance with the Investment Strategy.

### **5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1 Consultation on the capital expenditure report is not required. Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.



5.2 There are quarterly updates with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Link).

## 6. FORWARD PLAN

6.1 This report contains a recommendation on a key Executive decision that was first notified to the public in the Forward Plan on the 5th February 2021.

## 7. BACKGROUND

7.1 In February 2020, Council approved the Integrated Capital and Treasury Strategy for 2020/21 to 2029/30.

7.2 The Medium Term Financial Strategy for 2020 to 2025 confirmed that the Council will seek opportunities to utilise capital funding (including set aside receipts) for 'invest to save' schemes and proposals that generate higher rates of return than standard treasury investments. This is one way the Council will allocate resources to support organisational transformation that will reduce revenue expenditure.

7.3 Link Asset Services Ltd were first contracted to provide Treasury advice for the financial year 2012/13 and this arrangement has been extended until 2022/23. The service includes:

- Regular updates on economic and political changes which may impact on the Council's borrowing and investment strategies
- Information on investment counterparty creditworthiness
- Technical updates
- Access to a Technical Advisory Group.

## 8. RELEVANT CONSIDERATIONS

8.1 The Council has £129.0 million of capital assets that it currently owns. This has increased from £117.0 million as at 31 March 2020. The Investment Strategy set out the reasons for owning assets that are not for service delivery, including an assessment of Security, Liquidity, Yield and Fair Value. There have been no significant changes in relation to these since the Strategy was set.

### Capital Programme 2020/21

8.2 The full capital programme is detailed in Appendix A and shows the revised costs to date, together with the actual spend from 2020/21 to 2030/31 and the funding source for each capital scheme.

8.3 The Outturn Capital expenditure for 2020/21 is **£1.883million**. This is a reduction of **£0.521million** on that reported at the end of the third quarter. The decrease in spend is largely due to re-profiling spend into future years and underspend on projects. Table 1 below details the changes from what was reported at Quarter 3.

**Table 1- Current Capital Estimates**

	2020/21 £M	2021/22 £M	2022/23 to 2030/31 £M
Original Estimates approved by Full Council February 2020	9.357	5.405	26.650
Changes approved by Cabinet in 3rd Qrt 2019/20	3.801	0	0
Changes approved by Cabinet in 2019/20 Capital Outturn report	0.277	0	0
Revised Capital estimates at start of (2020/21)	13.435	5.405	26.650
Changes approved by Cabinet in Covid-19 Financial Impacts report 21/07/20	-2.809	1.713	1.096
Executive Member – Finance and I.T. approved additional Expenditure on 4 schemes	0.180	0	0
Changes at Q1	-0.287	0.296	0
Executive Member – Finance and I.T. approved additional Expenditure on 3 schemes	0.108	0	0
Changes approved by Council in Covid-19 Financial Impacts report 24/09/20	0.350	0	0
Changes at Q2	-7.040	7.022	0
Changes approved by Council 11/02/21	0.071	0.283	1.287
Changes at Q3	-1.604	1.052	0.537
Changes since Q3 (as detailed in this report)	-0.521	0.522	0
<b>Outturn 2021/21</b>	<b>1.883</b>	<b>16.293</b>	<b>29.570</b>

8.4 Table 2 lists the schemes in the 2020/21 Capital Programme that will start or continue in 2021/22:

**Table 2: Scheme Timetable Revision:**

(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

Scheme	2020/21 Working Budget £'000	2020/21 Outturn £'000	Difference £'000	Reason for Difference	Estimated impact on 2021/22 onwards £'000
Provide Hsg at Market Rents	350	225	-125	Due to the refurbishment of Harkness Court taking longer than originally anticipated, the remaining money will be spent in 2021/22. The	125

Scheme	2020/21 Working Budget £'000	2020/21 Outtrun £'000	Difference £'000	Reason for Difference	Estimated impact on 2021/22 onwards £'000
				estimate completion date is June 2021.	
Renovate Howard Park Play Area	75	0	-75	Delay was due to supply issues with the new equipment from Europe. If we had gone ahead it would have meant that the play area would be closed for the renovation at the potentially busiest part of the year as the splash pads open on the 1st May. We have therefore decided to hold back the works until September when the splash parks close and the schools have returned.	75
Email Encryption Software	45	4	-41	This piece of work has been delayed while alternative options for enhanced email encryption are explored, this will be reviewed in Q3/Q4 once our services have migrated to the cloud. As part of this review we are also seeking input from our auditors (BDO) on encrypting data in the cloud.	41
NH Museum Platform Lift	40	0	-40	A potential low cost solution has been found to repairing the lifts (revenue spend) before spending this budget on completely new lifts. We are exploring this option currently, but if this proves unsuccessful we will still require the budget to invest in new lifts.	40
Private Sector Grants	60	30	-30	Spend on this budget is demand led. Due to last year's lock down restrictions and the fact that those residents who qualify for these grants are in the main from the vulnerable groups, a number of cases were cancelled by the residents as they did not wish people	30

Scheme	2020/21 Working Budget £'000	2020/21 Outtrun £'000	Difference £'000	Reason for Difference	Estimated impact on 2021/22 onwards £'000
				inspecting their properties during the Covid crisis. As part of the process the required works and residents' financial situation must be diligently verified before a grant is approve. As a result of a number of cancellations we did not manage to process the projected number of cases	
Total Minor (under £25k) slippage on other projects	938	727	-211		211
<b>Total Revision to Budget Profile</b>			<b>-522</b>		<b>522</b>

- 8.5 The Council received £750k grant for improving the energy performance of park homes. The BEIS average cap per unit is £10k. Following Grenfell, the fire officer advice is we use a mineral core to external cladding rather than an expanded polystyrene core. This pushes the cost above £10k per unit so it is proposed that the £30K slippage form the Private Sector Grants is used to finance the expenditure that is not covered by the grant. This is covered by the proposed 2021/22 spend detailed in the table above.
- 8.6 There are also changes to the overall costs of schemes in 2020/21. These changes total a net increase of £0.001million and are detailed in Table 3.

**Table 3: Changes to Capital Schemes Commencing in 2020/21:**

(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

Scheme	202/21 Working Budget £'000	2020/21 Spend £'000	Difference £'000	Comments
Section 106 Project – All weather Hockey pitch at Royston	129	0	-129	The £129K budget is for the provision of an All Weather Hockey Pitch on the Heath, Royston. As the Heath is a public open space permission will not be granted to create an enclosed area on the Heath. Officers are looking to see if the S106 funds can be used at an alternative location in Royston. Also in order for the scheme to go ahead

<b>Scheme</b>	<b>202/21 Working Budget £'000</b>	<b>2020/21 Spend £'000</b>	<b>Difference £'000</b>	<b>Comments</b>
				additional external funding is still to be secured.
Disabled Facilities Grants	50	82	32	In 2019/20 the Council spent 100% of its allocated Disabled Facilities Grant. In 2020/2021, a discretionary payment was made to allow a specific project to be undertaken in consultation with the Executive Member. There has also been continued pressure on the budget from high demand for adaptations such as stairlifts and accessible bathrooms. Additional funding was provided by the Council to the Herts Home Improvement Agency (HCC) to ensure these works were able to be undertaken within the financial year. This funding came from amounts set aside from previous underspends against the grant. On the face of it this level of overspend is a contravention of financial regulations, as prior approval should have been sought from Cabinet. However, the level of overspend should be viewed in the context of the overall funding available, the vast majority of which is the DFG (£840k) that is received directly by HCC on our behalf. Extra reporting will be put in place to monitor spend in 21/22 will be monitored as the Council's ability to further top up the grant is becoming limited and a policy approach to applications may be required.
<b>Other minor changes</b>			<b>98</b>	
<b>Total revision to scheme spend</b>			<b>1</b>	

8.7 The following capital schemes have been completed during 2020/21:

- NHLC Gym Members Changing Room
- NHLC Circulation Pipework
- Norton Common Wheeled Sports Facility

- Walsworth Common Pitch Improvements
- Bancroft Recreation MUGA
- Land Purchase adjacent to Grange Community Centre
- Various IT Projects

### Capital Programme 2020/21 Funding onwards

8.8 Table 4 below shows how the Council will fund the 2020/21 capital programme.

**Table 4: Funding the Capital Programme:**

	2020/21 Balance at start of year £M	2020/21 Additions £M	2020/21 Funding Used £M	2020/21 Balance at end of year £M
Useable Capital Receipts and Set-aside Receipts	7.455	0.712	(1.641)	6.526
S106 receipts			(0.122)	
Other third party grants and contributions			(0.120)	
Planned Borrowing			0	
<b>Total</b>			<b>(1.883)</b>	

8.9 The availability of third party contributions and grants to fund capital investment is continuously sought in order to reduce pressure on the Council's available capital receipts and allow for further investment. Additional capital receipts are dependent on selling surplus land and buildings. Ensuring that the Council gets best value from the disposal of land and buildings can take a long time and therefore the amounts that might be received could be subject to change.

8.10 The Council's Capital Financing Requirement (CFR) at 31<sup>st</sup> March 2021 was negative £5.180 million (negative £5.60 million 31<sup>st</sup> March 2020). As the CFR is negative the Council does not have a need to borrow to fund capital spend. However, should the Capital programme be fully spent in 21/22 there will be a potential need to borrow £5.2M, which will have an impact on the General Fund by way of a Minimum Revenue Provision (MRP) and interest payments. This need to borrow will mainly be dependent on spend in line with the property acquisition and development strategy. It is expected that any such spend will generate income that will exceed the cost of capital.

### Treasury Management 2020/21

8.11 The Council has operated both within the treasury and prudential indicators set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices. The £5 million limit on the Council's current account was exceeded during the 1st quarter to ensure the Council had sufficient funds to pay Business Support Grants and to ensure that cash was available to respond more generally to the implications of Covid-19. The Chief Executive made an urgent decision

on the 9th April to temporarily remove the limit on amounts held in the Council's current account to facilitate the grant payments. The current account limit of £5m has since been reinstated. The approved investment limits within the Investment Strategy were breached during October 2020. The limit on investments placed with Building Societies was exceeded by £2.0 million for 19 days in October and was reported to Members in the Third Quarter report.

- 8.12 The Council generated £0.184M of interest during 2020/21. The average interest rate agreed on new deals during the year was 0.17%. The average interest rate on all outstanding investments at the 31<sup>st</sup> March was 0.41%.
- 8.13 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authority's appetite for the level of exposure to these risks.
- 8.14 **Security Risk** – The possibility that other parties fail to pay amounts due to the Authority.

The Council's counterparty list comprises UK building societies and UK banks with a Fitch (a credit rating agency) credit rating greater than BBB, non-UK banks with a credit rating greater than AA- with a AAA Country rating, other Local Authorities and Public Corporations. It also includes smaller Building Societies that do not have a credit rating.

- 8.15 **Liquidity Risk** – the possibility that the Authority may not have funds available to meet its commitments to make payments.
- 8.16 **Market Risk** - the possibility that financial loss might arise as a result of changes in interest rates.

Investing long term (greater than one year) currently achieves higher interest rates than short term deals. The risks of long term deals are:

- (i) The longer the time period the longer the investment is exposed to default.
- (ii) If the investment has a fixed interest rate, interest rates could rise and the potential to invest at a higher rate will be lost until the investment matures.

- 8.17 Members have indicated that they are prepared to accept this risk within the limits expressed in the Treasury Strategy, which allows no more than £12M of outstanding investments to be invested for longer than 365 days at any one time. At the end of the year the Council didn't have any investments invested for longer than 365 days.
- 8.18 **Interest (Yield)** - This year has continued to prove challenging to find counterparties willing to pay a reasonable return on cash investments, either long or short term. The uncertainty around interest rate changes has continued in 20/21, with the latest predictions indicating that there will be no increase in base rate during 2021/22.
- 8.19 The investments outstanding at the 31 March 2021 were £42.5million. This compares to a balance of £29.5million at 31 March 2020. Investment in capital projects will continue during 2021/22 and combined with declining returns for new investments, means that the estimated investment interest for 2021/22 was set at £0.103million.

- 8.20 To try and limit the reduction of investment income from short fixed term investments in 2021/22, the Council will seek to invest in Property Funds and Multi Asset Income Funds. These type of funds are most effective over the longer term with a minimum investment period of five years. A maximum of £4.0M will be invested across the two investment types. Work has begun in collaboration with the Council's Treasury advisors, Link, to select the most appropriate funds for the Council to invest in.

## **9. LEGAL IMPLICATIONS**

- 9.1 Cabinet's terms of reference under 5.6.7 specifically includes "to monitor expenditure on the capital programme and agree adjustments within the overall budgetary framework". The Cabinet also has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget.
- 9.2 Section 151 of the Local Government Act 1972 states that:  
"every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."
- 9.3 Asset disposals must be handled in accordance with the Council's Contract Procurement Rules.
- 9.4 The Prudential Indicators comply with the Local Government Act 2003.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 The main financial implications are covered in section 8 of the report.
- 10.2 The Authority operates a tolerance limit on capital projects that depends on the value of the scheme and on this basis over the next ten-year programme it should be anticipated that the total spend over the period could be £4.113million higher than the budgeted £45.833million.
- 10.3 The capital programme will need to remain under close review due to the limited availability of capital resources and the affordability in the general fund of the cost of using the Council's capital receipts. When capital receipts are used and not replaced the availability of cash for investment reduces. Consequently interest income from investments reduces. £1.0million currently earns the Authority approximately £1k per year in interest (0.1%). The general fund estimates are routinely updated to reflect the reduced income from investments. When the Capital Financing Requirement (CFR) reaches zero the Council will need to start charging a minimum revenue provision to the general fund for the cost of capital and will need to consider external borrowing for further capital spend. The CFR at the 31 March 2021 was negative £5.18million. This may turn positive next year if the capital programme is fully spent.



- 10.4 The Council also aims to ensure that the level of planned capital spending in any one year matches the capacity of the organisation to deliver the schemes to ensure that the impact on the revenue budget of loss of cash-flow investment income is minimised.

## **11. RISK IMPLICATIONS**

- 11.1 The inherent risks in undertaking a capital project are managed by the project manager of each individual scheme. These are recorded on a project risk log which will be considered by the Project Board (if applicable). The key risks arising from the project may be recorded on Pentana (the Council's Performance & Risk management software).
- 11.2 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003 and is revisited annually as part of the Treasury Strategy review. The risk on the General Fund of a fall of investment interest below the budgeted level is dependent on banks and building societies need for borrowing.

## **12. EQUALITIES IMPLICATIONS**

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no direct equalities implications directly arising from the adoption of the Capital Programme for 2020/21 onwards. For any individual new capital investment proposal of £50k or more, or affecting more than two wards, an equality analysis is required to be carried out. This will take place following agreement of the investment proposal.

## **13. SOCIAL VALUE IMPLICATIONS**

- 13.1. The Social Value Act and "go local" requirements do not apply to this report.

## **14. ENVIRONMENTAL IMPLICATIONS**

- 14.1. There are no known Environmental impacts or requirements that apply to recommendations of this report. The projects at section 8.4 may have impacts that contribute to an adverse impact. As these projects go forward, an assessment will be made where necessary.

## **15. HUMAN RESOURCE IMPLICATIONS**

- 15.1 There are no direct human resource implications.

## **16. APPENDICES**

- 16.1 Appendix A - Capital Programme Detail including Funding 2020/21 onwards.

16.2 Appendix B - Treasury Management Update.

**17. CONTACT OFFICERS**

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**18. BACKGROUND PAPERS**

18.1 Investment Strategy (Integrated Capital and Treasury Strategy)  
<https://democracy.north-herts.gov.uk/documents/s9835/Appendix%20A%20-%20Investment%20Strategy.pdf>



Project	Service Directorate	Spend / Forecast Spend							Funding				Balance funded from Capital Receipts/ Set-aside receipts/ Borrowing
		2020/21 Funding £	2021/22 Funding £	2022/23 Funding £	2023/24 Funding £	2024/25 Funding £	2025/26 Funding £	2026/27 - 2030/31 Funding £	Funded from Other Grants	Funded from Government Grant	Funded from s106 contributions	Funded from Revenue / IT Reserve	
Hitchin Town Hall Additional Bar & Glassware Infrastructure	Commercial	19,700	5,300	0	0	0	0	0	0	0	0	0	25,000
Hitchin Town Hall Sprung Floor Replacement	Commercial	0	75,000	0	0	0	0	0	0	0	0	0	75,000
Howard Gardens Splashpad	Place	0	0	35,000	0	0	0	0	0	0	0	0	35,000
Ickneild Way Cemetery Footpaths	Place	0	50,000	0	0	0	0	0	0	0	0	0	50,000
Infrastructure Hardware	Customers	297,800	2,200	28,000	0	278,000	25,000	348,000	0	0	0	0	979,000
Installation of trial on-street charging (GAF)	Regulatory	0	50,000	0	0	0	0	0	0	50,000	0	0	0
Ivel Springs Footpaths	Place	0	0	10,000	0	0	0	0	0	0	0	0	10,000
John Barker Place, Hitchin	Regulatory	0	0	1,096,000	0	0	0	0	0	0	270,400	0	825,600
Lairage Multi-Storey Car Par - Structural wall repairs	Resources	3,500	117,200	0	0	0	0	0	0	0	0	0	120,700
Land Purchase Adj Grange CC	Commercial	20,000	0	0	0	0	0	0	0	0	0	0	20,000
Laptop Purchases for Officers	Customers	0	55,000	0	0	55,000	0	110,000	0	0	0	0	220,000
Laptops - Refresh Programme	Customers	92,700	46,900	7,000	7,000	80,000	5,000	70,000	0	0	0	0	308,600
Leisure Condition Survey Enhancements	Place	5,000	82,000	0	107,000	0	0	0	0	0	0	0	194,000
Letchworth Multi-storey Car Park - parapet walls, soffit & decoration	Resources	4,800	129,000	0	0	0	0	0	0	0	0	0	133,800
Letchworth multi-storey car park - lighting	Resources	4,400	13,600	0	0	0	0	0	0	0	0	0	18,000
Letchworth Outdoor Pool Boiler Replacement	Place	0	40,000	0	40,000	0	0	0	0	0	0	0	80,000
Match Funding for Electric Vehicle charging	Regulatory	0	100,000	0	0	0	0	0	0	50,000	0	0	50,000
Members Laptops Refresh Programme	Customers	0	0	0	60,000	0	0	120,000	0	0	0	0	180,000
Microsoft Enterprise Software Assurance	Customers	14,900	0	390,000	0	0	426,000	462,000	0	0	0	0	1,292,900
Mrs Howard Hall Replacement Boiler & Windows	Resources	0	63,000	0	0	0	0	0	0	0	0	0	63,000
Museum Storage Solution	Commercial	7,300	1,192,700	0	0	0	0	0	0	0	0	0	1,200,000
Newmarket Road Royston Skatepark & Access	Place	0	0	0	90,000	0	0	0	0	0	0	0	90,000
NH Museum & Community Facility	Commercial	0	48,300	0	0	0	0	0	48,300	0	0	0	0
NH Museum Platform Lift Solutions	Commercial	0	40,000	0	0	0	0	0	0	0	0	0	40,000
NHLC Boiler Replacement	Place	0	0	200,000	0	0	0	0	0	0	0	0	200,000
NHLC Dryside Changing Area	Place	0	0	100,000	0	0	0	0	0	0	0	0	100,000
NHLC Interactive Water Feature	Place	0	0	0	0	0	0	120,000	0	0	0	0	120,000
NHLC Pool Flume Replacement	Place	0	0	0	0	0	0	150,000	0	0	0	0	150,000
NHLC Reception Toilet Refurbishment	Place	0	0	30,000	0	0	0	0	0	0	0	0	30,000
NHLC Refurbish Gym Floor	Place	46,800	3,200	0	0	0	0	0	0	0	0	0	50,000
NHLC Refurbishment of Gym Members Changing Rooms	Place	179,400	0	0	0	0	0	0	0	0	0	0	179,400
NHLC Replace Circulation Pipework	Place	58,700	0	0	0	0	0	0	0	0	0	0	58,700
NHLC Replacement of Sport Hall heating system	Place	0	30,000	0	0	0	0	0	0	0	0	0	30,000
NHLC Sauna Steam Refurbishment	Place	0	0	0	250,000	0	0	0	0	0	0	0	250,000
Northern Transfer Station	Place	0	0	0	0	1,600,000	0	0	0	0	0	0	1,600,000
Norton Common Footpaths	Place	0	0	0	10,000	0	0	0	0	0	0	0	10,000
Norton Common Wheeled Sports improvements	Place	8,300	0	0	0	0	0	0	0	0	8,300	0	0
Off Street Car Parks resurfacing and enhancement	Resources	13,600	179,400	56,100	8,000	0	0	0	0	0	0	0	257,100
Oughtonhead Common Footpaths	Place	0	0	0	20,000	0	0	0	0	0	0	0	20,000
Park Recycling Litter Bins	Place	0	25,000	0	0	0	0	0	0	0	0	0	25,000
Parking Charging, Payments & Management	Regulatory	0	235,000	0	0	0	0	0	0	0	0	0	235,000
Parking Machines Replacement	Regulatory	0	0	0	0	0	150,000	150,000	0	0	0	0	300,000
Parking Machines Upgrade - Contactless Payment Facility Installation	Regulatory	38,500	36,000	20,000	0	0	0	0	0	81,500	0	0	13,000
PC's - Refresh Programme	Customers	39,300	13,000	8,000	7,000	13,000	7,000	34,000	0	0	0	0	121,300
Playground Renovation District Wide	Place	0	180,000	180,000	180,000	180,000	180,000	900,000	0	0	0	0	1,800,000

Project	Service Directorate	Spend / Forecast Spend							Funding				Balance funded from Capital Receipts/ Set-aside receipts/ Borrowing
		2020/21 Funding £	2021/22 Funding £	2022/23 Funding £	2023/24 Funding £	2024/25 Funding £	2025/26 Funding £	2026/27 - 2030/31 Funding £	Funded from Other Grants	Funded from Government Grant	Funded from s106 contributions	Funded from Revenue / IT Reserve	
Polling Booths for Elections	Legal and Community	0	27,000	0	0	0	0	0	0	0	0	0	27,000
Private Sector Grants	Regulatory	29,400	90,600	60,000	60,000	60,000	60,000	300,000	0	0	0	0	660,000
Provide housing at market rents.	Commercial	224,900	2,751,800	0	0	0	0	0	0	0	0	0	2,976,700
Ransoms Rec Footpaths, Gates and Railing	Place	0	0	10,000	20,000	0	0	0	0	0	0	0	30,000
Refurbishment and improvement of community facilities	Legal and Community	257,600	265,300	0	0	0	0	0	0	0	0	0	522,900
Refurbishment of lifts at Lairage Car Park	Resources	6,000	353,300	0	0	0	0	0	0	0	0	0	359,300
Renovate play area Howard Park, Letchworth	Place	0	75,000	0	0	0	0	0	0	0	0	0	75,000
Renovate play area King George V Recreation Ground, Hitchin	Place	1,000	0	0	0	0	0	0	0	0	0	0	1,000
Replace and enhance lighting at St Mary's Car Park	Resources	0	60,000	0	0	0	0	0	0	0	0	0	60,000
Replace items of play equipment Holroyd Cres, Baldock	Place	0	10,000	0	0	0	0	0	0	0	0	0	10,000
Replace items of play equipment Wilbury Recreation Ground, Letchworth	Place	0	10,000	0	0	0	0	0	0	0	0	0	10,000
Replacement of Newark Close, Royston	Commercial	0	65,000	0	0	0	0	0	0	0	0	0	65,000
Resurface Lairage Car Park	Resources	0	350,000	0	0	0	0	0	0	0	0	0	350,000
Royston Leisure Centre extension	Place	0	0	1,000,000	0	0	0	0	0	0	0	0	1,000,000
Royston Leisure Centre Changing Village Refurbishment	Place	0	0	225,000	0	0	0	0	0	0	0	0	225,000
Royston Leisure Centre Dry Side Toilet Refurbishment	Place	0	0	30,000	0	0	0	0	0	0	0	0	30,000
Royston Leisure Centre Future Refurbishment	Place	0	0	0	0	0	0	300,000	0	0	0	0	300,000
Royston Leisure Centre Members Changing Refurbishment	Place	0	0	0	0	150,000	0	0	0	0	0	0	150,000
Royston Leisure Centre Solar Thermal Installation	Place	0	50,000	0	0	0	0	0	0	0	0	0	50,000
s106 Projects	Various	93,300	0	0	0	0	0	0	0	0	93,300	0	0
Security - Firewalls	Customers	3,200	10,800	14,000	0	16,000	0	36,000	0	0	0	0	80,000
St Johns Cemetery Footpath	Place	10,000	0	0	0	40,000	0	0	0	0	0	0	50,000
Tablets - Android Devices	Customers	9,000	18,900	18,000	12,000	17,000	17,000	56,000	0	0	0	0	147,900
Telephony system	Customers	0	10,600	0	0	0	0	0	0	0	0	0	10,600
Thomas Bellamy House, Hitchin	Commercial	0	65,000	0	0	0	0	0	0	0	0	0	65,000
Transport Plans implementation (GAF)	Regulatory	0	250,000	0	0	0	0	0	0	250,000	0	0	0
Voice Recorders Careline	Customers	21,900	6,600	0	0	0	0	0	0	0	0	0	28,500
Walsworth Common Pavilion - contribution to scheme	Place	0	0	300,000	0	0	0	0	250,000	0	37,000	0	13,000
Walsworth Common Pitch Improvements	Place	20,000	0	0	0	0	0	0	0	0	20,000	0	0
Waste and Street Cleansing Vehicles	Place	0	0	0	0	0	4,000,000	0	0	0	0	4,000,000	0
Weston Hills LNR Footpath Renovation	Place	0	0	20,000	0	0	0	0	0	0	0	0	20,000
Wilbury Hills Cemetery Footpaths	Place	5,600	14,400	0	10,000	10,000	0	30,000	0	0	0	0	70,000
WiFi Upgrade	Customers	0	0	0	0	0	40,000	0	0	0	0	0	40,000
WiFi Upgrades for DCO & Hitchin Town Hall	Customers	35,100	0	0	0	0	0	0	0	0	0	0	35,100

<b>1,882,200</b>	<b>16,292,800</b>	<b>8,456,300</b>	<b>5,143,000</b>	<b>6,788,000</b>	<b>5,224,000</b>	<b>3,959,000</b>	<b>298,300</b>	<b>976,100</b>	<b>429,000</b>	<b>4,000,200</b>	<b>42,041,700</b>
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# **Annual Treasury Management Review**

## **2020/21**

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North Hertfordshire District Council  
April 2021

# Annual Treasury Management Review 2020/21

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## 1. Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2020/21 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 06/02/2020)
- a mid-year treasury update report (Council 21/01/2021)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

In addition, Cabinet and the Finance, Audit and Risk (FAR) Committee have received quarterly treasury management update reports.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Finance, Audit and Risk Committee before they were reported to the full Council.

## 2. The Council's Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.



	19/20 Actual £'000	20/21 Original Budget £'000	20/21 Actual £'000
<b>Capital expenditure</b>	<b>1,473</b>	<b>9,357</b>	<b>1,883</b>
Financed in year	1,076	3,229	1,466
<b>Unfinanced capital expenditure</b>	<b>397</b>	<b>6,128</b>	<b>417</b>

The Unfinanced expenditure is the use of set aside receipts.

### 3. The Council's Overall Borrowing Need

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2020/21 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLb], or the money markets), or utilising temporary cash resources within the Council.

	31 March 2020 Actual £'000	2020/21 Original Budget £'000	31 March 2021 Actual £'000
Opening Balance	-5,996	-2,411*	-5,599
Add unfinanced capital expenditure (as above)	397	6,128	417
Closing Balance	-5,599	3,717	-5,182

\*The 20/21 Original Budget was prepared before the final outturn figures for 19/20 were complete. The figure is considerably less due to slippage on the Capital Programme in 19/20 resulting in less expenditure to finance.

The negative closing balances mean that the Council does not have a need to borrow.

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow to meet its planned capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator, as all borrowing is historic.

	31 March 2020 Actual £'000	31 March 2021 Original Budget £'000	31 March 2021 Actual £'000
Gross borrowing position	423	405	405
CFR	-5,599	3,717	-5,182

**The authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2020/21 the Council has maintained gross borrowing within its authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

**Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2020/21
Authorised limit	£10.0m
Maximum gross borrowing position during the year	£0.423m
Operational boundary	£4.0m
Average gross borrowing position	£0.416m
Financing costs as a proportion of net revenue stream	-0.74%

## 4. Treasury Position as at 31st March 2021

At the beginning and the end of 2020/21 the Council’s treasury position was as follows:

<b>DEBT PORTFOLIO</b>	<b>31.3.20 Principal £'000</b>	<b>Average Rate/ Return</b>	<b>Average Life yrs</b>	<b>31.3.21 Principal</b>	<b>Average Rate/ Return</b>
Fixed rate funding:					
-PWLB	423	9.82%		405	9.96%
-Market	0			0	
Variable rate funding:					
-PWLB	0			0	
-Market	0			0	
<b>Total debt</b>	<b>423</b>	<b>9.82%</b>		<b>405</b>	<b>9.96%</b>
<b>CFR</b>	<b>-5,599</b>			<b>-5,182</b>	
<b>Over / (under) borrowing</b>	<b>6,022</b>			<b>5,587</b>	
<b>Total investments</b>	<b>29,500</b>	<b>1.18%</b>		<b>42,500</b>	<b>0.41%</b>

The change in average rate reflects the repayment of debt over the year and the balance of loans at different fixed interest rates. The Council does not have any variable rate borrowing.

The maturity structure of the debt portfolio was as follows

	<b>31.3.20 Actual £'000</b>	<b>31.3.21 Actual £'000</b>
Under 12 months	18	18
12 months and within 24 months	18	19
24 months and within 5 years	61	63
5 years and within 10 years	69	55
10 years and above	257	250

The table below summarises where investments were held at 31 March:

<b>INVESTMENT PORTFOLIO</b>	<b>31.3.20 Actual £000</b>	<b>31.3.20 Actual %</b>	<b>31.3.21 Actual £000</b>	<b>31.3.21 Actual %</b>
<b>Treasury investments</b>				
Banks	2,000	7	0	
Building Societies	9,500	32	10,500	25
Local authorities	16,000	54	20,000	47
Debt Management Account Deposit Facility (H M Treasury)	2,000	7	12,000	28
<b>TOTAL TREASURY INVESTMENTS</b>	<b>29,500</b>	<b>100</b>	<b>42,500</b>	<b>100</b>
<b>Council's Current Account</b>	<b>8,072</b>		<b>4,056</b>	

The maturity structure of the investment portfolio was as follows:

	<b>31 March 2020 Actual £000</b>	<b>31 March 2021 Actual £000</b>
Investments Longer than 1 Year	1,000	0
Investments Up to 1 Year	28,500	42,500
<b>Total</b>	<b>29,500</b>	<b>42,500</b>

The increase in cash balances as at the end of 2020/21 (compared with 2019/20) is mainly due to the balances that the Council is holding in relation to Business Grants and s31 Business Rate relief funding.

## 5. The Strategy for 2020/21

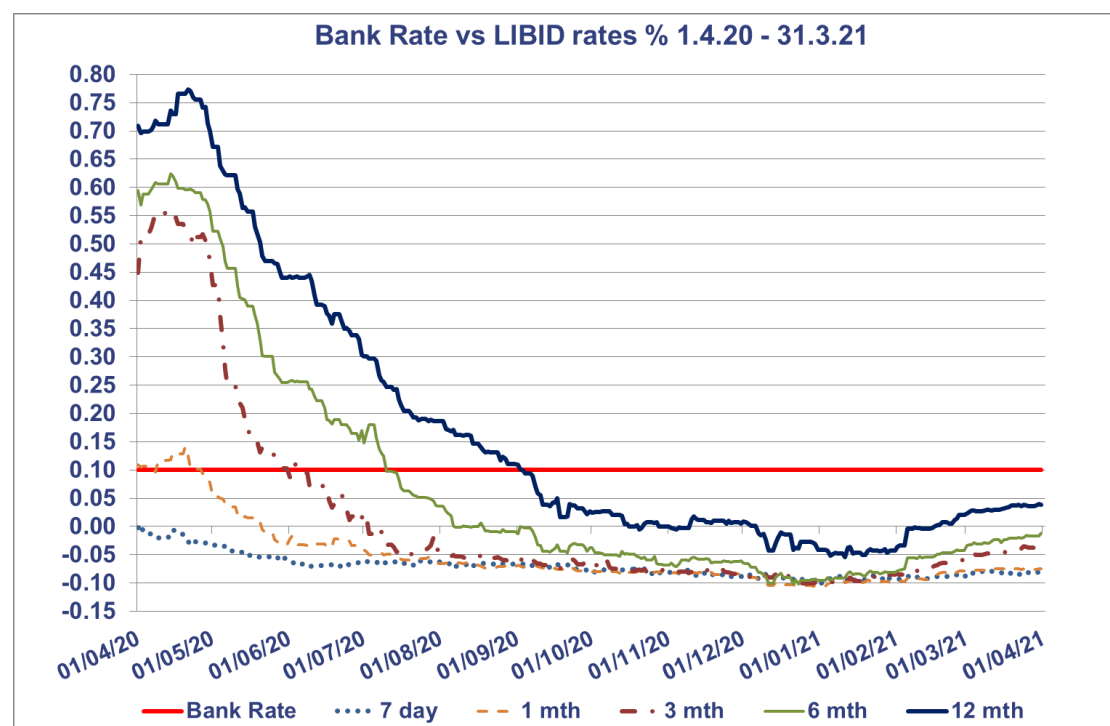
The strategy in 2020/21 was to continue lending to UK banks, building societies, money market funds, Local Authorities and property funds and allow investments with non-UK banks with a credit rating greater than AA- with a AAA Country rating. Only UK banks with a credit rating, for longer term deals, greater than "BBB" and F3 or above for short term credit ratings were on the Council's lending list. (These are Fitch definitions of ratings). Not all building societies are credit rated but this did not preclude them from the lending list as lending to a building society was dependant on their asset size. Where a society did have a rating, this was considered at the time of the deal taking into account the amount of investment and the length of the deal.

**Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2020/21 was approved by the Council on 06/02/2020. The £5 million limit on the Council's current account was exceeded during the 1st quarter to ensure the Council had sufficient funds to pay Business Support Grants and to ensure that cash was available to respond more generally to the implications of Covid-19. The Chief Executive made an urgent decision on the 9th April to temporarily remove the limit on amounts held in the Council's current account to facilitate the grant payments. The current account limit of £5m has since been reinstated.

## 5.1 Investment strategy and control of interest rate risk

Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.



## 6. Borrowing Outturn

### Borrowing

No new borrowing was undertaken during the year.

**Borrowing in advance of need**

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

**Rescheduling**

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

**Repayments**

£18K of PWLB loans were repaid during the year, as they became due.

## 7. Investment Outturn

**Investment Policy** – the Council’s investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 06/02/20. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the Fitch credit rating agency for banks and asset size for building societies.

The investment activity during the year mostly conformed to the approved strategy although the limit on investments placed with Building Societies was exceeded by £2.0 million for 19 days in October and was reported to Members in the 3rd quarter monitoring report.

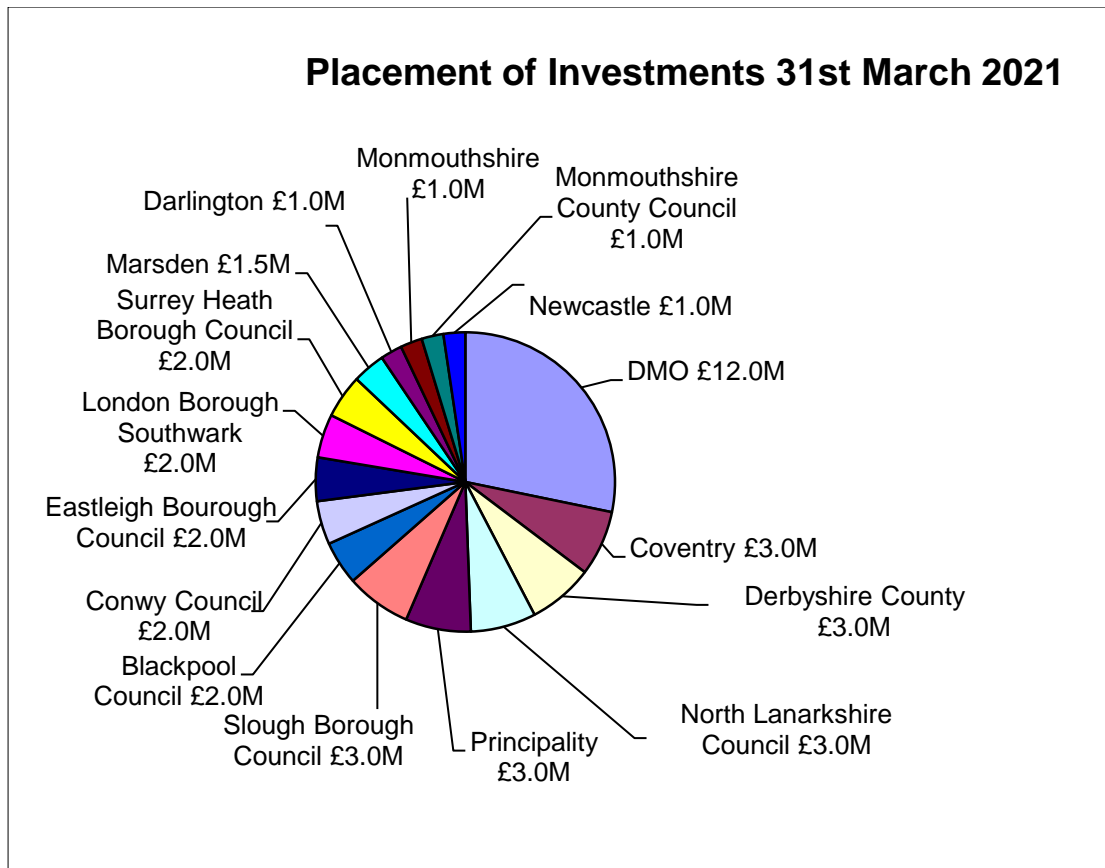
**Investments placed by Cash Managers** – the Council used an external cash manager to invest some of its longer term cash balances, where the rate achieved (after fees) was better than could be obtained by the Council directly. At the start of the year, Tradition had £8.5m of outstanding investments. This had reduced to £4.5m in June and then remained at that level throughout the rest of the year. The performance of the Tradition against the benchmark return was:

Cash Manager	Investments Placed	Interest	Return	Benchmark*
Tradition	£8.5M - £4.5M	£0.059M	1.20%	0.55%

\* Ave 7 days notice Rate 0.55%

This compares with an original budget of £0.985M.

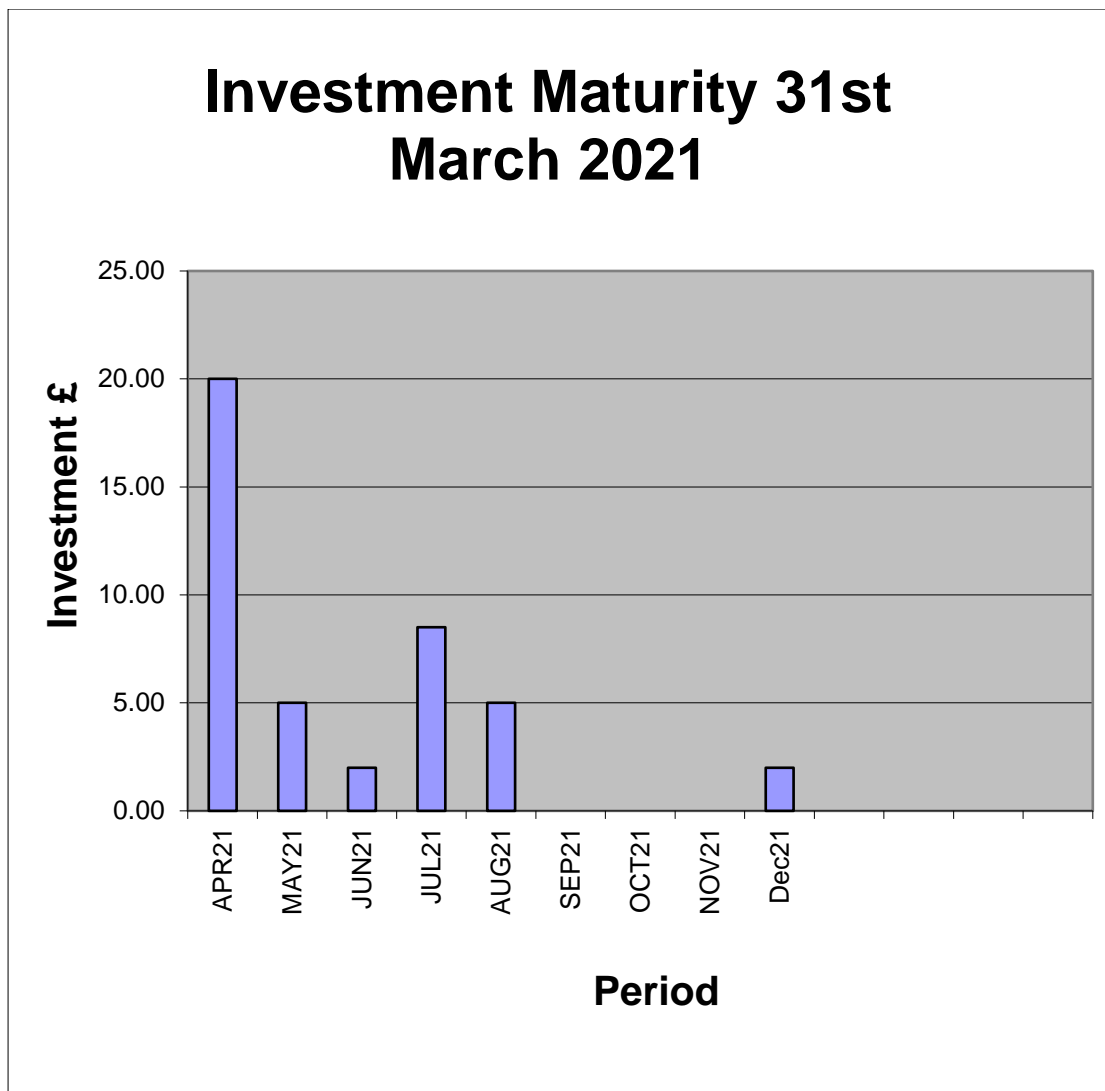
The pie chart below shows the spread of investment balances as at 31 March 2021 (excluding money held in our Current Account). This is a snapshot in time that demonstrates the diversification of investments.



The average daily balance of investments was £46.6m with balances varying between £34.5m and £69.0m.

£0.184m of interest was generated from investments during the year. This is slightly less than the estimated interest of £0.185m (as per Quarter 3 forecast). It is significantly below the Original Budget (£0.300m) that was set prior to Covid-19.

The graph below shows the maturity profile of investments at 31st March 2021 (excluding money held in our Current Account which is instant access).



The level of risk of any investment will be affected by the riskiness of the institution where it is invested and the period that it is invested for. Where an institution has a credit rating this can be used to measure its riskiness. This can be combined with the period remaining on the investment to give a historic risk of default percentage measure. The table below shows the Historic Risk of Default for outstanding investments at 31 March. The most risky investment still has a historic risk of default of below 1%. It should also be noted that in general the interest rate received is correlated to the risk, so the interest income received would be less if it took on less risk. All investments have been made in accordance with the Investment Strategy.



Borrower	Interest Rate %	Principal	Days to Maturity from 31/03/20	Historic Risk of Default %	Risk of Default %
DMO	-0.01	4,000,000	1	0.002	0.000
COVENTRY	0.02	3,000,000	6	0.050	0.001
CONWYN COUNTY BOROUGH COUNCIL	0.08	2,000,000	20	0.002	0.001
DMO	0.00	8,000,000	20	0.002	0.000
PRINCIPALITY BUILDING SOCIETY	0.06	2,000,000	20	0.140	0.008
PRINCIPLAITY BUILDING SOCIETY	0.06	1,000,000	30	0.140	0.012
EASTLEIGH BOROUGH COUNCIL	0.05	2,000,000	47	0.002	0.003
MOMMOUTHSHIRE BUILDING SOCIETY	1.50	1,000,000	58	0.140	0.022
SLOUGH BOROUGH COUNCIL	1.00	2,000,000	58	0.002	0.004
SLOUGH BOROUGH COUNCIL	0.10	1,000,000	62	0.002	0.004
MONMOUTHSHIRE COUNTY COUNCIL	0.25	1,000,000	79	0.002	0.005
DERBYSHIRE COUNTY COUNCIL	0.10	3,000,000	96	0.002	0.006
DARLINGTON BUILDING SOCIETY	0.35	1,000,000	99	0.140	0.038
NORTH LANARKSHIRE COUNCIL	0.05	3,000,000	110	0.002	0.007
MARSDEN BUILDING SOCIETY	0.30	1,500,000	112	0.140	0.043
LONDON BOROUGH OF SOUTHWARK	0.20	2,000,000	127	0.002	0.008
NEWCASTLE BUILDING SOCIETY	0.20	1,000,000	149	0.140	0.057
SURREY HEATH BOROUGH COUNCIL	0.04	2,000,000	153	0.002	0.010
BLACKPOOL COUNCIL	0.32	2,000,000	257	0.002	0.016

**Resources** – the Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised as follows:

Balance Sheet Resources (£m)	31 March 20 £'000	31 March 21 £'000
Balances	<b>9,332</b>	<b>8,895</b>
Earmarked reserves	<b>9,271</b>	<b>20,808</b>
Provisions	<b>2,446</b>	<b>2,783</b>
Usable capital receipts	<b>1,941</b>	<b>1,430</b>
<b>Total</b>	<b>22,990</b>	<b>33,916</b>

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## 7.b REFERRAL FROM CABINET 29 JUNE 2021: REVENUE BUDGET OUTTURN 2020/21

### **RECOMMENDED TO COUNCIL:**

- (1) That Council approves the net transfer to earmarked reserves, as identified in table 8, of £11.464million.

### **REASONS FOR DECISIONS:**

- (1) Members are able to monitor, make adjustments within the overall budgetary framework and request appropriate action of Services who do not meet the budget targets set as part of the Corporate Business Planning process.
- (2) Changes to the Council's balances are monitored and approved.

The Executive Member for Finance and IT presented the report entitled Revenue Budget Outturn 2020/21, including:

- The final quarter saw a significant reduction in forecast spend. The most significant element of this was the decrease in the support required by SLL, due to reducing utility costs (such as by reducing the pool temperatures) and use of furlough;
- All of the other significant variances were detailed in table 2 starting on page 99;
- It should be noted that £317k of the forecast movement were areas of spend that were now planned to be delivered in 2021/22;
- In relation to the parking income position at the bottom of page 104 there were a couple of typos. The total at the bottom in bold for the working budget should be 1,338 and the equivalent number for the outturn should be 1,278. The variance is correct, and all the other numbers in the table are correct;
- Table 6 on page 110 detailed the year end budget impact of Covid-19. The final sales, fees and charges contribution from Government had yet to be confirmed, but assuming that there were no issues with our claim, then the net impact was a £1.5m additional cost;
- Table 7 on page 111 showed the impact on the General Fund, which had a balance at the start of the year of just under £9.4m and a year end position (subject to audit) of almost £8.9m. This was just under a £500k reduction;
- The difference between this and the Covid-19 impact was made up (1) other variances that were not due to Covid-19, (2) total carry-forwards of £719k which would increase spend and therefore decrease the General Fund balance in 2021/22 and (3) the position in relation to sources of funding which was explained on pages 107-109; and
- The transfers to and from reserves on page 112/3 would be referred on to Full Council for approval.

The Service Director – Resources presented the referral from the Finance, Audit and Risk Committee held on 23 June 2021. The Service Director advised Cabinet that the FAR Committee had had a good discussion over matters in the report, particularly the parking income figures and the Income Guarantee.

Upon being put to the vote, it was:

**RESOLVED:**

- (1) That the report entitled Revenue Budget Outturn 2020/21 be noted;
- (2) That a decrease of £866k in the 2020/21 net General Fund expenditure, as identified in table 3 and paragraph 8.1, to a total of £19.379million, be approved;
- (3) That the changes to the 2021/22 General Fund budget, as identified in table 3, paragraph 8.2 and paragraph 8.3, a total £377k increase in net expenditure be approved.

**RECOMMENDED TO COUNCIL:** That the net transfer to earmarked reserves, as identified in table 8, of £11.464million, be approved.

**REASONS FOR DECISIONS:**

- (1) Members are able to monitor, make adjustments within the overall budgetary framework and request appropriate action of Services who do not meet the budget targets set as part of the Corporate Business Planning process.
- (2) Changes to the Council's balances are monitored and approved.

## REPORT CONSIDERED BY CABINET AT THE MEETING HELD ON 29 JUNE 2021

### PART 1 – PUBLIC DOCUMENT

#### TITLE OF REPORT: REVENUE BUDGET OUTTURN 2020/21

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

#### 1. EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to inform Cabinet of the summary position on revenue income and expenditure as at the end of the financial year 2020/21. The net outturn of £19.379m represents a £866k decrease from the working budget of £20.245million. There are corresponding requests to carry forward £317k (of underspends) to fund specific projects that will now take place in 2021/22. There is a further forecast impact on the 2021/22 base budget of a £10k increase. As itemised and explained in table 3, the most significant variance, a decrease of £321k, relates to the financial support provided to Stevenage Leisure Limited (SLL) to maintain operations during the year. The finance required to allow leisure centres to open as restrictions were eased contributed to a total net additional expenditure due to Covid-19 in the year of £1.5m. Table 6 lists the main financial impacts of the pandemic and shows the extent to which these have been mitigated by additional government funding received.
- 1.2. The report also provides an update on;
- the delivery of planned efficiencies (paragraph 8.4 and table 4)
  - the use of budget approved to be carried forward from 2019/20 (paragraph 8.5)
  - performance against the four key corporate 'financial health' indicators (paras 8.6-8.7)
  - confirmation of the funding position as at the end of 2020/21 and the financial impact of Covid-19 (paras 8.8 – 8.20)
  - details of earmarked reserves movements and balances (table 9)
  - the support payments made to businesses and those individuals required to self-isolate due to the Covid-19 pandemic (table 10)

#### 2. RECOMMENDATIONS

- 2.1. That Cabinet note this report.
- 2.2. That Cabinet approves a decrease of £866k in the 2020/21 net General Fund expenditure, as identified in table 3 and paragraph 8.1, to a total of £19.379million.
- 2.3. That Cabinet approves the changes to the 2021/22 General Fund budget, as identified in table 3, paragraph 8.2 and paragraph 8.3, a total £377k increase in net expenditure.

**That Cabinet recommends to Council**

- 2.4. That Council approves the net transfer to earmarked reserves, as identified in table 8, of £11.464million.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1. Members are able to monitor, make adjustments within the overall budgetary framework and request appropriate action of Services who do not meet the budget targets set as part of the Corporate Business Planning process.
- 3.2. Changes to the Council’s balances are monitored and approved.

**4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1. Budget holders have considered the options to manage within the existing budget but consider the variances reported here necessary and appropriate.

**5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1. Consultation on the budget monitoring report is not required. Members will be aware that there is wider consultation on budget estimates during the corporate business planning process each year.

**6. FORWARD PLAN**

- 6.1. The report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 5<sup>th</sup> February 2021.

**7. BACKGROUND**

- 7.1. Council approved the revenue budget for 2020/21 of £15.136million in February 2020. At the end of the financial year the working budget has increased to £20.245million. Table 1 below details the approved changes to this budget to get to the current working budget:

**Table 1 - Current Working Budget**

	<b>£k</b>
Original approved budget for 2020/21	15,136
Quarter 3 2019/20 Revenue Monitoring report – 2020/21 budget changes approved by Chief Executive under delegated authority as a result of the Cabinet meeting on 24 March 2020 being cancelled due to Covid-19 situation (March 2020)	287
2019/20 Revenue Outturn Report – 2020/21 budget changes approved by Cabinet (June 2020)	403
Quarter 1 2020/21 Revenue Monitoring report - 2020/21 variances approved by Cabinet (September 2020)	1,468
Quarter 2 2020/21 Revenue Monitoring report - 2020/21 variances approved by Cabinet (December 2020)	2,036
Month 8 revenue monitoring included within 2021/22 budget report – 2020/21 variances approved by Cabinet (January 2021)	291

	<b>£k</b>
Quarter 3 2020/21 Revenue Monitoring report - 2020/21 variances approved by Cabinet (March 2021)	624
<b>Current Working Budget</b>	<b>20,245</b>

- 7.2. The Council is managed under Service Directorates. Table 2 below confirms the current net direct resource allocation of each Service Directorate and how this has changed from the budget allocations published in the Quarter Three monitoring report.

**Table 2 – Service Directorate Budget Allocations**

	<b>Net Direct Working Budget at Q3</b>	<b>Changes approved at Q3</b>	<b>Other Budget Transfers</b>	<b>Net Direct Working Budget at Outturn</b>
<b>Service Directorate</b>	<b>£k</b>	<b>£k</b>	<b>£k</b>	<b>£k</b>
Managing Director	1,866	0	(26)	1,840
Commercialisation	(214)	2	38	(174)
Customers	4,318	(46)	3	4,275
Legal & Community	2,193	(37)	23	2,179
Place	7,155	66	28	7,249
Regulatory Services	1,826	641	40	2,507
Resources	2,477	(2)	(106)	2,369
<b>TOTAL</b>	<b>19,621</b>	<b>624</b>	<b>0</b>	<b>20,245</b>

## 8. RELEVANT CONSIDERATIONS

- 8.1. Cabinet are asked to approve the net expenditure on the General Fund in 2020/21 of £19.379 million (recommendation 2.2). This is a net decrease of £866k on the working budget of £20.245million. Table 3 below highlights the most significant variances, which are generally more than £25k, and contains an explanation for each. The final columns detail if a carry forward into 2021/22 is requested and the estimated ongoing impact of the variances reported:

**Table 3 - Summary of significant variances**

<b>Budget Area</b>	<b>Working Budget £k</b>	<b>Outturn £k</b>	<b>Variance £k</b>	<b>Reason for difference</b>	<b>Carry Forward Request £k</b>	<b>Estimated Impact on 2021/22 £k</b>
External Audit Fees	40	80	+40	Outturn includes accrued additional fees relating to both the 2019/20 and 2020/21 Final Accounts audits for the supplementary audit work required to be undertaken as a result of the impact of Covid-19, as detailed in the Annual Audit Letter presented to Finance, Audit and Risk Committee in January this year.	0	12

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2021/22 £k
Strategic Priorities Fund	81	0	(81)	A total budget of £100k was made available for the Strategic Priorities Fund in 2020/21, of which a total of £19k was allocated to successful investment bids. It is requested that the remaining £81k is carried forward to enable the Council's Leadership Team to fund invest to save or continuous improvement projects as the opportunity arises in the next financial year.	81	0
Apprenticeship Scheme	93	0	(93)	The impact of the pandemic and the subsequent closure of Council offices has resulted in some delays to the recruitment and induction of apprentices in the current remote working arrangements. A proportion of the underspend will relate to several apprentices who moved into permanent roles before the end of their apprenticeships, and one apprentice who left the council mid-way through their apprenticeship for personal reasons. It is requested that the unspent budget is carried forward and used to increase the number of apprenticeship placements in the next financial year.	93	0
HMRC Tax Liability	0	28	+28	Through a review of the vehicles provided to employees for business purposes, the Council identified that cars provided to staff in the Enforcement and Waste teams created a tax liability. The vehicles were taken home for efficient business reasons but this is considered to be personal use by HMRC, and therefore creates employment tax and VAT liabilities. The Council has notified HMRC of the issue and is seeking an employer voluntary settlement agreement for the tax payable, while the Vehicle Use Policy has been updated to ensure a similar issue does not arise in future years. The accrued cost is the Council's assessment of the relevant tax liability. Should HMRC disagree with the basis of the calculation, the final tax bill could be significantly higher.	0	0



Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2021/22 £k
Commercialisation – Consultants Expenditure	33	18	(15)	The impact of the pandemic limited the capacity to pursue commercial opportunities and investments, hence the use of consultants during the year was lower than anticipated. However, as the economy reopens and recovers, there are several potential large opportunities that will require specialist expertise and guidance. A carry forward is therefore requested to finance these activities in the next financial year.	12	0
Sales Ledger Bad Debt Provision	26	88	+62	The higher than budgeted contribution to the bad debt provision is indicative of the higher level of outstanding debt at the end of this year. The level of aged debt between 3-12 months old is £223k, compared to £40k at the end of the last financial year. The increase in debt follows the light touch approach adopted to debt recovery to assist customers amidst the Covid-19 pandemic.	0	0
Debt Recovery - Court Fees	8	(33)	(41)	While no court cases have occurred due to the pandemic, the negative expenditure outturn in 20/21 relates to expenditure accrued at the end of 2019/20 for outstanding court costs that had not been invoiced by the court. With no invoices received this year, and in light of the age of the cases to which the fees relate, it is now considered more likely that the relevant invoices will not be raised by the court.	0	0
IT Software Support and Maintenance	683	642	(41)	The budget for 2020/21 included £35k for the investigation of the potential for Artificial Intelligence (AI) software to automate processes to enable customer queries to be dealt with more efficiently and reduce the number of customer contacts. The procurement of the robotics software was completed in March 2021, meaning the software licenses will not commence until 2021/22. A carry forward of the 2020/21 approved investment budget is therefore requested.	35	0
Careline Agency Staff	43	83	+40	Overspend on agency staff is due to a higher than anticipated level of vacancies and the need to ensure key service performance indicators were delivered.	0	0
Premises License Application Income	(32)	(68)	(36)	The over achievement of income relates to an application for a planned large event that was ultimately cancelled.	0	0

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2021/22 £k
Green Space Maintenance - Water Rates	20	(6)	(26)	In response to Covid-19, the splash parks were closed for most of the year. This therefore reduced water consumption significantly. The negative outturn is due to credit adjustments in respect of the sites at 50 Burford Way and Avenue Park Recreation Ground. Previous charges had been based on estimated usage while actual consumption was much lower.	0	0
Green Space Maintenance - Howard Park and Gardens	42	6	(36)	This underspend is due to the lower number of activities and events in Howard Park and Gardens over the last 12 months.	0	0
Leisure Centre Management	1,642	1,321	(321)	The working budget expectation was based on a worst-case scenario and represented the maximum level of support approved by Council. Stevenage Leisure Limited were able to manage down costs (e.g. through use of Furlough and reducing utility costs) to reduce the impact.	0	0
Waste Awareness Expenditure (AFM Funded)	97	19	(78)	This budget is used for improving communication and engaging with residents on waste related matters with the aim of improving recycling performance and our environment. The impact of Covid-19 and lockdown has limited opportunities for communication and engagement during the year, as the Government guideline has been to stay at home. With no AFM income receipt expected next year, it is requested that the unspent budget is carried forward to help maintain and improve recycling performance and the environment.	78	0
Comingled Recycling - Haulage and Processing Costs	811	775	(36)	The sale price achieved for some materials improved in February and March. As the processing fees are net of the income generated from the sale of the materials collected, this reduced the processing costs charged to the Council for these two months.	0	0
Comingled Recycling – Recycling Credit Income	(540)	(633)	(93)	Tonnages collected continued to be significantly higher than anticipated in the final quarter of the year. This has increased the eligible amount of recycling credit income from Hertfordshire County Council.	0	0

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2021/22 £k
Temporary Accommodation	274	319	+45	The number of households placed in hotels by the Council grew from 40 at the end of December 2020 to over 60 at the end of March. This is due to the latest national lockdown and the government's continuing directive of "Everyone In", whereby local authorities have been asked to accommodate all rough sleepers due to the health risk to the individuals and the wider community (the majority of those accommodated in hotels are single people at risk of rough sleeping due to unstable housing situations). With housing benefit expenditure relating to residents in temporary accommodation not fully reimbursed by government, the increase in the numbers residing in temporary accommodation during the final quarter has increased net expenditure.	0	0
Net Housing Benefit Expenditure	309	271	(38)	The increase in the proportion of housing benefit expenditure eligible for reimbursement through housing benefit subsidy is due to the substantially reduced level of benefit overpayments identified in 2020/21, as initially highlighted in the Quarter One 2020/21 revenue monitoring report. Overpaid amounts are eligible for only 40% reimbursement by government through Housing Benefit subsidy.	0	0
Highways Treeworks	146	86	(60)	Underspend reflects the impact of Covid-19 on contractors' capacity to deliver works requested. Contractors have seen much higher demand generally for their services, while staff have at times been unavailable due to illness and / or required to self-isolate.	0	0
Highways Verge Maintenance – Contribution from HCC	(282)	(296)	(14)	Increase in income follows the new service contract agreed with Hertfordshire Highways.	0	(15)
Car Parking Lines and Signs Maintenance	23	8	(15)	Various projects have been delayed, with works deferred due to the lockdown. It is requested that the unspent budget be carried forward to fund the works deferred in the next financial year.	15	0

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2021/22 £k
Parking PCN Bad Debt Provision	162	128	(34)	The lower number of Penalty Charge Notices issued in 2020/21 has contributed to a reduction in the contribution required to the corresponding bad debt provision.	0	0
Car Parking Income				As highlighted throughout the year, parking activity has been severely impacted by the Covid-19 pandemic, with people and businesses changing their normal routines and activities in response.		
Pay-As-You-Use Income	(848)	(826)	+22	The shortfall in parking fees income reflects a slower recovery than assumed in the projection at Quarter Three. The projection had anticipated income receipts in March amounting to 60% of the original budget expectation.	0	0
Car Park Season Ticket Income	(147)	(81)	+66	The annual spike in season ticket income towards the end of the financial year, as annual tickets are renewed, did not materialise in 2020/21. With lockdown measures easing in March, the reduced demand suggests more businesses have chosen to adopt home working routines on a permanent basis. This will be kept under review and an ongoing budget adjustment may be required.	0	0
PCN Income	(343)	(371)	(28)	The working budget assumed a one third reduction in receipts during the final quarter compared to the original budget expectation. While activity at off-street car parks remained low, an increase in the level of parking offences committed on street through the easing of lockdown meant the working budget expectation was surpassed.	0	0
<b>Total Parking Income:</b>	<b>(2,039)</b>	<b>(1,338)</b>	<b>+60</b>		<b>0</b>	<b>0</b>
Covid-19 Community Grants				£150k was made available from the Special Reserve to fund grant payments awarded through the Coronavirus Community Support Fund. At the end of the year, grants totalling £86.2k have been awarded.		
Expenditure	150	86	(64)		0	0
Drawdown from Special Reserve	(150)	(86)	+64		0	0
<b>Total of explained variances</b>	<b>2,341</b>	<b>1,558</b>	<b>(783)</b>		<b>314</b>	<b>(3)</b>
Other minor balances	17,904	17,821	(83)		3	13
<b>Overall Total</b>	<b>20,245</b>	<b>19,379</b>	<b>(866)</b>		<b>317</b>	<b>10</b>

- 8.2. Cabinet are asked to approve the estimated impact on the 2021/22 budget, an overall increase in budget of £327k, which comprises;
- £317k of budget carry-forwards from 2020/21 to 2021/22 for projects that were not completed by the end of the financial year. These are shown in the penultimate column of table 3 above. This will take the total carry-forward to £719k, after including those reported and approved at quarter 2, month 8 and quarter 3.
  - £10k increase in budget to reflect the estimated net impact in 2021/22 and beyond of variances identified at Outturn. These are shown in the final column of table 3 above.
- 8.3. Cabinet are also asked to approve that £50k of the underspend against the working budget is carried forward to provide cover for work pressures. This will provide absence cover (e.g. to cover for untaken holidays), enable a catch-up on work that was deprioritised to allow a focus on the pandemic and support for new essential projects (e.g. supporting the boundary commission review). This allocation will be used where good value solutions can be identified that provide positive outcomes for the Council and our staff. All requests will be approved by the Leadership Team. See recommendation 2.3.
- 8.4. The original approved budget for 2020/21 (and therefore working budget) included efficiencies totalling £651k, which were agreed by Council in February 2020. Progress in delivering the efficiencies identified has been monitored throughout the year and reported at each quarter. At the end of the year there is a total net underachievement of £120k, as summarised in Table 4 below.

**Table 4 – Efficiency Delivery 2020/21**

<b>Efficiency</b>	<b>Planned Efficiency 2020/21 £k</b>	<b>Efficiency Achieved 2020/21 £k</b>	<b>Net Under / (Over) Achievement £k</b>
Investment Interest Income	(133)	(17)	116
Town Lodge Premises Costs	(68)	(25)	43
AFM Income (receipt in 2020/21 relates to 2019/20 performance)	(156)	(177)	(21)
Document Centre Closure	(107)	(125)	(18)
All other efficiencies	(187)	(187)	0
<b>Total</b>	<b>(651)</b>	<b>(531)</b>	<b>120</b>

- 8.5. The working budget for 2020/21 includes budgets totalling £679k that were carried forward from the previous year. These are generally carried forward so that they can be spent for a particular purpose that had been due to happen in 2019/20 but was delayed into 2020/21. At Quarter Three it was forecast that £222k of the total carried forward would not be spent in 2020/21. At the end of the year, a total of £256k has not been spent in 2020/21, of which £253k has been requested to be carried forward again into 2021/22. The increase in the final quarter relates to the Strategic Priorities Fund and the budget for Commercial Consultants, as itemised and explained in table 3 above.

- 8.6. There are 4 key corporate 'financial health' indicators identified in relation to key sources of income for the Council. Table 5 below shows the performance for the year. A comparison is made to the original budget to give the complete picture for the year. Each indicator is given a status of red, amber or green. A green indicator means that income recorded matched or exceeded the budgeted level of income. A red indicator means that the outturn has not met the budgeted level of income. An amber indicator is only used during the year to highlight that there is a risk that the budgeted level of income may not be met.
- 8.7. At the end of the year, all four indicators are red. The red indicators for Land Charges, Car Parking Fees and Parking Penalty Charge Notices income were initially highlighted and explained at Quarter One, while the amber indicator at Quarters 1 and 2 in respect of planning income was amended to red at Quarter 3. The only significant changes at Outturn from that forecast at Quarter 3, relating to parking fees and parking PCN income, are highlighted and explained in table 3 above.

**Table 5 - Corporate financial health indicators**

<b>Indicator</b>	<b>Status</b>	<b>Original Budget</b>	<b>Outturn</b>	<b>Variance</b>
		<b>£k</b>	<b>£k</b>	<b>£k</b>
Planning Application Fees (including fees for pre-application advice)	Red	(950)	(822)	128
Land Charges	Red	(164)	(142)	22
Car Parking Fees	Red	(1,936)	(826)	1,110
Parking Penalty Charge Notices	Red	(573)	(371)	202

### **FUNDING, RISK AND GENERAL FUND BALANCE**

- 8.8. The Council's revenue budget is funded from the following main sources; Council Tax, New Homes Bonus and Retained Business Rates income. The Council was notified by Central Government in February 2020 of the amount of New Homes Bonus it could expect to receive in 2020/21 and planned accordingly. For 2020/21 the Council has also used Covid-19 grant funding and made use of reserves.
- 8.9. Council Tax and Business Rates are accounted for in the Collection Fund rather than directly in our accounts, as we also collect them on behalf of other bodies. Each organisation has a share of the balance on the Collection Fund account. As statute requires that Collection Fund income amounts chargeable to the General Fund in year must be those estimates prepared around the time of setting the budget for the year, Collection Fund surpluses or deficits do not impact the 2020/21 funding total / projected general fund balance shown in table 7.
- 8.10. At the end of the year, there is a deficit on the NHDC share of the Council Tax Collection Fund of £313k. This is an increase of £128k on the estimate for the year declared in January 2021 of £185k. The increase in the deficit is primarily due to a change in methodology in the calculation of the bad debt provision required for outstanding Council Tax debt. In previous years, no provision was made for Council tax amounts outstanding

in respect of the current year. This year, with current year debt much higher than in previous years due to the impact of Covid-19, it was prudent to make provision for all debt outstanding, with overall collection rates used to estimate the level of provision required, based on the experience of the previous ten years. While the increase in the deficit of £128k does not change the Council Tax funding available in 2021/22, it will impact the level of funding from Council Tax in 2022/23.

- 8.11. As explained in the Revenue Budget Report 2021/22, due to Covid-19 related legislation, the estimated in-year deficit for 2020/21 declared in January is spread over three years from 2021/22, rather than full repayment in 2021/22 (as would have been required under the previous legislation). Of the total £185k deficit declared in January 2021, £23k related to the deterioration in the Collection Fund position in the final quarter of 2019/20. This amount must be repaid in full in 2021/22. The remainder (£162k) was the estimated deficit occurring in the current year and it is the repayment of this amount that will be spread equally over the next three years, as reflected in the budget estimates.
- 8.12. As highlighted in the Revenue Budget Report 2021/22 and at Quarter 3, the reported deficit on the Council Tax Collection Fund is subject to the Local Tax Income Guarantee for 2020/21. With the cash receipt anticipated in the next financial year, the accrued benefit to the Council's General Fund in 2020/21 has been calculated as £141k (as shown in table 7 below). This is a marginal decrease of £9k on the £150k total estimated at Quarter 3. It should be noted that the movement in the Council Tax bad debt provision, which is included in the total reported deficit, is excluded from the calculation of the eligible income amount.
- 8.13. The Council's share of the deficit on the Business Rates Collection Fund at the end of 2020/21 is £10.39m. This is an increase of £1.64m on the £8.75m deficit forecast in the return submitted to Central Government in January 2021 and indicated at Quarter Three. The main reason for the increase in the deficit is an increase in the provisions made for both bad debts (£700k increase) and the cost of successful business rates appeals (£735k increase), following a review by external consultants. The increase in the appeals provision follows a change to the previous assumption that all appeals would by now have been lodged, given the length of time that has elapsed since the 2017 revaluation. The consultants advised that, based on their analysis of the timing of appeals submitted following previous revaluations, for example in 2010 and 2005, this may well not be the case. The revised calculation assumes that the cost of appeals against the 2017 listing will ultimately be in line with the initial assessment by MHCLG, with the total provision required based on an annual cost of appeals equivalent to 4.7% of collectable rates income. The consultant review also prompted a revised calculation of the bad debt provision, similar to that described for Council Tax in 8.10 above, with provision now made for outstanding debt relating to the current year based on collection rates for previous years.
- 8.14. The overall size of the deficit is primarily due to the additional business rate reliefs introduced by government in response to the COVID-19 pandemic. The Council receives compensation in the form of a grant from Central Government for business rate reliefs introduced, which goes into our funds rather than the Collection Fund. The Council is eligible to receive total compensation of £10.04m for reliefs in 2020/21, which includes £7.82m for the additional reliefs introduced by government in response to the COVID-19 pandemic. The Council holds the grant received in a reserve to fund the repayment in future years of deficits recorded. Some of the amount held in reserve was used in 20/21

to fund the repayment to the Collection Fund of the deficit originally estimated for 2019/20, as shown in table 7.

- 8.15. The Business Rates Collection Fund deficit for 2020/21, after adjusting for business rate reliefs, is £2.57m (£10.39m total deficit less £7.82m relating to additional reliefs). This amount is also subject to the Local Tax Income Guarantee for 2020/21. The accrued value of the Income Guarantee in 2020/21 is £1.232m. This amount has been transferred to the Grant reserve and will be used to fund the repayment of the deficit next year. The increases to provisions for bad debts and appeals at the end of the year increased the compensation amount by approximately £800k.
- 8.16. The spread over the next three years of the repayment of the Business Rates Collection Fund deficit for 2020/21 is based on the estimates prepared in January 2021 and therefore the impact remains unchanged from that detailed at Quarter 3. The element of the deficit relating to the additional reliefs, declared in January as £7.5m, is required to be repaid in full in the following financial year. The repayment of the remainder of the deficit, estimated in January to be approximately £1.25m, will be spread over three years from 2021/22, with the relevant amount (£416k) included in each calculation of the surplus/ deficit recorded for the two subsequent financial years. A contribution from the General Fund to the Business Rates Collection Fund of £7.9m (total of £7.5m and £416k) is therefore required in the next financial year for the estimated deficit in this year. The £1.64m difference between the £8.75m deficit estimated in January and the £10.39m recorded at the end of the year will be incorporated in the calculation of the surplus/ deficit for 2021/22, with the additional contribution to the Collection Fund made in 2022/23. The contributions required to the Collection Fund will be funded from the grant held in reserve.
- 8.17. The Council is also subject to a business rates levy from Central Government as NHDC collects more in business rates than the baseline need determined by Central Government. In 2020/21 NHDC is a member of the Hertfordshire Business Rates Pool with five other Hertfordshire Local Authorities. The Pool was formed with the expectation that this should reduce the business rates levy amount otherwise payable at the end of the year, as has been the case in prior years. At the time of writing Hertfordshire County Council, the Pool lead authority, has not yet notified NHDC of the final outcome for 2020/21. The contribution required to the Pool to meet the total levy payable for the pooled authorities will be funded from the grant held in reserve.
- 8.18. The timing of the impact on the General Fund of the detail in paragraphs 8.8 to 8.16 is summarised below. The amounts in relation to Business Rates will be held in a reserve to smooth the impact on the General Fund balance. The overall income position for Business Rates reflects that the Council budget based on the baseline. This amount will be reduced by any levy payable, and will also be impacted by business closures, which could result in the recovery of s31 grants.

<b>General Fund impact by year (£000)</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>Overall impact</b>
Council Tax deficit declared in January spread over 3 years	0	77	54	54	185
Additional Council Tax deficit at end of year	0	0	128	0	128



<b>General Fund impact by year (£000)</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>Overall impact</b>
Tax guarantee scheme – Council Tax	(141)	0	0	0	(141)
<b>Council Tax Impact</b>	<b>(141)</b>	<b>77</b>	<b>182</b>	<b>54</b>	<b>172</b>
Compensation for Business Rate Reliefs-held in reserve (s31 grants)	(10,040)	0	0	0	(10,040)
Tax guarantee scheme – Business Rates	(1,232)	0	0	0	(1,232)
Business Rates deficit declared in January due to reliefs	0	7,500	0	0	7,500
Business Rates deficit declared in January - remainder	0	416	417	417	1,250
Additional deficit at end of year	0	0	1,640	0	1,640
<b>Business Rate impact</b>	<b>(11,272)</b>	<b>7,916</b>	<b>2,057</b>	<b>417</b>	<b>(882)</b>

8.19. The Council has received non-ringfenced emergency grant funding in 2020/21 from Government of £1.602m in relation to the Covid-19 pandemic. In addition, MHCLG has invited Local Authorities to apply for compensation for loss of sales, fees and charges income due to the impact of Covid-19 affecting demand. At Quarter Three the value of the income compensation was forecast to be around £1.85million. The total amount expected at the end of the year is £1.9m, of which £620k, relating to the period December 2020 to end of March 2021, has been accrued and remains subject to confirmation from MHCLG.

8.20. At Quarter Three, the overall full year net impact of Covid-19 was estimated to be around £1.65m. At the end of the year, the net direct financial impacts of Covid-19 totals £1.5m. This reduction is primarily due to the additional financial support to SLL being less than the expectation at Quarter Three, as highlighted and explained in table 3. Table 6 below breaks down by budget area the main impacts of Covid-19 and the extent to which these impacts have been compensated by additional Government funding.

**Table 6 – COVID-19 Financial Impact on General Fund**

<b>Budget Area</b>	<b>Net Impact £k</b>	<b>Covered by Income guarantee *</b>	<b>Estimated Sales, Fees and Charges (SFC) Contribution £k</b>	<b>Balance not covered by SFC contribution £k</b>
Careline Expenditure	63	No	0	63
Community Support Grants	86	No	0	86
Court Summons Income	237	No	0	237
Homeless Accommodation	205	No	0	205
HTH/ Museum Income	138	Yes	95	43
Investment Income	116	No	0	116
Land Charges Income	22	Yes	10	12

Budget Area	Net Impact £k	Covered by Income guarantee *	Estimated Sales, Fees and Charges (SFC) Contribution £k	Balance not covered by SFC contribution £k
Leisure Centres	1,899	Part- as majority relates to expenditure	576	1,323
Parking Income	1,590	Yes	1,079	512
Planning Income	128	Yes	54	74
Sales Ledger Bad Debt Provision	62	No	0	62
Trade Waste and Recycling	151	Yes	72	79
Waste and Recycling	524	No	0	524
Other	143	Part- as mix of income and expenditure	13	130
<b>Total</b>	<b>5,364</b>		<b>1,899</b>	<b>3,465</b>
Less: non-ringfenced grant funding				(1,602)
Less: New Burdens Funding				(270)
Less: Funding from Special Reserve				(86)
<b>Net General Fund impact</b>				<b>1,507</b>

\* Support from Government covers 75% of relevant losses that are in excess of 5% of the original budget.

8.21. Table 7 below summarises the impact on the General Fund balance of the outturn position detailed in this report. It should however also be noted at this point that the Statement of Accounts is yet to be audited and changes to the General Fund balance may arise as a result of the final accounts audit.

**Table 7 – General Fund impact**

	Working Budget	Outturn	Difference
	£k	£k	£k
<b>Brought Forward balance (1<sup>st</sup> April 2020)</b>	<b>(9,378)</b>	<b>(9,378)</b>	<b>-</b>
Net Expenditure	20,245	19,379	(866)
Funding (Council Tax, Business Rates, NHB)	(15,576)	(15,571)	5
Contribution to Funding Equalisation Reserve	329	329	0
Contribution to Collection Fund	294	294	0
Funding from Reserves (including Business Rate Relief Grant)	(294)	(294)	0
Covid-19 un-ringfenced government grant funding	(1,602)	(1,602)	0
Government Compensation for Covid-19 related income losses (Working budget= compensation applied at quarter 3)	(1,750)	(1,899)	(149)

2020/21 Council Tax Guarantee Income	(150)	(141)	9
<b>Carried Forward balance (31<sup>st</sup> March 2021)</b>	<b>(7,882)</b>	<b>(8,883)</b>	<b>(1,001)</b>

8.22. The minimum level of General Fund balance is determined based on known and unknown risks. Known risks are those things that we think could happen and we can forecast both a potential cost if they happen, and percentage likelihood. The notional amount is based on multiplying the cost by the potential likelihood. The notional amount for unknown risks is based on 5% of net expenditure. There is not an actual budget set aside for either of these risk types, so when they occur they are reflected as budget variances (see table 3). We monitor the level of known risks that actually happen, as it highlights whether there might be further variances. This would be likely if a number of risks come to fruition during the early part of the year. We also use this monitoring to inform the assessment of risks in future years. The notional amount calculated at the start of the year for known risks was £1,351k, and at the end of the financial year a total of £882k has come to fruition. The identified risk realised in the final quarter relates to

- Usage of bed and breakfast accommodation for homeless households (as highlighted in table 3 above) - £45k.

**Table 8 – Known financial risks**

	<b>£'000</b>
<b>Original allowance for known financial risks</b>	<b>1,351</b>
Known financial risks realised in Quarter 1	(189)
Known financial risks realised in Quarter 2	(244)
Known financial risks realised in Quarter 3	(404)
Known financial risks realised in Quarter 3	(45)
<b>Remaining allowance for known financial risks</b>	<b>469</b>

## **EARMARKED RESERVES**

8.23. The Council has a number of earmarked reserves, which can be used to fund revenue expenditure. These are detailed in Table 9 below. A total of £13.599million has been contributed to the reserves in 2020/21 and a total of £2.135million has been transferred out of the reserves to the General Fund. The level of contribution to reserves is mainly due to the transfer of compensation (Section 31 grants) received for business rate reliefs introduced in the year, as explained in paragraph 8.14.

8.24. Cabinet are therefore asked to recommend to Council that the net contribution to reserves of £11.464million be approved (recommendation 2.4), which leaves a total balance in earmarked reserves at 31 March 2021 of £20.808million.

**Table 9 – Earmarked Reserves**

	Balance at 1 April 2020	Contributions to reserve	Transfers out of reserves	Balance at 31 March 2021
	£'000	£'000	£'000	£'000
Cemetery Mausoleum Reserve	167	10	(2)	175
Childrens Services Reserve	57	43	(9)	91
Climate Change Grant Reserve	26	0	(1)	25
Funding Equalisation Reserve	68	329	0	397
Growth Area Fund Reserve	53	0	0	53
Homelessness Grants Reserve	413	276	(208)	481
Housing & Planning Delivery Reserve	1,069	54	(101)	1,022
Information Technology Reserve	78	0	(20)	58
Insurance Reserve	34	0	0	34
Land Charges Reserve	94	0	(28)	66
Leisure Management Maintenance Reserve	77	0	(51)	26
MHCLG Grants Reserve	3,741	11,725	(1,118)	14,348
Museum Exhibits Reserve	13	1	0	14
Neighbourhood Plan Reserve	78	20	0	98
Paintings Conservation Reserve	11	0	0	11
S106 Monitoring Reserve	19	0	(19)	0
Special Reserve	1,175	0	(432)	743
Street Name Plates	16	0	0	16
Syrian Refugee Project	272	194	(16)	450
Taxi Licences Reserve	15	0	(8)	7
Town Centre Maintenance	53	8	0	61
Traffic Regulation Orders	346	40	0	386
Waste Reserve	730	19	0	749
Waste Vehicles Reserve	554	359	0	913
<b>Total Revenue Reserves</b>	<b>9,344</b>	<b>13,599</b>	<b>(2,135)</b>	<b>20,808</b>

**COVID-19: PAYMENTS TO BUSINESSES AND ISOLATING INDIVIDUALS**

8.25. As part of the Government's economic support for Covid-19, the Council has been required to distribute a number of business grants. The Council has also been required to make self-isolation payments to individuals on low incomes. In both cases this has involved developing specific schemes (within the criteria set out by Government), setting up application processes, determining eligibility and making payments. Table 10 below confirms the amounts that have been distributed as at the time of writing this report (as at 6<sup>th</sup> June 2021).

**Table 10 – Covid-19 Financial Support to Businesses and Individuals**

Support Schemes	Payments	
	Number	Value (£)
Small Business Grant Fund and Retail, Hospitality and Leisure Businesses Grant Fund (First National Lockdown)	2,077	26,125,000
Local Authority Discretionary Grant Fund (First National Lockdown)	220	1,445,600
Local Restrictions Support Grant (November 2020 National Lockdown)	785	1,299,334
Additional Restrictions Discretionary Grant (Ongoing from November 2020)	1,455	3,124,738
Local Restrictions Support Grant (Hertfordshire in Tier 2)	447	314,412
Local Restrictions Support Grant (Hertfordshire in Tier 4)	739	734,230
Wet Pub Christmas Grants	70	70,000
Business Support Packages (4 <sup>th</sup> January – 15 <sup>th</sup> February 2021)	806	5,939,097
Local Restrictions Support Grant (16 <sup>th</sup> February – 31 <sup>st</sup> March 2021)	794	2,051,644
Restart Grants (Non-Essential Retail and Hospitality, Leisure, Personal Care & Gyms)	683	5,147,387
<b>Total Payments to Businesses</b>	<b>8,076</b>	<b>46,251,442</b>
<b>Track &amp; Trace Payments to Isolating Individuals</b>	<b>310</b>	<b>155,000</b>

\* Businesses will have received payment from more than one grant.

## 9. LEGAL IMPLICATIONS

- 9.1. The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. Specifically, 5.6.8 of Cabinet's terms of reference state that it has remit "*to monitor quarterly revenue expenditure and agree adjustments within the overall budgetary framework*". By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget and to maintain a prudent balance of reserves.
- 9.2. The Accounts and Audit Regulations 2015 require that the Annual Statement of Accounts be approved and published.
- 9.3. The requirement for financial reserves is acknowledged in statute. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 9.4. The Council must ensure sufficient flexibility to avoid going into deficit at any point during the financial year. The Chief Financial Officer is required to report on the robustness of the proposed financial reserves, under Section 25 of the Local Government Act 2003.
- 9.5. Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs. The level of the general reserve is a matter for the Council to determine having had regard to the advice of the S151 Officer.

- 9.6. This is a requirement of the Council Procedure Rules as set out in Part 4.4.1 (b) and 4.4.1 (k) of the Council's Constitution.

## **10. FINANCIAL IMPLICATIONS**

- 10.1. Members have been advised of any variations from the budgets in the body of this report and of any action taken by officers.
- 10.2. The General Fund balance of £8.883million (table 7) meets the recommended minimum balance of General Fund reserves agreed when the budget was set. The Statement of Accounts is however yet to be audited and changes to the General Fund balance may arise as a result of the final audit. As the Housing Benefit claim is also yet to be audited, the relevant values included in the reported outturn are based on un-audited figures.

## **11. RISK IMPLICATIONS**

- 11.1. As outlined in the body of the report. The process of quarterly monitoring to Cabinet is a control mechanism to help to mitigate the risk of unplanned overspending of the overall Council budget.

## **12. EQUALITIES IMPLICATIONS**

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2. For any individual new revenue investment proposal of £50k or more, or affecting more than two wards, a brief equality analysis is required to be carried out to demonstrate that the authority has taken full account of any negative, or positive, equalities implications; this will take place following agreement of the investment.

## **13. SOCIAL VALUE IMPLICATIONS**

- 13.1. The Social Value Act and "go local" policy do not apply to this report.

## **14. ENVIRONMENTAL IMPLICATIONS**

- 14.1. There are no known Environmental impacts or requirements that apply to this report.

## **15. HUMAN RESOURCE IMPLICATIONS**

- 15.1. Although there are no direct human resource implications at this stage, care is taken to ensure that where efficiency proposals or service reviews may affect staff, appropriate communication and consultation is provided in line with HR policy.

## **16. APPENDICES**

- 16.1. None.

## **17. CONTACT OFFICERS**

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## **18. BACKGROUND PAPERS**

- 18.1. None.

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## **7.c REFERRAL FROM CABINET 29 JUNE 2021: ANNUAL REPORT ON RISK MANAGEMENT**

### ***RECOMMENDED TO COUNCIL:***

- (1) That the Annual Report on Risk Management be noted.

### ***REASONS FOR DECISIONS:***

- (1) The responsibility for ensuring the management of risks is that of Cabinet.
- (2) This Committee has responsibility to monitor the effective development and operation of Risk Management.

The Executive Member for Finance and IT, Councillor Ian Albert, presented the report entitled Risk Management Quarterly Update and Annual Report, including:

- Two risks had been considered by Risk Management Group this quarter as detailed in recommendation 2.1; and
- The proposal was that the Cyber risk remained unchanged and the risk score for the Brexit (EU transition) risk be reduced to a 5.

The Service Director – Resources presented the referral from the Finance, Audit and Risk Committee on 23 June 2021 and advised that FAR were happy to forward the report and recommendations to Cabinet.

Councillor Sam Collins raised that although the Brexit EU Transition Risk had decreased, it was important to be mindful that the risk could increase again.

Upon being put to the vote, it was:

### ***RESOLVED:***

- (1) That the reviews of the Corporate Risks for the quarter, namely the review of the Cyber risks with no change to the Current risk score of 8 and a Target Risk score of 6 and the review of the Brexit (EU Transition) Risk with a decrease in the Current risk score from a 7 to a 5, and a Target risk score of 3, be noted;
- (2) That the Annual report on Risk Management be noted.

### ***RECOMMENDED TO COUNCIL:***

- (1) That the Annual Report on Risk Management be noted.

### ***REASONS FOR DECISIONS:***

- (1) The responsibility for ensuring the management of risks is that of Cabinet.
- (2) This Committee has responsibility to monitor the effective development and operation of Risk Management.

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**NORTH HERTFORDSHIRE  
DISTRICT COUNCIL**



**Annual Report on Risk Management**

**April 2020 to March 2021**

**A progress report on Risk Management at North  
Hertfordshire District Council**

## **Annual Report on Risk Management** **April 2020 to March 2021**

1. Introduction
2. Recommendations
3. Overview
4. Significant Changes to Corporate Risks
5. Review of NHDC's Risk Management Framework
6. Risk Awareness and Appetite
7. Insurance Review
8. Business Continuity Planning
9. Health and Safety
10. Achieving the Key Actions for 2020/21
11. Key Actions for 2021/22
12. Conclusion
13. Definitions
14. Summary Matrix of Corporate Risks as at 31 March 2021

# Annual Report on Risk Management

April 2020 to March 2021

## 1 Introduction

1.1 This report provides Council with a summary of risk management at NHDC during 2020/21. The 2019/20 report was presented to Council on 24 September 2020.

1.2 It aims to:

- Confirm the Council's commitment to managing risks and considering associated opportunities to enable the achievement of its objectives and the successful delivery of its projects, initiatives and services.
- Summarise changes to the Council's Corporate Risks.
- Summarise the progress of previously identified actions and propose additional actions for 2021/22 that will further enhance the Council's Risk Management Framework.

## 2 Recommendations

2.1 Council notes the development of the Risk Management Framework, which supports the overarching governance framework.

2.2 Council notes the changes to the Corporate Risks during 2020/21.

## 3 Overview

3.1 Throughout 2020/21, the Finance, Audit and Risk (FAR) Committee received quarterly reports on the management of Corporate Risks and associated risk issues, and where necessary, referred items to Cabinet.

3.2 The Executive Member for Finance and IT in his role as the Member Risk Management Champion was a regular attendee at the quarterly Risk Management Group (RMG) meetings. The items discussed at these meetings informed the content of the committee reports.

3.3 The RMG is chaired by the Service Director – Resources, the Officer Champion for Risk Management, who is responsible for the risk management function at a strategic and operational level. This function is delivered by the Controls, Risk and Performance Manager and the Performance and Risk Officer, including the provision of training and support to Officers and Members.

3.4 During the year, one new Corporate Risk was introduced, two were archived and two overall risk scores were changed. No Corporate Risks were re-classified as Operational Risks. Section 4 provides further details.

3.5 In November 2020, the Shared Internal Audit Service (SIAS) issued its audit report on the Risk Management Framework, which provided overall satisfactory assurance. Section 5 provides further details.

- 3.6 Hertfordshire County Council (HCC) delivers the Council's insurance services and their Risk and Insurance Manager attends RMG meetings. This enables the Council to obtain an insight into emerging risks and issues at both HCC and other Hertfordshire local authorities. The SIAS Client Audit Manager also attends RMG meetings, helping to inform the group's understanding of wider risk issues.

#### **4 Significant Changes to Corporate Risks**

- 4.1 The Corporate Risks are the responsibility of the Senior Management Team and Cabinet, with Cabinet ensuring the risks are managed appropriately and proportionately. These key risks are those that cut across the delivery of all services, relate to key projects or could significantly affect the delivery of Council objectives. They are likely to require a high level of resources to manage and need to be monitored at a strategic level.
- 4.2 The quarterly reporting of Corporate Risks to Cabinet via the FAR Committee allows details of the top risks facing the Council and how we are managing them to be approved and monitored accordingly.
- 4.3 The following paragraphs highlight significant changes to Corporate Risks reported to the FAR Committee and Cabinet last year.

##### **Archived Corporate Risks**

###### **September 2020**

#### **4.4 Route Optimisation of Collection Rounds**

In March/April 2020, the relevant committees agreed that the risk should not be archived and should be retained until further information was provided. Following this, the Service Manager for Waste and Recycling provided the information requested. This confirmed that the route optimisation of rounds was complete and collection services were operating within normal expected parameters. Rounds were completed each day and missed collections were at acceptable levels. The Performance Management Regime monitored missed collections, and this was reported to the Executive Member and recorded on Pentana. The Waste team was also working with IT to develop mapping of collection routes and this data would soon be available on the intranet. As the work had been completed and appropriate risk mitigation measures were in place, the risk was again proposed for archiving and this was recommended and approved by the relevant committees.

###### **March 2021**

#### **4.5 Workforce Planning**

The RMG proposed to archive the risk, as the actions in place to manage it were embedded into current HR practices. There were no new significant actions to be implemented and it was assessed as being at the target risk level. Over time, there will be recruitment and retention issues relating to specific service areas and these will continue to be recorded via individual service risks if appropriate. The proposal to archive the risk was recommended and approved by the relevant committees.

## **New Corporate Risks**

### **September 2020**

#### **4.6 Covid-19 - Leisure Management Contracts**

Following a recommendation by the RMG, officers had split the existing operational risk entry relating to the leisure management contracts into two separate risk entries, one relating to the previously recorded ongoing operational risks and the other relating to the significant risks associated with Covid-19. The proposal to introduce the “Covid-19 – Leisure Management Contracts” risk as a new Corporate Risk with a risk score of 8 was recommended and approved by the relevant committees.

### **Changes to Corporate Risk Scores**

- 4.7 As part of the regular review process, officers re-assess the impact and likelihood scores of the Corporate Risks. Section 13 of this report details the definitions used for assessing these scores, which aim to ensure a consistent approach.

### **September 2020**

#### **4.8 Impact of Anti-Social Behaviour on Council Facilities**

The FAR Committee considered a proposal to reduce the risk score from 7 to 5 but recommended that it be retained at the current level. The proposed change reflected the measures that had been put in place and reducing number of incidents. However, it was unclear whether the reduction in incidents was more due to the Covid-19 pandemic. Cabinet subsequently approved that the score should remain at 7. The risk entry specifically relates to anti-social behaviour around Council facilities rather than general anti-social behaviour within the district.

#### **4.9 Novel Coronavirus (Covid-19)**

The FAR Committee considered a proposal to reduce the risk score from 9 to 8 but recommended that it be retained at the current level due to the likelihood of a second wave of the pandemic. Cabinet subsequently approved this. The proposal had been based on data provided in Director of Public Health Herts reports at the time and the mitigation processes in place.

Note that this risk was put in place as a new risk via a delegated decision in March 2020, following the cancellation of the Cabinet meeting due to the Covid-19 pandemic. The FAR Committee had met just before restrictions were put in place and recommended that it was introduced.

### **December 2020**

#### **4.10 Covid-19 - Leisure Management Contracts**

The FAR Committee recommended the proposal to increase the risk score from 8 to 9, in view of the huge financial pressures placed on Stevenage Leisure Ltd by Covid-19. Cabinet subsequently approved this.

### **March 2021**

#### **4.11 Increased Homelessness**

The FAR Committee recommended the proposal to increase the risk score from 5 to 7, in view of the increased levels of homelessness and use of temporary accommodation. Cabinet subsequently approved this.

- 4.12 Section 14 presents a summary risk matrix, which shows the position of each Corporate Risk as at 31 March 2021.

## 5 Review of NHDC’s Risk Management Framework

- 5.1 During the year, SIAS undertook an audit of the Risk Management Framework and the report published in November 2020 provided overall satisfactory assurance. The report contained one medium priority recommendation relating to risk reviews. There were also three low priority recommendations relating to the implementation of target risk scores and SMART actions, awareness and understanding of the Risk Management Framework and information reported to the Senior Management Team.
- 5.2 The management response to these recommendations resulted in changes to the previously agreed framework and further clarification of certain processes in framework documentation. These amendments were noted and approved by the FAR Committee and Cabinet in December 2020 and are summarised below:

<b>Risk reviews</b>	Risks with a red status will be reviewed every three months rather than monthly. Risks with an amber status will be reviewed every six months rather than quarterly. Frequencies changed to reflect what is achievable with available resources.
<b>Implementation of target risk scores and SMART actions</b>	As risks are reviewed, target risk scores will be set (where missing). SMART actions will be identified, where appropriate, to manage the risk to the target score. Actions (both business-as-usual and SMART) will be reviewed and updated, as part of the review process. Monthly Pentana Directorate overviews will ensure oversight and highlight if framework requirements are not being met.
<b>Awareness and understanding of Risk Management Framework</b>	The Controls, Risk and Performance Team is responsible for providing training, where required. The Team developed an e – learning module (available on GROW Zone from March 2021), which provides relevant officers with the training they need. This also provides a record of officers who have completed the training.
<b>Information reported to SMT</b>	New and archived operational risks will be reviewed by the Risk Management Group and SMT prior to the Pentana updates being accepted. If archiving of a risk is not accepted, the Pentana entry will be re-activated with the agreed score. Other changes to operational risks will be the responsibility of the assigned officer and should be discussed with the relevant Service Director.

## 6 Risk Awareness and Appetite

- 6.1 NHDC is committed to the proactive identification and management of key external and internal risks that may affect the delivery of objectives. This allows us to be risk aware, understanding that risks may increase as services evolve and more commercial opportunities are developed and undertaken.



- 6.2 NHDC's risk appetite is its willingness to accept risks to realise opportunities and achieve objectives. We must take risks to evolve and to continue to deliver services effectively, deciding what risks we want to take and what ones we want to avoid, whilst acknowledging that we cannot or should not avoid all risks. The Risk Management Framework recognises that risks accompany all new objectives and opportunities and it provides guidance on managing them appropriately.
- 6.3 NHDC will have a range of different appetites for different risks depending on the circumstances and these will vary over time. The Risk Management Framework specifies that we will actively manage and monitor risks scoring 4 or higher on the risk matrix. This includes monitoring the completion of risk management activities and assessing their effectiveness.
- 6.4 As at 31 March 2021, 13 Corporate Risks had a score of 4 or above:
- Brexit (EU Transition) - 9
  - Covid-19 (Leisure Management Contracts) - 9
  - Local Plan - 9
  - Managing the Council's Finances - 9
  - Novel Coronavirus (Covid-19) - 9
  - Cyber Risks - 8
  - Delivery of the Waste Collection and Street Cleansing Services Contract - 8
  - Sustainable Development (Neighbouring Authorities) - 8
  - Impact of Anti-Social Behaviour on Council Facilities - 7
  - Income Generation - 7
  - Increased Homelessness - 7
  - Sustainable Development (National and Regional Planning Issues) - 7
  - External Factors Affecting the Future Provision of Waste Services - 6
- 6.5 Following the Peer Review Challenge carried out in January 2020, the Action Plan agreed by Cabinet set out an action that:  
 "There needs to be a strategic approach to the Council's risk appetite, also noting the Peer team's recommendation to 'be brave'. A strategic discussion around risk will be facilitated at the Political Liaison Board, as this is felt to be more of an issue of attitude rather than policy. A review of some existing practices may be needed to achieve this, as it is arguable these have not facilitated the required culture to date."  
 The FAR Committee has a role in monitoring how effectively the Council delivers against its stated risk appetite.

## **7 Insurance Review**

- 7.1 Hertfordshire County Council handles the Council's insurance arrangements under a shared service arrangement. The arrangement was subject to an internal audit review in 2019/20 and the final report gave a satisfactory overall assurance level.
- 7.2 The Council transfers some financial risks to its insurers. Public liability insurance provides the Council with insurance cover for claims made by the public for personal injury and/or property damage. These are each subject to a £10,000 excess that is charged to the responsible service area. Areas that have been subject to a claim are identified and wherever possible, action is taken to prevent future damage to property or personal injury.

- 7.3 Four claims were received from the public relating to the policy year 2020/21 as at 31 March 2021. Although claims are made, these are not always successful for the claimant, as payments of compensation are made only when there is a proven legal liability. Liability has been accepted on one of the claims for property damage and a partial payment made.
- 7.4 The Municipal Mutual Insurance (MMI) Scheme of Arrangement was triggered in 2013 and the Council now pays 25% of any new claims dating back to the period that MMI was the Council's insurer (1974 to 1993). The Council's Financial Risks make provision for any new claims and any further levy demands relating to the period that MMI were the Council's insurers. As at 31 March 2021, there was one outstanding claim with MMI.
- 7.5 From time to time, insurers make risk improvement recommendations or requirements. It had been recommended that a policy for driving Council vehicles be implemented and a new policy has recently been implemented to clarify how Council vehicles can be used. Following a remote survey on the North Herts Leisure Centre, it is a requirement that fire suppressant equipment is installed above the deep fat fryer and this is in the process of being arranged. Although not currently a requirement for Hitchin Swim Centre, a fire suppressant system for the café is also being considered.

## **8 Business Continuity Plans**

- 8.1 Covid-19 has been keeping the Emergency Planning staff busy since December 2019 and as a result the rest of the workplan has suffered, particularly training and testing. Much of the time away from the direct response to Covid-19 has been spent dealing with its impacts, such as making sure that Emergency Reception Centres are Covid-19 secure in the event of an incident, with new guidelines, instructions and equipment.
- 8.2 The small part time team of 3 x 0.2 FTEs meanwhile has been reduced by 33% as the Herts County Council Emergency Planning expert was withdrawn back to County at a time when most needed. The two remaining officers have worked flexibly and additional hours to reduce the impact. The plan is to review the current arrangements.
- 8.3 Covid-19 has been a somewhat unusual emergency; as the team were more used to dealing with a short event such as a fire, explosion or accident and then focusing on an effective recovery. NHDC is required by law to be able to continue to function throughout a major emergency such as Covid-19 but despite this, NHDC is still performing well. Although the long-term effects of so many staff home working upon corporate effectiveness and team working is, as yet, unknown, there appears to be an increase in mental health/welfare issues.
- 8.4 As a Category 1 responder, NHDC still has legal duties to be able to respond to other emergencies. NHDC entered this pandemic with a pre-prepared emergency Recovery Response Plan which deals with both internal crisis and external emergencies. This was reviewed last year as part of the preparations for Covid-19. NHDC is also part of a countywide Recovery Group.

### **Business Impact**

- 8.5 NHDC has already identified its Core Critical Functions which were reviewed last year during the pandemic and are still appropriate today. They are the business areas which, in the event of a catastrophic failure of all services, would be the first areas needed to be set up based upon identified risks to service delivery, safety, financial loss, performance, reputation and environment. These are:

- Burials
- Careline
- Emergency Planning
- Housing – Dealing with homelessness approaches and rough sleepers
- Customer Service
- Communications
- IT
- Safeguarding – Managing alerts/concerns
- Revenues and Benefits - Payments
- Waste Management - Waste Contract/Loss of Buntingford Depot
- Environmental Health response

8.6 SMT regularly monitor these Core Critical Functions, whilst individual Service Directors retain responsibility for lower scale risks in their areas.

8.7 NHDC's Business Continuity Plan structure is very comprehensive and consists of a number of Corporate Level Plans:

- Main Resilience Plan
- Mass Staff Absence Plan
- Recovery Plan
- Pandemic Plan
- IT Recovery Plan
- Property Services - Loss of Building (currently work in progress)
- Waste Contract - Lot 1

8.8 A storage facility is located at Works Road, Letchworth. This houses emergency planning equipment and IT disaster recovery, and it has suitable facilities to be converted to a secondary Incident Control Centre.

#### **Working in Partnership**

8.9 The Hertfordshire Local Resilience Forum takes a lead role in Business Continuity Planning and therefore promotes a broader understanding of issues. NHDC officers have secured good relationships with local organisations such as Churches Together, Urbaser, Pearce, Johnson Matthey and Garden Square retail. NHDC works closely with its peer authorities on other topics such as cybercrime, reception centres, managing equipment, mutual aid and formerly Brexit.

#### **Business Continuity Promotion**

8.10 In respect of Covid-19, the NHDC Communications team is part of the County Communications Group working directly to the Herts Strategic Coordinating Group tackling the Covid-19 response. This ensures clear, consistent but locally relevant messaging and signposting to the local community and businesses.

8.11 Business Continuity awareness work has all been focused on making sure businesses have been prepared for Brexit and promoting Government and Public Health guidelines and messages as well as signposting to help and advice.

8.12 There is a NHDC Resilience Planning booklet containing advice on Business Continuity. This is available on the NHDC website along with additional information and direction to Hertfordshire County Council for further guidance.

## 9 Health and Safety

- 9.1 A year on from the start of the pandemic, Covid-19 still dominates the health and safety work being carried out.
- 9.2 Working closely with the elections team to help provide a safe election for both staff and the public has been the recent focus. Risk assessments have been produced across the whole activity including how to manage the postal vote opening in the DCO, the distribution of the ballot boxes, and delivering a Covid safe environment for the verification and count to take place at the North Herts Leisure Centre.
- 9.3 There have been some difficult challenges in finding the best controls to manage varying risks at some very diverse venues used as polling stations including the provision of a porta cabin, providing temporary power and welfare facilities and through setting up three separate polling stations within one building. Site inspections have been undertaken in most of the polling stations to ensure all controls are suitable for the buildings and meetings with building owners to offer reassurance on how the risks will be managed.
- 9.4 Going forward, the focus will be on the return to some sort of normal. The reinstatement of meetings in the Council Chamber will be necessary, due to the lapsing of the legislation that allows remote meetings. The return of working in Council buildings will also need to be considered. With the ever changing guidance and how the Government has to manage the pandemic nationally, a flexible approach will be taken when considering the level of controls that will need to be in place but also allow for a quick reaction to any changes implemented by Government.
- 9.5 Staff have adapted well to the changes in their working arrangements in terms of managing their own risks and issues with homeworking and there has been a very good take up on the offer of loan equipment. Results of the DSE assessments that have been completed have not seen a major increase in work related H&S issues. Surprisingly, when the results are compared to the previous three years results, this past year's figures are on par with previous ones, which demonstrates how quickly and successfully staff have adapted.

## 10 Achieving the Key Actions for 2020/21

- 10.1 Last year's Annual Report detailed the following key actions for 2020/21, to enhance the Risk Management Framework:

Action	Due Date
Development and launch of the Risk Management e-learning module.	31/08/2020
Development and launch of the Risk Management toolkit, providing operational guidance on implementing the Risk Management Framework.	30/11/2020

- 10.2 As detailed in Section 5, the Controls, Risk and Performance Team developed an e – learning module during the year and this was available on GROW Zone from March 2021.
- 10.3 A new Risk Management Toolkit intranet page was published in January 2021. Although the initial toolkit only offers limited guidance, this will continue to be developed and enhanced during the coming year and on an ongoing basis.

## 11 Key Actions for 2021/22

- 11.1 The implementation of the following actions in 2021/22 will ensure the continued development of risk management at NHDC:

Action	Due Date
Ensure that 100% of Risk Owners and Risk Assignees complete the Risk Management e-learning module.	30/09/2021
Continue work with Officers and Councillors on what the Council's risk appetite is and ensuring that actions reflect that target.	31/03/2022
Ongoing development of the Risk Management toolkit.	31/03/2022
Annual review of the Risk Management Framework documents.	31/03/2022

## 12 Conclusion

- 12.1 NHDC continued to implement the Risk Management Framework throughout 2020/21, including reviewing and reporting key risks. This, along with the further enhancement of related processes and practices, ensures a comprehensive understanding of the risks faced. This allows us to be risk aware and to determine the most cost-effective way to manage risks and exploit opportunities.

### 13 Definitions

13.1 The following diagram highlights the definitions of likelihood and impact used in the Risk Management Framework.

<p><b>4 Likelihood High (3) Impact Low (1)</b></p> <p>Chance of it happening -More than 60% Consequences - Minor</p>	<p><b>7 Likelihood High (3) Impact Medium (2)</b></p> <p>Chance of it happening - More than 60% Consequences - Noticeable effect on the Council</p>	<p><b>9 Likelihood High (3) Impact High (3)</b></p> <p>Chance of it happening - More than 60% Consequences - Significant impact on the Council</p>
<p><b>2 Likelihood Medium (2) Impact Low (1)</b></p> <p>Chance of it happening – between 20 – 60% Consequences - Minor</p>	<p><b>5 Likelihood Medium (2) Impact Medium (2)</b></p> <p>Chance of it happening – between 20 – 60% Consequences – Noticeable effect on the Council</p>	<p><b>8 Likelihood Medium (2) Impact High (3)</b></p> <p>Chance of it happening – between 20 – 60% Consequences – Significant impact on the Council</p>
<p><b>1 Likelihood Low (1) Impact Low (1)</b></p> <p>Chance of it happening – less than 20% Consequences - Minor</p>	<p><b>3 Likelihood Low (1) Impact Medium (2)</b></p> <p>Chance of it happening – less than 20% Consequences – Noticeable effect on the Council</p>	<p><b>6 Likelihood Low (1) Impact High (3)</b></p> <p>Chance of it happening – less than 20% Consequences – Significant impact on the Council</p>

## 14 Summary Matrix of Corporate Risks as at 31 March 2021

14.1 As reported to and approved by the FAR Committee and Cabinet in March 2021.

<b>Likelihood</b>	<b>3 High</b>	<b>4</b>	<b>7</b> <ul style="list-style-type: none"> <li>• Impact of Anti-Social Behaviour on Council Facilities</li> <li>• Income Generation</li> <li>• Increased Homelessness</li> <li>• Sustainable Development - National and Regional Planning Issues</li> </ul>	<b>9</b> <ul style="list-style-type: none"> <li>• Brexit - EU Transition</li> <li>• Covid-19 - Leisure Management Contracts</li> <li>• Local Plan</li> <li>• Managing the Council's Finances</li> <li>• Novel Coronavirus - Covid-19</li> </ul>
	<b>2 Medium</b>	<b>2</b>	<b>5</b>	<b>8</b> <ul style="list-style-type: none"> <li>• Cyber Risks</li> <li>• Delivery of the Waste Collection and Street Cleansing Services Contract</li> <li>• Sustainable Development - Neighbouring Authorities</li> </ul>
	<b>1 Low</b>	<b>1</b>	<b>3</b>	<b>6</b> <ul style="list-style-type: none"> <li>• External Factors Affecting the Future Provision of Waste Services</li> </ul>
		<b>1 Low</b>	<b>2 Medium Impact</b>	<b>3 High</b>

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**7.d REFERRAL FROM FINANCE, AUDIT AND RISK COMMITTEE 23 JUNE 2021:  
FINANCE, AUDIT & RISK COMMITTEE ANNUAL REPORT**

**RECOMMENDED TO COUNCIL:** That the Annual Report of the Finance, Audit and Risk Committee be noted.

**REASON FOR DECISION:**

- (1) To enable the Committee to consider the report before it is presented to Full Council.
- (2) To provide Full Council with assurance as to the effectiveness of the Finance, Audit and Risk Committee.

The Service Director – Resources presented the report entitled Finance, Audit and Risk Committee Annual Report 2020-21 and drew the Committee’s attention to the contents of Appendix A, including:

- The Effectiveness of the Committee and the recommendations made by SIAS;
- The Service Director advised that in relation to training, Committee Members would receive a self-assessment by email which they were asked to complete in order for training to be tailored to the needs of the Committee; and
- The Service Director took Members through the Planned Work for 2021/22 and a summary of the reports that were due to be received by the Committee during the course of the Civic Year;
- The Service Director informed Members that the audit of the accounts would now not take place until November 2021. This meant that the approval of the accounts would take place in either December 2021 or January 2022.

The following Member asked questions:

- Councillor Clare Billing.

In response to questions, the Service Director advised that training would take place either face-to-face or remotely.

Councillor Sam Collins raised that there was an error in Appendix A in that he was listed as being appointed as a FAR Committee Member for the Civic Year 2020/21 and a substitute.

In response to this error, the Service Director advised that the final version would be corrected.

It was:

**RESOLVED:** That the Annual Report of the Finance, Audit and Risk Committee as attached at Appendix A be noted.

**RECOMMENDED TO COUNCIL:** That the Annual Report of the Finance, Audit and Risk Committee be noted.

***REASON FOR DECISION:***

- (1) To enable the Committee to consider the report before it is presented to Full Council.
- (2) To provide Full Council with assurance as to the effectiveness of the Finance, Audit and Risk Committee.

**REPORT CONSIDERED BY FINANCE, AUDIT AND RISK COMMITTEE AT THE MEETING HELD ON 23 JUNE 2021**

**\*PART 1 – PUBLIC DOCUMENT**

**TITLE OF REPORT: FINANCE, AUDIT AND RISK COMMITTEE ANNUAL REPORT 2020-21**

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: NON-EXECUTIVE FUNCTION

COUNCIL PRIORITY: BE A MORE WELCOMING, INCLUSIVE AND EFFICIENT COUNCIL

**1. EXECUTIVE SUMMARY**

- 1.1 To consider the Annual Report of the Finance, Audit and Risk Committee for the 2020/21 Civic Year.

**2. RECOMMENDATIONS**

- 2.1. That the Committee consider and comment on the Annual Report of the Finance, Audit and Risk Committee as attached at Appendix A, prior to consideration by Full Council.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1. To enable the Committee to consider the report before it is presented to Full Council. To provide Full Council with assurance as to the effectiveness of the Finance, Audit and Risk Committee.

**4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1. None.

**5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1. The outgoing and current Chair of the Committee have been consulted on the content of the report.
- 5.2. The current Members of the Committee have been provided with an opportunity to comment on the Report before it is presented to Full Council.

## **6. FORWARD PLAN**

- 6.1 This report does not contain a recommendation on a key Executive decision and has therefore not been referred to in the Forward Plan.

## **7. BACKGROUND**

- 7.1. The Chair of Finance, Audit and Risk Committee reports to Full Council each year providing an overview of the work that has been done over the previous Civic Year. It also provides a summary of the work planned for the forthcoming year.

## **8. RELEVANT CONSIDERATIONS**

- 8.1 The Annual Report for 2020-21 is attached at Appendix A. The Annual Report is intended to provide Full Council with assurance as to the effectiveness of the Finance, Audit and Risk Committee.

## **9. LEGAL IMPLICATIONS**

- 9.1 Although it is not specifically referred to in the Constitution and is not a legal requirement, Full Council has routinely received an Annual Report from the Chair of the Finance, Audit and Risk Committee.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 Providing Full Council with assurance over the effectiveness of the Finance, Audit and Risk Committee gives confidence that the areas of its work (including financial management) are being managed effectively.

## **11. RISK IMPLICATIONS**

- 11.1. Providing Full Council with assurance over the effectiveness of the Finance, Audit and Risk Committee gives confidence that the areas of its work (including risk) are being managed effectively.

## **12. EQUALITIES IMPLICATIONS**

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2. There are no equalities implications arising from this report.

**13. SOCIAL VALUE IMPLICATIONS**

13.1. The Social Value Act and “go local” requirements do not apply to this report.

**14. ENVIRONMENTAL IMPLICATIONS**

14.1. There are no known Environmental impacts or requirements that apply to this report.

**15. HUMAN RESOURCE IMPLICATIONS**

15.1 There are no Human Resources implications arising from this report.

**16. APPENDICES**

16.1 Appendix A - Finance, Audit and Risk Committee Annual Report 2020-21.

**17. CONTACT OFFICERS**

17.1 Ian Couper  
Service Director: Resources  
[ian.couper@north-herts.gov.uk](mailto:ian.couper@north-herts.gov.uk)  
Ext: 4243

**18. BACKGROUND PAPERS**

18.1 Reports to and minutes of the Finance, Audit and Risk Committee during the Civic Year 2020-21

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NORTH HERTFORDSHIRE  
DISTRICT COUNCIL



North Hertfordshire District Council

# Finance, Audit & Risk Committee Annual Report

2020 to 2021

## **Contents**

**Introduction from the Chair**

**Role of the Committee**

**Effectiveness**

**Members of the Committee**

**Meetings in 2020-21**

**Main Achievements**

**Planned work for 2021-22**



## **Introduction from the Finance Audit & Risk Committee Chair**

I am pleased to present the Annual Report of the Finance, Audit & Risk (FAR) Committee which describes the Committee's work and achievements over a 12 month period to March 2021.

I hope this Annual Report demonstrates the importance of the role of the Finance Audit & Risk Committee and the contribution it makes to the Council's overall governance. All meetings are open to the public and I would encourage residents to come along and see the Committee in action.

As well as elected members, the Committee is supported by the Service Director: Resources and the Accountancy Manager. The Policy and Community Engagement Manager supports us in approving and reviewing the Annual Governance Statement. Similarly representatives from the Shared Internal Audit Service (SIAS), the Shared Anti-Fraud Service (SAFS) and our External Auditors (Ernst and Young) regularly attend the meetings of the Committee.

**Councillor Kate Aspinwall**

**June 2021**

## **Role of the Committee**

The purpose of the FAR Committee is to provide independent scrutiny and assurance of finance, audit and internal control matters and to provide effective scrutiny of financial matters. This also encompasses corporate governance and risk management.

The Committee reports to Cabinet. The work of the Committee provides assurance to Cabinet and Council on the annual accounts, risk management, audit and internal control.

The full Terms of Reference for this Committee are provided in the Council's Constitution.

[https://www.north-herts.gov.uk/sites/northherts-cms/files/S.10\\_0.pdf](https://www.north-herts.gov.uk/sites/northherts-cms/files/S.10_0.pdf)

## **Effectiveness**

The Code of Practice for Internal Audit in Local Government 2006 requires an Audit Committee to review its own remit and effectiveness.

The Public Sector Internal Audit Standards (PSIAS) also state that the 'Head of Internal Audit should participate in the committee's review of its own remit and effectiveness.' For the 2019/20 review, this function was delegated to SIAS, who provide internal audit services to the Council. The review was sent to Members of the Committee in July 2020 and concluded that the Committee "is compliant with the CIPFA best practice guidance and is therefore an effective scrutiny body for financial, audit, risk and internal control functions"

The review made the following recommendations to improve compliance with CIPFA best practice:

- Having an Independent Member of the Committee (non-political appointment). This was not progressed last year due to Covid-19. The plan is to progress it this year, with the first step being a change to the constitution to allow an Independent Member of the Committee.
- Achieving Committee independence by minimising the overlap with Overview and Scrutiny Committee and Executive Members/ Deputy Executive Members . This is difficult to achieve with the number of Committees that need Councillors to sit on them. The 2021/22 Committee Membership has made progress in addressing this.
- Members of the Committee are able challenge processes to ensure a balance between risk and control. They are also able to influence what is covered by the Committee. At the end of this report is a plan of work for 2021/22. The Committee will be asked if there is anything that they would like to add to the list. This will need to be areas that are within the Committee's terms of reference, and balanced against the role of the Overview and Scrutiny Committee.
- Ensure that Members of the Committee receive suitable training. In the past this has been addressed through a skills self-assessment process. This did not happen in 2020/21 due to the difficulties of arranging training, particularly early in the pandemic. This will be reinstated for 2021/22. This is also addressed by Officers providing some background to their reports when they present them, particularly early on in the civic year.

A further review is in progress and will be presented to the Committee at the July 2021 meeting.

### **Members of the Committee**

The following Members were appointed to the Committee for 2020/21:

Councillor Kate Aspinwall	Labour	Chairman
Councillor Sam North	Liberal Democrat	Vice-Chairman
Councillor Sam Collins	Liberal Democrat	
Councillor Steve Deakin-Davis	Conservative	
Councillor Morgan Derbyshire	Conservative	
Councillor Adem Ruggiero-Cakir	Labour	
Councillor Michael Weeks	Conservative	

Substitutes:

Councillor George Davies	Conservative
Councillor Ian Moody	Conservative
Councillor Helen Oliver	Labour
Councillor Kay Tart	Labour
Councillor Terry Tyler	Liberal Democrat

To support Members appointed to the Committee, assistance was readily available from relevant Officers.

## Meetings

A work plan was set out at the start of the year, which included regular review of the following:

- Reports of the External Auditor (Ernst and Young)
- Internal Audit Reports (Shared Internal Audit Service – SIAS) to enable monitoring of the delivery of the internal audit service
- Anti-fraud reports (Shared Anti-Fraud Service- SAFS) to enable monitoring of the effectiveness of anti-fraud activity
- Risk Management Updates
- Financial monitoring including Revenue budget and the Investment Strategy (Capital and Treasury)

As and when required, the planned Agenda is supplemented by reports where the Committee has requested additional information or assurance.

The Committee met five times in the year and the following reports were presented and discussed:

<b>15 June 2020</b>
Update to the 2019-20 External Audit Plan- Impacts of Covid-19 Annual Assurance Statement and Internal Audit Annual Report 2019-2020 SIAS update on progress against the 2020-21 audit plan Finance, Audit and Risk Committee Annual Report 2019-20 Revenue Budget Outturn 2019-2020 Investment Strategy (Capital and Treasury) Outturn 2019-20
<b>20 July 2020</b>
Shared Anti-Fraud Service Annual Report 2019-20 and progress against the 2020-21 plan Draft Annual Governance Statement for 2019-20 Risk Management Update and Annual Report on Risk Management 2019-20 Financial Impacts of Covid-19
<b>7 September 2020</b>
SIAS Annual Report for 2019-20 SIAS update on progress against the 2020-21 Audit Plan Annual Governance Statement 2019-20 Draft Audit Results Report from Ernst and Young Statement of Accounts 2019-20 Risk Management Update First Quarter Revenue Monitoring 2020-21 First Quarter Investment Strategy Monitor 2020-21 Medium Term Financial Strategy
<b>3 December 2020</b>
Final Audit Results Report from Ernst and Young SIAS update on progress against the 2020-21 Audit Plan SAFS Anti-Fraud Progress Report Annual Governance Statement 2019-20: Updated Action Plan for 2020-21 Draft Budget 2021/22 Second Quarter Revenue Monitoring 2020-21 Second Quarter Investment Strategy (Integrated Capital and Treasury) 2020-21 Risk Management Update

### 18 January 2021

Annual Audit Letter 2019-20  
Revenue Budget 2021-22  
Investment Strategy (Integrated Capital and Treasury)

### 8 March 2021

Ernst and Young Outline Audit Plan 2021  
SIAS update on progress against the 2020-21 Audit Plan  
Internal Audit Plan for 2021-22  
SAFS Anti-Fraud Plan for 2021-22 and SAFS Anti-Fraud Progress Report for 2020-21  
Local Code of Corporate Governance 2021 and Annual Governance Statement 2019/20 (Action Plan for 2020/21) Update  
Risk Management Update  
Third Quarter Revenue Monitoring 2020-21  
Third Quarter Investment Strategy (Integrated Capital and Treasury) 2020-21

## Main Achievements

Taking the year as a whole, the Finance, Audit & Risk Committee has been successful in maintaining a comprehensive overview of internal control and governance. In addition, it played a key role in financial monitoring by reviewing reports and providing comments and recommendations to Cabinet. This was particularly relevant in relation to Covid-19 and providing oversight of the financial and risk implications.

## Planned work for 2020-21

The Committee will receive the items that ensure it covers its remit. This will include the following regular reports:

- **Annual Governance Statement (AGS).** Review of the draft AGS for 2020/21, with an opportunity to provide comments and input before approving the final version at the following meeting. Approving any actions arising from the AGS and monitoring the achievement of those actions.
- **External Audit (Ernst and Young).** The Committee have approved the Audit Plan for the audit of the 2020-21 accounts. Therefore the first report will be the findings from the 2020-21 Accounts audit. This should support the Committee in approving the Statements of Accounts for 2020-21. Subsequent reports will further confirm the results of the audit through the Final Audit Results Report and the Annual Audit Letter. At the end of the Civic Year the Committee will approve the Audit Plan for the 2021-22 Accounts.
- **Statement of Accounts.** Members of the Committee will be notified when the draft accounts are published on the website, and invited to review and make comments. The Committee will be asked to approve the Final Accounts following the audit by Ernst and Young.
- **Risk Management.** To receive regular reports on risk management and risk reviews that have been carried out. The Committee will comment on any changes to risks and make recommendations to Cabinet.
- **Revenue, Capital and Treasury Monitoring Reports.** To receive quarterly reports on the current position and forecasts. The Committee will provide comments and can make recommendations to Cabinet. The year end reports (and the mid-year Investment Strategy) are referred on to Full Council.

- **Internal Audit (Shared Internal Audit Service).** The Committee have approved the plan for 2021-22 audits. During the year the Committee will receive updates on progress, and any high or critical priority recommendations. Members of the Committee are sent copies of all final audit reports. At the end of the Civic Year the Committee will approve the plan for 2022-23 audits.
- **Fraud (Shared Anti-Fraud Service).** The Committee have approved the plan for fighting fraud in 2021-22. During the year the Committee will receive updates on progress, successes and the measures put in place by the Council and by SAFS. At the end of the Civic Year the Committee will approve the plan for 2022-23.
- **Budgets.** The Committee will review the Council's Medium Term Financial Strategy before it is considered by Cabinet and Council. This will set the context for the detailed budget setting process. The Committee will review the first draft of the 2022-23 Revenue Budget before it is considered by Cabinet in December. It will also review the final Revenue Budget and Investment Strategy, which will be approved by Full Council.

As well as the regular reports. During 2021-22 the Committee will comment on a review of the Financial Regulations and Procurement Rules. The Committee will also be provided with an update on the CIPFA Financial Management Code.

Members of the Committee are also regularly asked to provide ideas for agenda items.

All Members of the Committee are encouraged to carry out a skills self-assessment. This will enable training to be tailored to the needs of Committee Members. Attendance at a meeting of the Risk and Opportunities Management Group would also be beneficial. This will enable Members of the Committee to discharge their responsibilities to the best of their ability.