

Public Document Pack

8 September 2017

Our Ref Finance, Audit and Risk
Committee/21.9.17

Your Ref.

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To: Members of the Committee: Councillor Terry Hone (Chairman), Councillor Simon Harwood (Vice-Chairman), Councillor Ian Albert, Councillor John Bishop, Councillor Jim McNally, Councillor Deepak Sangha and Councillor Terry Tyler.

Substitutes: Councillors Councillor Clare Billing, Councillor John Booth, Councillor Nicola Harris and Councillor Steve Jarvis.

You are invited to attend a

MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE

to be held in the

**LOWER HALL, ICKNIELD CENTRE, ICKNIELD WAY,
LETCWORTH GARDEN CITY**

On

THURSDAY, 21ST SEPTEMBER, 2017 AT 7.30 PM

Yours sincerely,



David Miley
Democratic Services Manager

Agenda **Part I**

Item	Page
1. APOLOGIES FOR ABSENCE	
2. MINUTES To take as read and approve as a true record the minutes of the meeting of this Committee held on the 12 June 2017.	(Pages 1 - 12)
3. NOTIFICATION OF OTHER BUSINESS Members should notify the Chairman of other business which they wish to be discussed by the Committee at the end of the business set out in the agenda. They must state the circumstances which they consider justify the business being considered as a matter of urgency. The Chairman will decide whether any item(s) raised will be considered.	
4. CHAIRMAN'S ANNOUNCEMENTS Members are reminded that any declarations of interest in respect of any business set out in the agenda, should be declared as either a Disclosable Pecuniary Interest or Declarable Interest and are required to notify the Chairman of the nature of any interest declared at the commencement of the relevant item on the agenda. Members declaring a Disclosable Pecuniary Interest must withdraw from the meeting for the duration of the item. Members declaring a Declarable Interest which requires they leave the room under Paragraph 7.4 of the Code of Conduct, can speak on the item, but must leave the room before the debate and vote.	
5. PUBLIC PARTICIPATION To receive petitions and presentations from members of the public.	
6. SHARED ANTI-FRAUD SERVICE (SAFS) - PROGRESS REPORT REPORT OF THE SHARED ANTI-FRAUD SERVICE MANAGER <i>To consider a progress report on the work of the Shared Anti-Fraud Service.</i>	(Pages 13 - 104)
7. SHARED INTERNAL AUDIT SERVICES - ANNUAL REPORT 2016/17 REPORT OF THE SHARED INTERNAL AUDIT SERVICES AUDIT MANAGER <i>To consider the Shared Internal Audit Services Annual Report 2016/17.</i>	(Pages 105 - 120)

- 8. SHARED INTERNAL AUDIT SERVICES - UPDATE ON PROGRESS AGAINST THE 2017/18 AUDIT PLAN** (Pages 121 - 148)
REPORT OF THE SHARED INTERNAL AUDIT SERVICES AUDIT MANAGER

To consider an update on the progress of the Shared Internal Audit Services (SIAS) against the 2017/18 Audit Plan.
- 9. AUDIT RESULTS REPORT FOR NHDC FOR THE YEAR ENDED 31 MARCH 2017** (Pages 149 - 190)
REPORT FROM ERNST AND YOUNG

To consider the Audit Results report for NHDC for the year ended 31 March 2017.
- 10. ANNUAL GOVERNANCE STATEMENT 2016/17** (Pages 191 - 204)
REPORT OF THE SENIOR LAWYER

To consider the Final Annual Governance Statement for 2016/17.
- 11. STATEMENT OF ACCOUNTS 2016/17** (Pages 205 - 296)
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

To consider the Statement of Accounts 2016/17.
- 12. FIRST QUARTER REVENUE BUDGET MONITORING 2017/18** (Pages 297 - 306)
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

To consider the First Quarter Revenue Budget Monitoring report 2017/18.
- 13. FIRST QUARTER CAPITAL PROGRAMME MONITORING 2017/18** (Pages 307 - 322)
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

To consider the First Quarter Capital Programme Monitoring Report 2017/18.
- 14. TREASURY MANAGEMENT FIRST QUARTER 2017/18** (Pages 323 - 340)
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

To consider the First Quarter Treasury Management Monitoring 2017/18.
- 15. RISK MANAGEMENT UPDATE** (Pages 341 - 344)
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

To consider a Risk Management Update.
- 16. FUTURE MEETING - POSSIBLE AGENDA ITEMS**
Introduced by the Chairman.

NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MEETING HELD IN THE LOWER HALL, ICKNIELD CENTRE, ICKNIELD WAY,
LETCWORTH GARDEN CITY ON MONDAY, 12TH JUNE, 2017 AT 7.30 PM

MINUTES

Present: *Councillors (Chairman), Councillor Simon Harwood (Vice-Chairman), John Bishop, Jim McNally, Deepak Sangha, Clare Billing (In place of Ian Albert) and John Booth (In place of Terry Hone)*

In Attendance:

Norma Atlay (Strategic Director of Finance, Policy and Governance), Ian Couper (Head of Finance, Performance and Asset Management), Antonio Ciampa (Accountancy Manager), Jeanette Thompson (Senior Lawyer), Simon Ellis (Development and Conservation Manager), Ian Gourlay (Committee and Member Services Manager), Terry Barnett (Head of Assurance Services, Shared Internal Audit Services) and Suresh Patel (Audit Executive Director, Ernst and Young)

Also Present:

1 member of the public..

1 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors Ian Albert, T.W. Hone (Chairman) and Terry Tyler.

Councillor Clare Billing was substituting for Councillor Albert and Councillor John Booth was substituting for Councillor Hone.

2 MINUTES - 22 MARCH 2017

RESOLVED: That the Minutes of the Meeting of the Finance, Audit and Risk Committee held on 22 March 2017 be confirmed as a true record of the proceedings and be signed by the Chairman.

3 NOTIFICATION OF OTHER BUSINESS

There was no other item of business tabled.

4 CHAIRMAN'S ANNOUNCEMENTS

- (1) The Chairman announced that Members of the public and the press may use their devices to film/photograph, or do a sound recording of the meeting, but he asked them to not use flash and to disable any beeps or other sound notifications that emitted from their devices. In addition, the Chairman had arranged for the sound at this particular meeting to be recorded;
- (2) The Chairman advised that, in line with the Code of Conduct, any Declarations of Interest should be declared immediately prior to the item in question; and
- (3) The Chairman announced that this was the final Finance, Audit and Risk Committee meeting to be attended by Norma Atlay (Strategic Director of Finance, Policy and Governance) prior to her impending retirement. The Chairman thanked Norma for the support and advice she had provided to the Committee over many years and wished her well for her retirement.

5 PUBLIC PARTICIPATION

There was no public participation.

6 ANNUAL EXTERNAL AUDIT AND CERTIFICATION FEES

The Audit Executive Director, Ernst and Young, presented the Annual External Audit and Certification Fees 2017/18.

The Audit Executive Director advised that the report contained a letter which the external auditors were required to provide to the Council each year setting out the level of indicative fees which had been set by the audit regulator. For 2017/18, the indicative audit fee would be £52,037 (the same as for 2016/17). He commented that, from 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 would apply for principal local government and police bodies.

In respect of the indicative 2017/18 fee for housing benefit subsidy claim certification work, the Audit Executive Director stated that this would be based on the actual 2015/16 benefit certification fees. However, as the actual 2015/16 benefit certification fee had not been finalised by Public Sector Audit Appointments LTD (PSAA), they had not yet set the 2017/18 certification fees.

RESOLVED: That the Annual External Audit and Certification Fees 2017/18 be noted.

REASON FOR DECISION: To keep the Committee informed of the level of External Audit and Certification Fees for 2017/18.

7 EXTERNAL AUDIT UPDATE

The Audit Executive Director, Ernst and Young, presented an External Audit update, as at May 2017.

The Audit Executive Director drew particular attention to the 2016/17 audit timetable set out at Paragraph 2.1 of the report. The year end audit would take place for 3 weeks commencing on 24 July 2017, and the final Annual Audit Letter would be submitted to the meeting of the Committee scheduled for 21 September 2017.

RESOLVED: That the External Audit update as at May 2017 be noted.

REASON FOR DECISION: To keep the Committee informed of External Audit activities.

8 INFORMATION NOTE: PLANNING OBLIGATIONS FUNDING (SECTION 106 AND UNILATERAL UNDERTAKINGS)

The Head of Finance, Performance and Asset Management presented an Information Note on Planning Obligations Funding (Section 106 and Unilateral Undertakings), as requested at the previous meeting of the Committee.

The Head of Finance, Performance and Asset Management advised that Planning obligation payments were for facilities and infrastructure and therefore could only be used for capital expenditure. The agreement in relation to the planning obligation was likely to stipulate what the funding would be used for and also set a time period for doing so. Unilateral undertakings did not have a time period for when they needed to be used. Where the funding was not used in accordance with the agreed purpose then it may have to be returned to the developer.

The Head of Finance, Performance and Asset Management commented that, wherever possible, the contributions would be used towards existing planned capital projects to reduce the amount that had to be funded from other Council resources. There should always be a consideration of whether the Council had to provide additional capital funding and the ongoing revenue costs that arose from any new facilities or infrastructure.

The Head of Finance, Performance and Asset Management referred to Table 1 of the report, which provided a summary of planning obligation balances by year and type.

The Head of Finance, Performance and Asset Management stated that the Council held planning obligation amounts in respect of sustainable transport. Hertfordshire County Council (HCC) was kept informed of the amounts being held so that they could incorporate them into their schemes, as they were the highways authority. The Council could also identify and deliver their own schemes that were not highways related, such as providing cycle racks.

The Head of Finance, Performance and Asset Management explained that the Council also held balances in relation to Police and Healthcare (£211,000 as at 31 March 2017). These were included within the 'other' total in Table 1. Relevant contacts at these organisations were made aware of the balances that were available. Rural balances were made up of lots of small amounts allocated to each parish area. This meant that it could take a long time to identify projects that met the requirements and did not require the Council to contribute additional capital funding.

The Development and Conservation Manager answered a number of Members' questions in respect of the Information Note

RESOLVED: That the Information Note on Planning Obligations Funding (Section 106 and Unilateral Undertakings) be noted.

REASON FOR DECISION: To respond to a request made by the Committee.

9 THE EFFECTIVENESS OF THE FINANCE, AUDIT AND RISK COMMITTEE

The Head of Assurance Services (SIAS) presented a report on the effectiveness of the Finance, Audit and Risk Committee.

The Head of Assurance Services advised that the review had evidenced that the Committee was substantially compliant with the CIPFA best practice approach and consequently was an effective scrutiny body for financial, audit, risk and internal control matters. This report provided good levels of assurance to support the Council's Annual Governance Statement 2016/17.

Notwithstanding the above comment, the Head of Assurance referred to a series of proposed recommendations set out in the report at Paragraph 4.2 in respect of Learning and Development; Committee Business; Communication; and Overall Committee Effectiveness.

The Committee was supportive of all of the recommendations, and it was agreed that the Strategic Director of Finance, Policy and Governance and Head of Finance, Performance and Asset Management, in consultation with the Chairman and Vice-Chairman of the Committee, be authorised to complete the "Management Response" column of the Committee Action Plan prepared by SIAS and attached as Appendix B to the report.

The Head of Finance, Performance and Asset Management stated that he was in the process of arranging some CIPFA training to be held jointly with other neighbouring authorities.

RESOLVED:

- (1) That, in respect of the SIAS recommendations regarding the effectiveness of the Finance, Audit and Risk Committee, the following be supported:

(i) Learning and Development

- All Members complete a skills self-assessment to identify areas of strength and training needs;
- A training programme is developed to satisfy any training needs identified;
- An induction programme is implemented for all new Members; and
- The SIAS circulates Shared Learning Newsletters to Committee Members to support ongoing learning.

(ii) Committee Business:

- Proposed agendas are scrutinised to confirm that they are risk-based, focussed and manageable;

Monday, 12th June, 2017

- Information presented is confirmed as being in a format that allows Members to focus on key risk, control and governance issues which contribute to the achievement of the Council's objectives; and
- Members challenge processes, as appropriate, to ensure there is an appropriate balance between risk and control given the climate in which the Council now operates.

(iii) Communication:

- More regular meetings are held outside the Committee schedule between the Chairman of the Committee and Committee contributors.

(iv) Overall Committee Effectiveness:

- Consideration be given to a Peer review / self-evaluation; and

- (2) That the Strategic Director of Finance, Policy and Governance and Head of Finance, Performance and Asset Management, in consultation with the Chairman and Vice-Chairman of the Committee, be authorised to complete the "Management Response" column of the Committee Action Plan prepared by SIAS and attached as Appendix B to the report.

REASON FOR DECISION: To ensure that the Council complies with the requirement in the Code of Practice for Internal Audit in Local Government 2006 in that an Audit Committee reviews its own remit and effectiveness.

10 ANNUAL ASSURANCE STATEMENT AND INTERNAL AUDIT REPORT 2016/17

The Head of Assurance Services (SIAS) presented the Annual Assurance Statement and Internal Audit Report 2016/17.

In respect of the Annual Assurance Statement 2016/17, the Head of Assurance Services had concluded that SIAS 'generally conforms' to the Public Sector Internal Audit Standards (PSIAS), including the Definitions of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. 'Generally conforms' was the highest rating and meant that SIAS had a charter, policies and processes assessed as conformant to the Standards and was consequently effective.

The Head of Assurance Services commented that SIAS had issued a Substantial Assurance opinion on both the Council's financial and non-financial systems. SIAS had also concluded that the corporate governance and risk management frameworks substantially complied with the CIPFA/SOLACE best practice guidance on corporate governance. This conclusion was based on the work undertaken by the Council and reported in its Annual Governance Statement for 2016/17.

In respect of the SIAS Performance Indicators for 2016/17, the Head of Assurance Services stated that 91% of billable days had been delivered (against a target of 95%) and 82% of projects had been completed to draft report stage (against a target of 95%). The figures reflected the staffing challenges faced by SIAS throughout 2016/17, which it was hoped would be substantially addressed through a forthcoming staffing restructure.

The Head of Assurance Services referred to the proposed 2017/18 SIAS Audit Charter, attached as Appendix D to the report. The review of the Charter did not result in any fundamental changes to the 2016/17 version, although a number of minor amendments had been made.

The Strategic Director of Finance, Policy and Governance provided a management assurance that the scope and resources for internal audit had been subject to no inappropriate limitations in 2016/17.

RESOLVED:

- (1) That the Annual Assurance Statement and Internal Audit Report 2016/17 be noted;
- (2) That the results of the self-assessment, as required by both the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP) be noted;
- (3) That the SIAS Audit Charter be accepted; and

- (4) That the assurance from management that the scope and resources for internal audit had been subject to no inappropriate limitations in 2016/17 be noted.

REASON FOR DECISION: To review and note the Annual Assurance Statement and the Internal Audit Annual Report for 2016-2017.

11 SHARED INTERNAL AUDIT SERVICES - UPDATE ON PROGRESS AGAINST THE 2017/18 AUDIT PLAN

The Head of Assurance Services (SIAS) presented an update report on progress against the 2017/18 Audit Plan, up to 19 May 2017.

The Head of Assurance Services advised that, as at 19 May 2017, 11% of the 2017/18 Audit Plan days had been delivered. Appendix A to the report provided a status update on each individual project within the Audit Plan.

As requested by the Committee at its meeting held in March 2017, the Head of Assurance Services stated that a summary of the Medium Priority SIAS audit recommendations was set out in the table at Paragraph 2.4 of the report.

The Head of Assurance Services drew attention to Appendix B to the report, which detailed the High Priority audit recommendations. In respect of the High Priority recommendation pertaining to the Area Committee Grants audit, he explained that this recommendation had been removed as it had been implemented. The other High Priority recommendations would be carried forward to the September 2017 meeting of the Committee.

In respect of the number of 2017/18 audits yet to be planned, the Head of Assurance Services clarified that this figure should be 26 (not 28 as stated in the report).

The Head of Assurance Services referred to the performance indicators for SIAS set out in Paragraph 2.10 of the report and commented that, with the upheaval resulting from the forthcoming staffing restructure, 2017/18 promised to be another very challenging year for the service.

RESOLVED:

- (1) That the Internal Audit Progress Report for the period to 19 May 2017 be noted; and
- (2) That the implementation status of High Priority recommendations be noted.

REASON FOR DECISION: To allow the Committee to review, comment and challenge the current status of the Internal Audit Plan.

12 RISK MANAGEMENT UPDATE AND ANNUAL REPORT ON RISK MANAGEMENT 2016/17

The Head of Finance, Performance and Asset Management presented a report which provided an update on Risk Management and the Annual Report on Risk Management 2016/17.

The Head of Finance, Performance and Asset Management advised that, in March 2017, officers reviewed the "Increased homelessness and use of B&B" risk and reduced the likelihood risk score to "Medium" (2). Use of B&B accommodation had consistently reduced over the last year and at the time of the review, there were no homeless households being accommodated in B&B. The current level of homelessness within the District was being managed using available temporary accommodation units. However, officers noted that this was a challenging issue and that demand could be unpredictable. Therefore, the risk would be subject to quarterly reviews. The proposed change would move the Homelessness risk from a 7 to a 5 on the Risk Matrix.

In respect of the "Office Accommodation" risk, the Head of Finance, Performance and Asset Management commented that Willmott Dixon had commenced work on site on 6 March 2017. They were currently undertaking asbestos removal and demolition works and were on schedule. Some unforeseen issues had been identified during the works and these were being assessed. Any solutions required would be financed from existing budgets. In view of the progress made and the Council's commitment to complete the refurbishment, Officers had reduced the Likelihood risk score to "2-

Medium. This proposed change would move the Office Accommodation risk from a 7 to a 5 on the Risk Matrix.

With regard to the "Sale of Materials" sub-risk, the Head of Finance, Performance and Asset Management stated that the likelihood risk score had been reduced to 2-Medium, as a new contract had been procured for mixed recycling services until May 2018. Currently, a saving against budget was predicted. This proposed change had no effect on the placement of the Waste and Street Cleansing Contract Renewal risk, which remained as 8 on the Risk Matrix.

The Head of Finance, Performance and Asset Management referred to the Annual report on Risk Management 2016/17, as attached at Appendix B to the report. He summarised the significant changes to the Top Risks which had occurred throughout the year, and drew attention to work carried out on the Insurance Review, Business Continuity and Health and Safety.

In respect of the "Increased homelessness and use of B&B" risk, a Member asked for details of the Homelessness Reduction Bill. The Committee was informed that this Bill had received Royal Assent in April 2017. Officers undertook to provide Members of the Committee with details as to what was proposed in the Bill.

RECOMMENDED TO CABINET:

- (1) That the reduction in the score for the "Increased Homelessness and use of B & B" risk from a 7 to a 5 be approved;
- (2) That the reduction in the score for the "Office Accommodation" risk from a 7 to a 5 be approved;
- (3) That a reduction in the likelihood score for the "Sale of Materials" sub-risk to a 2 – Medium – be approved; and
- (4) That the Annual Report on Risk and Opportunities Management 2016/17, as set out at Appendix B to the report, be supported and referred to Council for approval.

REASON FOR DECISION: To comply with the Risk and Opportunities Management Strategy, which stipulates that an Annual Risk Management report is taken to Council.

13 FINANCE, AUDIT AND RISK COMMITTEE ANNUAL REPORT 2016/17

The Committee received the Finance, Audit and Risk Committee Annual Report for 2016/17, prepared by the former Chairman of the Committee (Councillor Michael Weeks).

RECOMMENDED TO COUNCIL: That the Annual Report of the Finance, Audit and Risk Committee 2016/17 be noted.

REASON FOR DECISION: To comply with the requirements of the Council's Constitution.

14 DRAFT ANNUAL GOVERNANCE STATEMENT 2016/17

The Senior Lawyer presented a report in respect of the Draft Annual Governance Statement (AGS) 2016/17. A summarised version of the draft AGS was included as Appendix A to the report.

The Senior Lawyer advised that reporting the draft AGS and Action Plan for 2016/17 at this stage provided an opportunity for the Committee to assess and comment on the draft, before it was finalised and brought back for approval in September 2017. She explained that the governance review and draft AGS format was based on a (new) 2016 CIPFA/SOLACE Framework. For this reason, there had been direct liaison with a CIPFA Governance Advisor on how to approach the new assessment and format of the AGS.

The Senior Lawyer commented that the Council's Senior Management Team (SMT) had provided details of systems and examples that met the 2016 Framework Principles and a sub-group of SMT had scored the arrangements on an assurance level basis. Overwhelmingly, the conclusions against the 2016 Principles were "Substantial". Actions were included to address any perceived weaknesses and these had been detailed in the draft AGS Action Plan (the final page to Appendix A of the report).

The Senior Lawyer emphasised that account would be taken of any comments made by the Shared Internal Audit Service (SIAS), Ernst & Young, the Shared Anti-Fraud Service (SAFS) and the Committee on the draft AGS before it was finalised for the September 2017 Committee approval process.

RESOLVED: That the Draft Annual Governance Statement/Action Plan for 2016/17 (Appendix A to the report) be noted, and any further comments on the drafts be provided to the Senior Lawyer by the end of July 2016, in order for them to be finalised and approved (in September 2017).

REASON FOR DECISION: To offer Members of the Committee the opportunity to assess and comment on the Annual Governance Statement before it is finalised; and to provide the Committee with assurances that NHDC is examining and, where necessary, improving its governance arrangements.

15 REVENUE BUDGET OUTTURN 2016/17

The Accountancy Manager presented the report of the Strategic Director of Finance, Policy and Governance in respect of the Revenue Budget Outturn 2016/17, and advised that the report was before this Committee for consideration prior to presentation to Cabinet on 13 June 2017.

The Accountancy Manager advised that the final Revenue Budget outturn for 2016/17 was £15.974million. This represented an underspend of £1.294million against the working budget of £17.268million.

The Accountancy Manager commented that Table 2 of the report listed the most significant variances. One of the most significant related to the Vacancy Control savings target, which had been overachieved due to the introduction of alternative options for service delivery.

The Accountancy Manager explained that a further £255,000 of the underspend had been carried forward into 2017/18 which, together with the underspend reported for the third quarter of 2016/17, resulted in a total carry forward figure of £642,000.

The Accountancy Manager stated that the efficiency target of £357,000 agreed by the Council in February 2016 had been overachieved by £43,000, primarily due to additional income generated by the Legal Services Team.

The Accountancy Manager advised that NHDC had remained in the Hertfordshire Business Rate pool for 2016/17, with the expectation that this would reduce the levy amount required. This was the case in 2016/17, with the Council benefiting from a pooling gain of £154,000 in the form of a reduced levy contribution, with the calculated levy reduced from a total of £239,000 to £85,000.

The Accountancy Manager commented that, at the end of 2016/17, the Council had retained a total of £3.227million of Business Rates income, £819,000 more than had been projected to this point. This had been primarily due to the Council's Business Rates Collection Fund benefiting from a change in the discretionary reliefs issued. In 2015/16, NHDC had issued retail reliefs worth £760,000. Any compensation received from Central Government for this relief would be posted to the General Fund and transferred to an earmarked reserve to fund the payment of the deficit on the Collection Fund. The equivalent retail relief issued in 2016/17, however, reduced to £16,000 due to a change in the national scheme. This reduction in relief issued therefore increased the level of Business Rates income in the Collection Fund and contributed to increasing the amount that the Council retained.

The Accountancy Manager referred to Table 5 in the report, which showed a General Fund balance at 31 March 2017 of £8.235million, higher than projected. The Council had a number of earmarked reserves which could be used to fund revenue expenditure. These were detailed in Table 6 of the report. A total of £1.160million had been contributed to the reserves in 2015/16, and a total of £1.156million had been used to fund expenditure. Cabinet was to be asked to recommend to Council that the net contribution to reserves of £4,000 be approved, which would leave a total balance in earmarked reserves at 31 March 2017 of £4.609million.

RESOLVED: That the Revenue Budget Outturn 2016/17 be noted.

REASON FOR DECISION: To provide an opportunity for the Committee to comment as appropriate on the Revenue Budget Outturn 2016/17.

16 CAPITAL PROGRAMME OUTTURN 2016/17

The Accountancy Manager presented the report of the Strategic Director of Finance, Policy and Governance in respect of the Capital Programme Outturn 2016/17, and advised that the report was for consideration prior to presentation to Cabinet on 13 June 2017.

The Accountancy Manager advised that the final Capital Programme outturn for 2016/17 was £5.686million, some £3.745million less was reported for the Third Quarter. The vast majority of the underspend was due to the re-profiling of existing of existing schemes from 2016/17 to 2017/18 onwards. Table 2 in the report provided a breakdown of the schemes which had been re-profiled.

In respect of the most significant proposal regarding the request for the further capitalisation of Pension Fund Contributions, the Accountancy Manager stated that approval was required from the Department for Communities and Local Government (DCLG) to grant a capitalisation request, where capital funding was used for what would usually be considered to be revenue purposes. When the Council last made this type of application (3 years ago) it was granted. This time the application had been denied on the basis that the Council's reserves would still be above the minimum level at the end of 2020/21. Officers had highlighted to the DCLG that this was dependent on the delivery of significant savings and had asked them to reconsider their position on the matter.

The Accountancy Manager referred to Table 4 in the report, which described how the Council had funded the 2016/17 Capital Programme (through useable capital receipts; set aside receipts; Section 106 receipts; and other third party grants and contributions). At the end of 2016/17, the Council had just over £20million in capital reserves to fund schemes in future years.

RESOLVED: That the Capital Programme Outturn 2016/17 be noted.

REASON FOR DECISION: To provide an opportunity for the Committee to comment as appropriate on the Capital Programme Outturn 2016/17.

17 ANNUAL TREASURY MANAGEMENT REVIEW 2016/17

The Head of Finance, Performance and Asset Management presented the report of the Strategic Director of Finance, Policy and Governance in respect of the Annual Treasury Management Review 2016/17, and advised that the report was for consideration prior to presentation to Cabinet on 13 June 2017.

The Head of Finance, Performance and Asset Management advised that, during 2016/17, the Council had generated £0.444million of interest from its investments. This was slightly above the budgeted total of £0.440million. The Council continued to invest in smaller Building Societies (subject to checks that compared the size of the Society with that of the investment) but did not invest outside of the United Kingdom.

The Head of Finance, Performance and Asset Management stated that the Council had repaid £1.035million of borrowing during the year as it had matured. The Council had £0.480million of remaining borrowing. This borrowing was at a fixed rate for a fixed period. The premium from repaying this borrowing early meant that it was not worthwhile.

The Committee noted that the Council complied with its legislative and regulatory requirements. There was one minor breach of the limit that was set on the percentage that could be invested with a single counterparty.

The Head of Finance, Performance and Asset Management explained that the forecast was that investment income would continue to fall due to market conditions and balances being used to fund the Capital Programme.

RESOLVED: That the Annual Treasury Management Review 2016/17 be noted.

REASON FOR DECISION: To provide an opportunity for the Committee to comment as appropriate on the Annual Treasury Management Review 2016/17.

18 MEDIUM TERM FINANCIAL STRATEGY 2018-2023

The Head of Finance, Performance and Asset Management presented the report of the Strategic Director of Finance, Policy and Governance in respect of the process, assumptions and policies to be used in the Medium Term Financial Strategy (MTFS) 2018-2023.

The Head of Finance, Performance and Asset Management advised that the draft MTFS will be considered by Cabinet at its meeting in July 2017, and recommended on to Council in August 2017 for adoption. The MTFS provided an estimate of the funding available to the Council and then details the assumptions and policies on which these forecasts were based. The report gave the Committee a chance to comment on the process, assumptions and policies to be used in the MTFS. These comments would be considered by the Executive Member for Finance and IT and the Cabinet in determining the draft MTFS for 2018-23.

The Head of Finance, Performance and Asset Management stated that Table 1 in the report showed the forecasts for funding, expenditure and use of balances that were part of the budget agreed by the Council in February 2017.

The Head of Finance, Performance and Asset Management explained that it had been expected that there would be a move to 100% Business Rates Retention by 2019/20, but the General Election in June had meant that the required legislation for this would now not be in place in time for this to take place. It was also possible that this legislation would not be a priority for a new Government, and so it may be the case that it be delayed until at least 2020/21.

The Head of Finance, Performance and Asset Management commented that the forecast of Business Rates was based on what Central Government determined to be the Council's baseline need, which was a prudent assumption. The Council did get to retain some of the growth in Business Rates and the assumption to reflect this could be changed. However, any growth was highly uncertain and as well as being affected by the number of businesses in the District, was also affected by collection rates, revaluations and the status of appeals.

The Head of Finance, Performance and Asset Management advised that, for the 2017/18 budget, the Council had agreed to a £5 increase in Council Tax for a Band D property (2.4%). Council Tax for other bands had increased by the same percentage. This was the maximum amount that Council Tax could be increased by without the need for a local referendum. The current forecasts were based on this £5 per year increase continuing. The increase in rate of Council Tax was combined with an assumption of a 99% collection rate and a 0.5% growth in the Council Tax base (the number of properties in the area which were liable for Council Tax). However, the Council Tax base growth assumption could be increased.

The Committee noted that last year's MTFS determined the following strategies for reducing expenditure and/or increasing income:

- Transformation of services so that they could be delivered at lower cost. This may involve up-front investment to allow the transformation to take place. This could include sharing of services with other organisations to make best use of resources from economies of scale. There may be some changes to the way that residents received services; and
- Looking at ways to make use of the Council's assets (e.g. capital resources) to generate revenue income (or reduce revenue costs). This would include increasing investment returns from the Council's assets.

The Head of Finance, Performance and Asset Management stated that the budget for 2017/18 was set based on having a General Fund balance of £6.4million at the start of the year, and by the end of 2020/21 this would be reduced to £3.2 million. By 2020/21, the forecast income and spend would be approximately equal. The actual General Fund position at the start of 2017/18 was £8.2million. This could give the Council the opportunity to plan to balance its funding over a longer period.

The Head of Finance, Performance and Asset Management referred to some of the other policies contained within the MTFS that may need to be reviewed as part of the refresh for 2018-23. These were:

- Pay inflation (expenditure) – currently assumed at 1% per year;
- General inflation (expenditure) – currently assumed to be zero;

- Discretionary fees and charges (income) – increases currently set at Consumer Price Index + 2%; and
- Annual reappraisal of all capital schemes – to ensure that they continued to meet Council Priorities and offered Value for Money.

In debating the report, the Committee agreed that the following work be undertaken:

- Pay Inflation – modelling work on the impact of pay inflation in excess of the 1% increase currently assumed, particularly in the light of the impact of the national pay review and the salaries paid by neighbouring authorities; and
- Capital – modelling work on the best use of Capital resources and the tolerances of risks associated with potential significant Capital Investment on schemes aimed at generating revenue income.

RESOLVED:

- (1) That work be undertaken on the following aspects of the Medium Term Financial Strategy 2018-2023:
 - Pay Inflation – modelling work on the impact of pay inflation in excess of the 1% increase currently assumed, particularly in the light of the impact of the national pay review and the salaries paid by neighbouring authorities;
 - Capital – modelling work on the best use of Capital resources and the tolerance of risks associated with potential significant Capital Investment on schemes aimed at generating revenue income; and
- (2) That any further Member comments on the Medium Term Financial Strategy 2018-2023 be provided to the Head of Finance, Performance and Asset Management as soon as possible, and by no later than 23 June 2017.

REASON FOR DECISION: To allow Members the opportunity to comment on the process, assumptions and policies to be used in the Medium Term Financial Strategy 2018-2023.

19 INFORMATION NOTE: CAR PARKING EXPENDITURE AND INCOME 2014/15, 2015/16 AND 2016/17

The Head of Finance, Performance and Asset Management presented an Information Note in respect of car parking expenditure and income for 2014/15, 2015/16 and 2016/17. He stated that the overall direct and allocated costs of the Council's car parks over those 3 years were: 2014/15 - £848,000; 2015/16 - £843,000; and 2016/17 - £866,000..

The Head of Finance, Performance and Asset Management advised that some of the reasons for differences in costs between years were as follows:

- The car parking enforcement team was fully staffed in 2014/15, but had struggled to recruit both in 2015/16 and 2016/17;
- The failure of the cash collection contractor during 2014/15 meant that they were not paid for part of the year;
- Maintenance costs varied with need between years;
- A number of rating assessments were resolved in 2016/17, which resulted in lower business rates for that year and rebates for previous years;
- There was a rent review for Bancroft Car Park that was settled in 2016/17, and included a back-dated increase as well; and
- Two car parks at Norton Common were made chargeable in 2016/17, which increased the costs of maintenance, cash collection and equipment.

The Head of Finance, Performance and Asset Management commented that the costs of bad debt provision included all those Penalty Charge Notices that were (or may) not be collected. It included where:

- The Penalty Charge had been waived. This was generally for first instances where the car park user could show that they had a ticket, pass or Blue Badge, but that it had not been displayed correctly;

Monday, 12th June, 2017

- The car park user was able to demonstrate that the Penalty Charge should not have been issued;
- The Penalty Charge was written off as it was determined that the costs in pursuing payment were not worthwhile; and
- For amounts outstanding at the end of the year, a proportion was set aside to reflect the potential for non-receipt.

The Head of Finance, Performance and Asset Management referred to Appendix B to the report, which showed the income by car park for each of the three years 2014/15, 2015/16 and 2016/17, as well as the operating surplus/ deficit.

RESOLVED: That the Information Note in respect of Car Parking expenditure and income for 2014/15, 2015/16 and 2016/17 be noted.

REASON FOR DECISION: To respond to a request made by the Committee.

20 DRAFT STATEMENT OF ACCOUNTS 2016/17 - NARRATIVE REPORT

The Head of Finance, Performance and Asset Management presented the report of the Strategic Director of Finance, Policy and Governance in respect of the Draft Statement of Accounts 2016/17. He commented that the final Statement of Accounts would be approved at the September 2017 meeting of the Committee, but that the draft narrative report gave Members the opportunity to comment at an earlier stage.

The Head of Finance, Performance and Asset Management explained that there had been a change to the way that the Council was required to present information in the Statement of Accounts. This was known as 'Telling the Story'. The main change was to the Comprehensive Income and Expenditure Statement (CIES). Previously, service income and expenditure had been presented in a way prescribed by CIPFA. It would now be presented in the same way that the Council showed it in its quarterly monitoring reports. There was also a new note to the accounts which provided a link between how the Council was funded, how it set its budget and the CIES.

The Head of Finance, Performance and Asset Management stated that when the draft Accounts were made available for public inspection, Members of the Committee would be notified of this and sent a link to where they were published on the Council's website. This would give Members a chance to review the draft Accounts.

RESOLVED: That Members of the Committee be requested to provide the Head of Finance, Performance and Asset Management with any comments they may have on the Draft Statement of Accounts 2016/17 Narrative Report as soon as possible, but by no later than the week ending 23 June 2017.

REASON FOR DECISION: To allow Members the opportunity to comment on the Draft Statement of Accounts 2016/17 Narrative Report.

21 FUTURE MEETINGS - POSSIBLE AGENDA ITEMS

The Chairman requested that should any Members have any suggestions for agenda items at future meetings would they please advise himself, officers or the Committee Clerk.

The meeting closed at 9.40 pm

Chairman at the meeting on
Monday, 12 June 2017

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FINANCE, AUDIT & RISK COMMITTEE 21 SEPTEMBER 2017

*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 6

TITLE OF REPORT: SHARED ANTI-FRAUD SERVICE (SAFS) – PROGRESS REPORT

REPORT OF SHARED ANTI-FRAUD SERVICE MANAGER

The above report is attached.

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**North Hertfordshire District Council
Shared Anti-Fraud Service
Report
September 2017**

Recommendation

Members are recommended to:

Note the progress of the Shared Anti-Fraud Service progress against the Anti-Fraud Action Plan 2017/2018.

Note the action taken by the Council to prevent and deter fraud and protect public funds.

Contents

Introduction

1. Background
2. Summary of SAFS Activity at NHDC 2017/2018
3. Anti-Fraud Action Plan & Reporting 2017/2018
4. Transparency Code Data & 2016/2017 & Anti-Fraud Activity

Appendices

- A. NHDC/SAFS Anti-Fraud Action Plan 2017/2018
- B. 1st Quarter progress against delivery of the 2017/2018 Plan
- C. SAFS & NHDC performance against Anti-Fraud Action Plan 2016/2017

Introduction

This report provides details of the work undertaken to protect the Council against the threat of fraud and the Council's Anti-Fraud Action plan for 2017/2018. The Committee is asked to note this work.

Recent reports have been provided to officers and are being used by SAFS to ensure that the Council is aware of its own fraud risks and finding ways to mitigate or manage these effectively wherever possible.

These reports include:

APPENDIX D - *Fighting Fraud and Corruption Locally 2016–2019 Strategy*, Produced by CIPFA in March 2016 and supported by CLG. The new strategy estimates annual fraud losses in local government at around £2.1bn.

APPENDIX E - *UK Annual Fraud Indicator*. Produced by PKF, Portsmouth University and Experian in May 2016, estimates the risk of fraud losses for local government in excess of £7bn per annum (this does not include fraud in local taxation or care services).

1. Background

- 1.2 According to reports from CIPFA, National Audit Office (NAO), Cabinet Office and the Private Sector, fraud risk across local government in England exceeds £2billion each year, with some more recent reports indicating levels considerably higher.
- 1.3 The Cabinet Office, Department for Communities and Local Government, NAO, and CIPFA have also issued advice and best practice guidance to support local councils in the fight to reduce the risk of fraud and prevent loss to the public purse. This advice includes the need for councils to be vigilant in recognising their fraud risks and to invest resources in counter fraud activities that deliver savings.
- 1.4 It is essential that, to support this service, the Council has in place a robust framework to prevent and deter fraud, including effective strategies and policies, as well as plans to deal with the investigation and prosecution of identified fraud.
- 1.5 North Hertfordshire District Council is a founding Partner of the Shared Anti-Fraud Service (SAFS). SAFS works across the whole Council dealing with all aspects of fraud, from prevention to prosecution, working with staff at all levels across all services.

2. Activity 2017/2018

Staffing

- 2.1 The SAFS Team is composed of fourteen staff based at the County Council offices in Stevenage.
- 2.2 Each SAFS Partner receives dedicated support and response from the Team. At present the most effective way to do this is by allocating officers to work exclusively for each Partner. These officers act as the first point of contact for that Partner's services and will assist in developing relationships at a service level, deliver training, and working on local pilot projects. SAFS Officers have access to Council offices, officers and systems to conduct their enquiries.

Fraud Awareness and Reported Fraud

- 2.3 One of the key aims for the Council is to create an 'Anti-Fraud' culture that will deter fraud; encourage senior managers and Members to consider the risk of fraud when developing policies or processes to prevent fraud occurring; encourage staff and the public at large to understand the impact of fraud on the Council; and to report fraud where it is identified.
- 2.4 The SAFS webpage – www.hertfordshire.org/reportfraud includes an online reporting tool for staff and public alike. A confidential fraud hotline (0300 123 4033) and a secure email account are also available for reporting fraud – fraud.team@hertscgcsx.gov.uk. These contact details have been added to the Council's website. These functions compliment the Council's own in-house Whistleblowing reporting procedures.

- 2.1 During the 1st Quarter 2017/2018 SAFS received 37 allegations of fraud affecting Council services. 76 Live cases were carried forward from 2016/2017.

Table 1. Types of fraud being reported (17/18)

Council Tax Discount Fraud	Housing Fraud	Other Fraud	Total
35	2	0	37

Table 2. Who is reporting Fraud (17/18)

Fraud Reported by Staff	Reports from Public	Other	Total
30	7	0	37

- 2.2 At this time many cases raised for investigation within the financial year 2017/2018 are still in the early stages so it is not possible to report yet on the final or potential outcome of every case referred. A report will be provided to this committee in March 2018 detailing the number of allegations of fraud received, outcomes from investigations and the value of fraud losses/ fraud prevented.

SAFS/NHDC Pilots & Projects

- 2.3 SAFS have worked with the Council's Benefits & Revenue Services to identify potential fraud around discounts and exemptions. The Council is now able to level civil and financial penalties for false claims for discounts and exemptions, and has started to do so where appropriate and in line with the Prosecution and Sanctions Policy.
- 2.4 Since April 2016 SAFS has been working with the DWP to investigate fraud affecting national benefits linked to local benefits such as Council Tax Support. North Hertfordshire District Council is one of five pilot sites across the UK for this type of work. This provides additional assurance to the Council about its ability to deal with Housing Benefit fraud.
- 2.5 SAFS have delivered a county-wide framework to identify Council Tax fraud, affecting discounts and exemptions, empty homes, and Council Tax Support schemes. The Council has been able to make use of this framework from April 2017.
- 2.6 SAFS have also completed the Council's response to CIPFAs *Corruption & Fraud Tracker* for 2016/2017, which will inform CIPFAs report on the local government response to the risk of fraud and how the Council is meeting the recommendations of the *Fighting Fraud Locally Strategy 2016-2019*.

3. 2017/2018 Anti-Fraud Action Plan

- 3.1 The Council has in place an Anti-Fraud and Corruption Strategy amongst other counter fraud policies and procedures. These documents set out the Council's position, and include advice to Members, senior management and staff about reporting suspected

fraud. These will all be reviewed in 2017/18 but at present these documents meet much of the best practice guidance from CIPFA.

- 3.2 A copy of the 2017/2018 Anti-Fraud Action Plan is attached at **Appendix A**. The Action Plan covers all areas recommended by CIPFA to ensure that the Council acknowledges the risk of fraud, its own responsibility to combat these risks, and takes appropriate action to prevent/deter/pursue fraud. The Plan also includes assurance that the Council will benefit from a positive return on its investment in the SAFS Partnership.
- 3.3 Progress against the Plan in 1st Quarter of the year can be seen at **Appendix B**.
- 3.4 SAFS will provide a final report to this Committee in March 2018 on the performance against the 2017/2018 Anti-Fraud Action Plan and a proposed Action Plan for 2018/2019. This will then form a rolling programme from 2018 onwards.

4 Transparency Code- Fraud Data and Anti-Fraud Work 2016/2017

- 4.1 SAFS and the Council developed anti-fraud arrangements and a plan for dealing with these in 2016/2017. This committee reviewed this plan in March 2016. Performance against the details of this plan and SAFS Performance against its KPIs for NHDC can be found at **Appendix C**.
- 4.2 The Department for Communities and Local Government (DCLG) published a revised Transparency Code in February 2015, which specifies what open data local authorities must publish.

The Code also recommends that local authorities follow guidance provided in the following reports/documents:

CIPFA: *Fighting Fraud Locally Strategy*

(https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/118508/strategy-document.pdf).

The National Fraud Strategy: *Fighting Fraud Together*

(<https://www.gov.uk/government/publications/nfa-fighting-fraud-together>)

CIPFA Red Book 2 – *Managing the Risk of Fraud – Actions to Counter Fraud and Corruption*

(http://www.cipfa.org/-/media/files/topics/fraud/cipfa_corporate_antifraud_briefing.pdf)

- 4.3 The Code requires that Local Authorities publish the following data in relation to Fraud. The response for North Hertfordshire District Council for 2016/2017 is in **Bold**:

- 3 Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers. **Nil. North Hertfordshire District Council is a Partner to the Hertfordshire Shared Anti-Fraud Service and use the National Anti-Fraud Network (NAFN) to conduct such enquiries on their behalf.**

- 4 Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud. **1.5 FTE Staff**
- 5 Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists. **1.5 FTE**
- 6 Total amount spent by the authority on the investigation and prosecution of fraud. **£75,000**
- 7 Total number of fraud cases investigated. **49 Cases investigated and closed in year**

4.4 In addition, the Code recommends that local authorities publish the following (*for North Hertfordshire District Council Fraud/Irregularity are recorded together and not separated*):

- Total number of cases of irregularity investigated- **See 7 above**
- Total number of occasions on which a) fraud and b) irregularity was identified. **32 occasions where fraud/irregularity identified**
- Total monetary value of a) the fraud and b) the irregularity that was detected. **£141,000**
- Total monetary value of a) the fraud and b) the irregularity that was recovered. **Not recorded.**

**North Hertfordshire District Council
Anti-Fraud Plan 2017/2018**

in partnership with

Hertfordshire Shared Anti-Fraud Service



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The National Context	4
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SAFS Rsources for 2017/2018.....	6
SAFS KPIs for NHDC 2017/2018.....	7
SAFS Standards of Service.....	8

Introduction

This plan supports the Council's Anti-Fraud and Corruption Strategy by ensuring that the Council, working in partnership with the Hertfordshire Shared Anti-Fraud Service (SAFS), has in place effective resources and controls to prevent and deter fraud as well as investigate those matters that do arise.

The Council's Policy states that it expects Members and staff to adhere to the seven Nolan Principles:

Selflessness Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.

Integrity Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

Objectivity In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands it.

Honesty Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership Holders of public office should promote and support these principles by leadership and example.

This plan includes objectives and key performance indicators to measure the Council's effectiveness against its Policy and meet the best practice guidance/directives from central government department such as Department for Communities and Local Government and other bodies such as National Audit Office (NAO) and the Chartered Institute for Public Finance and Accountancy (CIPFA).

National Context.

The Chartered Institute for Public Finance and Accountancy (CIPFA) ***Local Government Counter Fraud and Corruption Strategy (2016-2019)*** included a summary of fraud losses across councils in England.

- Actual fraud losses reported by local government in 2013 totalled £207m (this excludes housing benefit)
- Hidden fraud loss for local government was estimated at £1.9bn.
- As admitted previously by the National Fraud Authority in 2013 the scale of fraud against local government is large, but difficult to quantify with precision.
- The strategic response to fraud threats contains three main principles 'Acknowledge/ Prevent/ Pursue'.

In its 2015 publication '***Code of practice on managing the risk of fraud and corruption***' CIPFA highlights five principles outlining public bodies responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management

The five key principles of the code are to:

- Acknowledge the responsibility of the governing body for countering fraud and corruption
- Identify the fraud and corruption risks
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy
- Take action in response to fraud and corruption.

SAFS/ NHDC Team Business Plan 2017 2018

Mission	Objectives	Goals	Strategies	Measures/Success Criteria	Responsibility
ACKNOWLEDGE	ACKNOWLEDGEMENT The risk of fraud the the Councils responsibility to prevent and investigate fraud	Show the Councils Willingness to Combat Fraud	Anti- Fraud Strategy Membership of SAFS Internal Audit Member Support	Have in place an Anti-Fraud and Corruption Strategy Retaining Board Membership of SAFS Have in place an effective IA Plan and Audit Committee Policies to deal with Money Laundering/ Bribery/ Whistleblowing/ Sanctions	s.151 Officer/Head of Legal s.151 Officer SIAS Head of Legal
	FRAUD AWARENESS Promote an effective antifraud culture within the Council	Enhance the level of fraud awareness internally and externally	Local News Media Promote Fraud Team Fraud Awareness Training Internal Awareness	Issue a press release for every successful prosecution in 2017/2018 Promotion of internet fraud pages (SAFS) and local media exposure Deliver five fraud training awareness training sessions to Council Staff, or tailored training as requested by services Conduct an E-Survey of fraud awareness across officers	SAFS/Comms SAFS/Comms SAFS SAFS
	CUSTOMER SERVICE Service performance is managed to the highest standards so that agreed levels of service are met	Ensure customers and staff are informed about counter fraud work	Customer Service R&B Relationship Meeting SAFS Champion Reports to Audit Comms	Issue customers with information leaflets when attending interviews Quarterly meetings with R&B Service and agree SLA Quarterly meetings with NHDC SAFS Board Rep 2 Reports to FARC	SAFS SAFS SAFS/s.151 Officer SAFS/s.151 Officer
	PERFORMANCE Maximize performance through robust risk assessment and quality investigation work.	Be recognized as a high performing and successful fraud team.	Quality Fraud Referrals Individual Targets Data Matching Fraud Referrals Performance Report	100% risk assessment on all fraud referrals received SAFS CFO- Set PMDS Targets to match NHDC KPIs NFI Data Matches 2017 to be reviewed in year Monitor source of fraud referrals each quarter Issue a performance report in April 2018	SAFS SAFS s.151 Officer SAFS SAFS
PREVENT	QUALITY INVESTIGATIONS Undertake high quality investigations maximizing all investigative resources and achieving value for money	Ensure that investigations comply with the law and are beyond reproach	Interview Under Caution Sanction Files Witness Statements Legal Services	SAFS management checks on all sanctions issued File management checks on live caseload 100% check on witness statements used in prosecution cases promote case conferences between Solicitors & Investigators	SAFS SAFS SAFS SAFS/ Head of Legal
	SANCTIONS/PROSECUTIONS Instigate legal sanctions to counter criminal behaviour	Ensure the prosecution of fraud and dishonesty in appropriate cases	Prosecutions Formal Cautions Admin Penalty Legal Service Liaison	Ensure all cases suitable for sanction are reviewed in line with Policy Ensure that the Councils makes use of civil penalties where appropriate Ensure that the use of Administrative Penalties is maximised Work with NHDC Legal to prosecute cases and recover costs	SAFS SAFS/Head of R&B SAFS/Head of R&B SAFS/ Head of Legal
PURSUE					

SAFS Resources 2017/2018

Budget

In December 2016 the SAFS Board accepted a report from the SAFS Manager to restructure and reorganise the Service from April 2017/2018. This restructure would result in an increase in fees for all Partners. The Board agreed that the annual fee for District Councils, who did not hold housing stock, would be fixed to £80,000 +VAT. The Board also received assurance from financial modelling that the service would be sustainable, in its current form for 5 years with an increase in fees each year at 1% from 2019 onwards.

It has been agreed that the service would be allowed to build up a small operating reserve but should this be exhausted all Partners agree to meet any shortfall in Budgets equally.

Staffing

The full complement of SAFS now stands at 14.5 FTE's; 1 Manager, 2 Assistant Managers, 8 Investigators and 2 Intelligence Officers. The Team is also supported by 1 FTE Data-Analyst and 0.5 FTE Business Support who are funded from SAFS Budgets.

For staffing – NHDC will have exclusive access to 1 FTE Investigator, access to intelligence functions of the service, all data-matching services being offered through the local data-warehouse and call on one of the Assistant Managers for quarterly liaison meetings, management meetings and two FAR Committees reports per annum. SAFS also have access to an Accredited Financial Investigator (AFI) and criminal litigation services.

SAFS

KPIs for NHDC 2017/2018

KPI	Measure	2017/2018 Target	Quarterly Target	SAFS Project Aims
1	Provide an Investigation Service	1 FTE on call at NHDC (supported by SAFS Intelligence/ Management). Membership of NAFN Membership of CIPFA Counter Fraud Centre Access to Case Management System (CMS) Local Data Hub Fraud training events for staff*	100% of all	Ensure ongoing effectiveness and resilience of anti-fraud. Deliver a return on investment for the Councils financial contribution to SAFS.
2	Identified Value of Fraud prevented/detected. Based on the Methodology agreed by SAFS Board	£100k From fraud identified and savings/prevention	£25k	Deliver financial benefits in terms of cost savings or increased revenue.
3	Allegations of fraud Received. From all sources.	100 Fraud referrals from all sources to SAFS	25	Improve the reach into the areas of non-benefit and corporate fraud within the county.
4	Success rates for cases investigated. This will ensure that quality investigations are undertaken.	50%	50%	Create a recognised centre of excellence able to disseminate alerts and share best practice nationally.
5	Conduct Data-Matching using the local data-hub, NFI and other data-matching/mining.	Data-Hub for local data matching. Access to NFI output. County wide Council Tax Review Framework.	100%	Create a data hub for Hertfordshire.

*Costs will include salary and direct on-costs for CFO (1 FTE), ACFM (1/3 FTE), Intel Officer (1/3 FTE) = £62k. Costs for NAFN/CIPFA/CMS/ Data Hub = £10k. Costs for 5 training events = £2.5k.

SAFS - Standards of Service.

SAFS will provide the Council with the following fraud prevention and investigation services as part of the contracted anti-fraud function.

1. Access to a managed fraud hotline and webpage for public reporting.
2. Process and document for SAFS Partner staff to report suspected fraud to SAFS.
3. Training in: Fraud Awareness (management/staff/members), Fraud Prevention, Identity Fraud Prevention.
4. Assistance in the design of Council policies processes and documents to deter/prevent fraud.
5. SAFS will design shared/common anti-fraud strategies and policies or templates to be adopted by the Council.
6. SAFS will provide a proactive data-matching solution (data-warehouse) to identify fraud and prevent fraud occurring.
 - The data-warehouse will be funded by SAFS and located in accordance with Data Protection Act requirements.
 - The data-warehouse will be secure and accessible only by named SAFS Staff. Data will be collected and loaded in a secure manner.
 - SAFS will design and maintain a data-sharing protocol for SAFS Partners to review and agree to as they choose. The protocol will clearly outline security provisions and include a Privacy Impact Assessment.
 - SAFS will work with nominated officers in the SAFS Partners to access data-sets to load to load into the data-warehouse and determine the frequency of these.
 - SAFS will work with Partners to determine the most appropriate data-matching for each of them and the frequency of such data-matching.
7. All SAFS Staff will be qualified, fully trained and/or accredited to undertake their duties lawfully, or be working towards such qualifications.
8. All SAFS investigations will comply with legislation including DPA, PACE, CPIA, HRA, RIPA* and all relevant policies of the Council.
9. Reactive fraud investigations.
 - All reported fraud will be actioned by SAFS within 10 days.
 - The Council will be informed of all reported fraud and how SAFS are going to deal with this.
 - SAFS will allocate an officer to each investigation.
 - SAFS officers will liaise with nominated officers at the Council to access data/systems/accommodation required to undertake their investigations.
 - SAFS Officers will provide updates on cases and a report with summary of facts and supporting evidence on conclusion of the investigation for the Council to review and make any decisions.

- Where a decision indicates an offence SAFS Officers will draft a report for the nominated officers of the Council to make a decision on any further sanctions/prosecutions.

10. Where sanctions, penalties or prosecutions are sought SAFS will work with the Council to determine the appropriate disposal based on the Code for Crown Prosecutors and the Council's published policies. Decisions on imposition of any sanction will lay with the Council but the issue of any penalty will be resolved locally on a case by case basis.

11. SAFS will provide reports through the SAFS Board on progress and to the Council's Audit Committee.

12. SAFS will provide Alerts to the Council, of suspected fraud trends or reports/guidance from government and public organisations that are relevant to fraud.

**Data Protection Act, Police and Criminal Evidence Act, Criminal Procedures and Investigations Act, Human Rights Act, Regulation of Investigatory Powers Act.*

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SAFS/ NHDC Team Business Plan 2017 2018

Mission	Objectives	Goals	Strategies	Measures/Success Criteria	Responsibility	Progress 1Qtr
ACKNOWLEDGE	ACKNOWLEDGEMENT The risk of fraud the the Councils responsibility to prevent and investigate fraud	Show the Councils Willingness to Combat Fraud	Anti- Fraud Strategy Membership of SAFS Internal Audit Member Support	Have in place an Anti-Fraud and Corruption Strategy Retaining Board Membership of SAFS Have in place an effective IA Plan and Audit Committee Policies to deal with Money Laundering/ Bribery/ Whistleblowing/ Sanctions	s.151 Officer/Head of Legal s.151 Officer SIAS Head of Legal	Complete Complete Complete Ongoing Review
	FRAUD AWARENESS Promote an effective anti fraud culture within the Council	Enhance the level of fraud awareness internally and externally	Local News Media Promote Fraud Team Fraud Awareness Training Internal Awareness	Issue a press release for every successful prosecution in 2017/2018 Promotion of internet fraud pages (SAFS) and local media exposure Deliver five fraud training awareness training sessions to Council Staff, or tailored training as requested by services Conduct an E-Survey of fraud awareness across officers	SAFS/Comms SAFS/Comms SAFS SAFS	Comms Plan in Place Planned Review Ongoing Planned to begin 2nd Qtr
	CUSTOMER SERVICE Service performance is managed to the highest standards so that agreed level's of service are met	Ensure customers and staff are informed about counter fraud work	Customer Service R&B Relationship Meeting SAFS Champion Reports to Audit Comms	Issue customers with information leaflets when attending interviews Quarterly meetings with R&B Service and agree SLA Quarterly meetings with NHDC SAFS Board Rep 2 Reports to FARC	SAFS SAFS/R&B Mgrs SAFS/s.151 Officer SAFS/s.151 Officer	Ongoing Ongoing Ongoing Planned Sep 17/ Mar 18
	PERFORMANCE Maximize performance through robust risk assessment and quality investigation work.	Be recognized as a high performing and successful fraud team.	Quality Fraud Referrals Individual Targets Data Matching Fraud Referrals Performance Report	100% risk assessment on all fraud referrals received SAFS CFO- Set PMDS Targets to match NHDC KPIs NFI Data Matches 2017 to be reviewed in year Monitor source of fraud referrals each quarter Issue a performance report in April 2018	SAFS SAFS s.151 Officer SAFS SAFS	Ongoing Complete Onoing Ongoing Planned
	QUALITY INVESTIGATIONS Undertake high quality investigations maximizing all investigative resources and achieving value for money	Ensure that investigations comply with the law and are beyond reproach	Interview Under Caution Sanction Files Witness Statements Legal Services	SAFS management checks on all sanctions issued File management checks on live caseload 100% check on witness statements used in prosecution cases promote case conferences between Solicitors & Investigators	SAFS SAFS SAFS SAFS/ Head of Legal	Ongoing Ongoing Ongoing Ongoing
	SANCTIONS/PROSECUTIONS Instigate legal sanctions to counter criminal behaviour	Ensure the prosecution of fraud and dishonesty in appropriate cases	Prosecutions Formal Cautions Admin Penalty Legal Service Liaison	Ensure all cases suitable for sanction are reviewed in line with Policy Ensure that the Councils makes use of civil penalties where appropriate Ensure that the use of Administrative Penalties is maximised Work with NHDC Legal to prosecute cases and recover costs	SAFS SAFS/Head of R&B SAFS/Head of R&B SAFS/ Head of Legal	Ongoing Complete Ongoing Ongoing
PREVENT						
PURSUE						

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**North Herts District Council
Performance against
Anti-Fraud Plan
2016/2017**

(Hertfordshire Shared Anti-Fraud Service)

NHDC - Anti-Fraud Action Plan 2016/2017

Anti-Fraud and Corruption Strategy	Activity	Lead Officer/s	Target Date/Value/Measure	Progress at 31.3.2017
Acknowledge and understand fraud risks	Review the Council's existing Anti-Fraud and Corruption Policy, Fraud Response Plan and, Whistleblowing Policy, Money Laundering Policy implement a new Fraud Prosecution Policy.	Head of Revenues, Benefits & IT, Head of Finance, Performance & Asset Management, corporate Legal Manager	Fraud Prosecution Policy by June 2016, all other existing Policies as they come up for renewal	Prosecution Policy presented FARC by SAFS for adoption in March 2016. Anti-Money Laundering and Whistleblowing Policies reviewed.
	Ensure that the Council retains its Board and Partner role in SAFS and funding for the services provided by SAFS.	Strategic Director of Finance, Policy & Governance	Ongoing	s.151. attends SAFS Board and agreed to continuation of SAFS Partnership for 2017/2018
	Annual fraud reports to the Fraud, Audit and Risk Committee.	SAFS Manager	July 2016 and March 2017	AC dates for SAFS reports agreed Sep 2016 and March 2017 in Fwd Plan
	Identify key fraud risks faced by the Council. Add to Risk Register as appropriate.	Head of Revenues, Benefits & IT & SAFS Manager	Ongoing	SAFS Mgt has met with NHDC Risk Manager to agree a process for this, but not finalised yet.

	Promote and publicise the costs of fraud to staff, members and local residents including the impact this had on Council Services.	Head of Revenues, Benefits & IT & SAFS Manager	Ongoing	Further Cheater Campaign linked to new SAFS webpage published in Oct 2016.
	Subscribe to organisations and events that demonstrate the Council's zero tolerance to fraud.	Head of Revenues, Benefits & IT & SAFS Manager	Ongoing	SAFS joined CIPFA Centre for Counter Fraud for all Partners.
	Roll out an E-learning anti-fraud training package for NHDC Staff	SAFS Manager	October 2016	This is being implemented by NHDC Legal with SAFS/HCC HR assistance.
	Provide Money Laundering training for appropriate staff	SAFS Manager	October 2016	Arranged for s.151 and MLRO for October 2016.
	Provide Fraud Awareness training to Elected Members	SAFS Manager & Learning and Employee Engagement Manager	March 2017	Delivered in January 2016 to full Council
Anti-Fraud and Corruption Strategy	Activity	Lead Officer/s	Target Date/Value/Measure	Progress at 31.3.2017
Prevent and deter fraud	Maintain a strong internal control framework as assessed by SIAS Internal Audit Annual Report	All Heads of Service & Corporate Managers	Ongoing	NHDC /SIAS Internal Audit Plan

	Create and maintain Data Sharing Procedures including Information Sharing Protocol (ISP), PIA/EIA to allow for lawful exchange of data between SAFS and NHDC .	Head of Revenues, Benefits & IT & SAFS Manager	July 2016	ISP reviewed by HCC and NHDC Legal with emphasis on revised PIA.
	Deliver fraud awareness, prevention training and workshops to Council Services at risk of fraud	SAFS Manager	5 Local Events at NHDC delivered by SAFS	Housing Event Oct 2016 AML Oct 2016 NNDR- Nov 2016 Induction Training for new staff is now in place.
	Have in place one SAFS Counter Fraud Officer FTE for NHDC exclusive use. Access to SAFS Intel/Admin to support for this role. Access to SAFS Manager for Senior Mgt Meetings.	SAFS Manager	Ongoing	TR (SCFO) and PJ (CFO) in place Darren Bowler (SAFS Asst Manager) & SAFS Intel Team support this work
	Issue Fraud Alerts to appropriate staff and managers as when new fraud threats arise and publish a Fraud & Corruption Newsletter for staff.	SAFS Manager	Ongoing	22 Alerts issued from NAFN, OWL, NFIB and Partners.
	Have in place fraud reporting tools to allow staff and public alike to report fraud.	SAFS Manager	Ongoing	Webpage, Hotline, Direct line, email all available. SAFS New website incorporating Cheater Campaign.

	Permit SAFS assist with the delivery of the National Fraud Initiative 2016.	Head of Revenues, Benefits & IT	July 2016	Key-Contact for matches from NFI 2016/2017 remains with NHDC.
	Provide access to services such as National Anti-Fraud Service (NAFN), CIPFA, Local Authority Investigation Officers Group (LAIOG) to benefit both NHDC and SAFS.	Head of Revenues, Benefits & IT & SAFS Manager	Ongoing	SAFS subscribes to NAFN, CIPFA, LAIOG, PNLD for all Partners.
Anti-Fraud and Corruption Strategy	Activity	Lead Officer/s	Target Date/Value/Measure	Progress at 31.3.2017
Be stronger in pursuing fraud and recovering losses	Record identified financial savings from anti-fraud activity. Record value of all fraud identified to an agreed, auditable and recognised standard.	SAFS Manager	Ongoing	Fraud of £141k identified to 31.3.2017, against an annual target of £100k
	Maximise civil recovery and utilise civil recovery methods to seek redress where fraud is identified.	SAFS Manager with appropriate Service Manager	Ongoing	NHDC have policy and process in place and are now capable of issuing CPs.
	NHDC will Publicise prosecutions, sanctions, recovery to demonstrate a zero tolerance to fraud and act as a deterrent to others.	Head of Revenues, Benefits & IT with Communications Manager	Ongoing	Plans to issue following OS prosecution cases.

	To work in a partnership role with SAFS and ensure that SAFS delivers value for money and return on investment to NHDC , be this in actual new revenue or future savings.	Head of Revenues, Benefits & IT	Ongoing	Meetings taking place with S.151 and deputy
	NHDC to support County wide CTAX SPD review which will benefit the Council, and any other opportunities to conduct anti-fraud projects with SAFS as required.	Head of Revenues, Benefits & IT	October 2016	SAFS have delivered CTAX 'Review Framework' for whole County.

SAFS

KPIs for NHDC 2016/2017

KPI	Measure	2015/2016 Target	Achieved in year	SAFS Project Aims
1	Provide an Investigation Service	1 FTE on call at NHDC Telephone/Web 'Hotline' for staff and public. Advice and Support	100%	Ensure ongoing effectiveness and resilience of anti-fraud arrangements when the impact of the Single Fraud Investigation Service (SFIS) takes effect.
2	Identified Value of Fraud prevented/detected. Based on the Methodology agreed by SAFS Board	£100k	£141k	Deliver financial benefits in terms of cost savings or increased revenue.
3	Allegations of fraud Received. From all sources.	100 Fraud referrals	100	Improve the reach into the areas of non-benefit and corporate fraud within the county.
4	Success rates for cases investigated. This will ensure that quality investigations are undertaken.	50%	65% (49 cases investigated -32 proved)	Create a recognised centre of excellence able to disseminate alerts and share best practice nationally.
5	Conduct Data-Matching using the local data-hub, NFI and other data-matching/mining.	Data-Hub, Access to NFI and County SPD Exercise	Data-wharehouse and all data-sharing agreements complete. NHDC Submitted data to NFI. County Wide SPD Framework complete December 2016	Create a data hub for Hertfordshire.

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The local government counter fraud and corruption strategy

2016 - 2019

Supported by:



**CIPFA COUNTER
FRAUD CENTRE**

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Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape. Its production and subsequent implementation is overseen by an independent board, which includes representation from key stakeholders. The board commissioned the drafting and publication of the strategy from the CIPFA Counter Fraud Centre.

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.



With support from:



Foreword by Cllr Claire Kober

Since the last Fighting Fraud Locally Strategy was published in 2011, the landscape has changed considerably for local government. Councils have dealt with unprecedented reductions in funding – up to 40% of central funding over the life of the previous Parliament and further real term reductions announced in the November 2015 Spending Review.

Rather than taking the approach of managing decline, councils have innovated, collaborated and prioritised in order to protect vital services.

Innovation is as important in fighting fraud as any area of council activity to keep ahead of fraudsters and prevent resources being taken away from delivering services to those who need them.

The transfer of welfare benefits fraud investigation staff to the DWP's Single Fraud Investigation Service means that councils need to reconsider how they counter other areas of fraud. The new Fighting Fraud and Corruption Locally Strategy is timely and should be of great help to councils in developing new approaches.

There are many examples of success but it is worth focussing on the Audit Commission's annual report in October 2014 that reported a 400% increase in right to buy fraud in London; a fact which we in Haringey anticipated over two years ago when the maximum discount available to purchase a home under the right to buy scheme was increased to £100k.

Our Fraud Team in Haringey has been working pro-actively with services across the council since 2013 to investigate potential right to buy fraud. Joining up housing, benefits and fraud teams effectively has meant that we have prevented over 120 cases of right to buy fraud, saving £12m in discounts and retaining the property for use as much needed social housing.

Where we have identified tenancy and benefit fraud alongside the right to buy fraud, we recover the property to help provide homes for those people and families in most need; and we are prosecuting the most serious cases. Secondly, our Benefits Team has been working to make it more difficult for fraud and error to occur in the first place.

Claimants are now asked to periodically resubmit current evidence of their circumstances, especially

their income, and long running claims are now reviewed in depth more often, particularly in high risk areas – those where circumstances might be expected to have changed.

We are also making it easier for claimants to tell us of changes in circumstances and reminding them that they need to tell us, and we are looking at sharing data with other agencies. Every pound siphoned off by a fraudster is a pound that cannot be spent on services where they are needed. Councils need to be vigilant.

Councils do have a good record in countering fraud and the strategy contains numerous case studies and examples of successes. Councils also have an excellent record in collaboration with the LGA's improvement team recording more than 350 successful examples of councils working together to save money and improve services, and collaboration to counter and prevent fraud is a theme running through the strategy.

I am happy to endorse this strategy on behalf of the LGA and welcome it as an opportunity for councils to review and further improve their counter fraud work.



Claire Kober

Chair Resources Portfolio Local Government Association and Leader Haringey Borough Council

Foreword by Marcus Jones MP

Fraudsters cost the local tax payer many millions of pounds each year. Indeed the estimated loss of £2.1bn quoted in this Strategy is felt to be an underestimate of the total cost to local government.

This is of concern as much to central government as it is to councils. The Strategy rightly places an emphasis on council leaders, chief executives and finance directors to provide the local leadership to take action to protect the public purse.

At a time when every penny should be invested in delivering high quality services to local people, tackling fraud head on should be a priority.

The recent figures from the Office of National Statistics show that an increasing amount of fraud is being reported to the police, Cifas and Financial Fraud Action UK.

The risks are clear, councils must ensure they are active in looking for and identifying fraud and embedding a counter fraud culture at the heart of their organisation.

Currently there is a disparity of effort in tackling this kind of criminal activity across the sector, this is a concern. Some invest in dedicated counter fraud activity and some do not, and the Strategy is right to point out that councils should take an 'invest to save' approach.

I know this is not easy, there have been some successes but more councils need to go further. The Government has helped councils, and last year provided an injection of £16m through the Counter Fraud Fund to support a wide range of council led projects across the country.

The challenge is now for local government to build on this investment, share the learning, and raise the bar. A clear message needs to be sent to fraudsters that councils won't put up with fraud of any sort. As the Strategy says – it is about having robust systems in place to prevent fraud occurring in the first place.

To look in the right areas, by taking a risk based approach to identify fraud, and where fraud is found to publicise it widely and use it as deterrent. And councils will be judged by their residents on their results.

I fully believe the onus lies rightly at the top of the organisation to set the tone and culture that councils are serious and won't tolerate fraud, that all parts of the organisation have a job to build fraud resilience into their systems, to actively look for, and where they find it prosecute fraudsters.

I hope and expect this strategy to be the spring board for councils to go further than before.



Marcus Jones MP

Parliamentary Under Secretary of State
(Minister for Local Government)

Executive Summary

Fighting Fraud and Corruption Locally is the new counter fraud and corruption strategy for local government. It provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. By using this strategy local authorities will develop and maintain a culture in which fraud and corruption are understood to be unacceptable, understand their fraud risk and prevent fraud more effectively, use technology to improve their response, share information and resources more effectively to prevent and detect fraud loss, bring fraudsters account more quickly and efficiently, and improve the recovery of losses.

This strategy is aimed at council leaders, chief executives, finance directors, and all those charged with governance in local authorities. It is produced as part of the Fighting Fraud and Corruption Locally initiative, a partnership between local authorities and key stakeholders, and succeeds the previous strategy, written in 2011.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraud and corruption are a drain on local authority resources and can lead to reputational damage.

Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. There is a clear need for a tougher stance. This includes tackling cross boundary and organised fraud and corruption attempts, as well as addressing new risks.

In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

This will offer opportunities to support the National Crime Agency in the fight against organised crime and work with the CIPFA Counter Fraud Centre, which has agreed to take on the hosting of Fighting Fraud and Corruption Locally, and other leaders in this field. Local authorities reported that they were still encountering barriers to tackling fraud effectively, including incentives, information sharing and powers.

The strategy also addresses the issue of new anti-corruption measures for local authorities and integrates the relevant elements of the government's Anti-Corruption Plan.

In response to these challenges, local authorities will need to continue to follow the principles developed in Fighting Fraud Locally 2011 (FFL):

- **Acknowledge:** acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.
- **Prevent:** preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.
- **Pursue:** punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat.

This strategy sets out ways in which local authorities can further develop and enhance their counter fraud response by ensuring that it is comprehensive and effective and by focusing on the key changes that will make the most difference.

Local authorities can ensure that their counter fraud response is comprehensive and effective by considering their performance against each of the six themes that emerged from the research:

- Culture
- Capability
- Capacity
- Competence
- Communication
- Collaboration

“At a time when resources are becoming ever more scarce, all of us involved in delivering local public services are looking at ways of doing more with less. Acknowledging the risk of fraud and committing resources to tackle it, taking steps to prevent fraud and pursuing offenders must be part of the answer. What we have learnt as a consequence of our continuing work is that success in this field depends not just on what you do but how you do it. Having an embedded anti-fraud approach across an organisation is critical to success and by focusing this strategy on the cross cutting themes of culture, capability, capacity, competence, communication, and collaboration will in my view help ensure that an anti-fraud approach becomes integral to the way we work.

Charlie Adan

Chief Executive Babergh and Mid Suffolk

”

The Companion to this document contains a section on each of these themes, with information on fraud risks, good practice and case studies to assist local authorities in strengthening their response and ensuring that it is fit for purpose.

This strategy also identifies the areas of focus that will make the most difference to local authorities' counter fraud efforts. These are:

- Leadership
- Assessing and understanding the scope of fraud and corruption risks
- Making the business case
- Using resources more effectively
- Collaborating to improve
- Using technology to tackle fraud
- Tackling corruption

Many local authorities have demonstrated that they can tackle fraud innovatively and can collaborate effectively to meet the challenges. Indeed, many have identified that a reduction in fraud can be a source of sizeable savings.

For example:

- Birmingham City Council, working with other agencies, secured a confiscation order against 2 organised fraudsters of £380,000
- The London Borough of Lewisham, working with Lewisham Homes, recouped £74,000 from one internal fraudster
- The Royal Borough of Kensington and Chelsea, by using data matching techniques to prevent fraud, made savings of £376,000 in the first year, and £250,000 for the following two years.

This strategy has been designed for local authorities by local authorities and other stakeholders.

It provides a firm and practical basis to help them to take the next steps in the continuing fight against fraud and corruption.

The strategy:

- Calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- Illustrates the financial benefits that can accrue from fighting fraud more effectively
- Calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- Updates and builds upon *Fighting Fraud Locally 2011* in the light of developments such as *The Serious and Organised Crime Strategy* and the first *UK Anti-Corruption Plan*
- Sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

It is now for elected members, chief executives, finance directors, and all those charged with governance to ensure this strategy is adopted and implemented in their local authorities.

Introduction

This strategy document is aimed primarily at elected members, chief executives, finance directors, and those charged with governance in local authorities. A companion document aimed at counter fraud practitioners in local authorities has been produced, which lays out detailed actions for them. The strategy sets out the approach local authorities should take and the main areas of focus over the next three years in order to transform counter fraud and corruption performance, and contains major recommendations for local authorities and other stakeholders.

The strategy is based upon research carried out by the CIPFA Counter Fraud Centre.

This consisted of:

- Workshops conducted in York, Birmingham and London with over 90 attendees
- Twelve individual interviews with key stakeholders from the counter fraud landscape including local authority representative groups, the National Anti-Fraud Network, the Home Office and the Audit Commission
- Specific focussed interviews with subject matter experts
- Three regional workshops attended by around 70 practitioners focussed on particular fraud types and barriers
- A workshop focussing on anti-corruption risks
- A survey placed on the website of the Local Authority Investigators Group on fraud risks and barriers
- Desktop research of publications and counter fraud literature, including new legislation. These documents are listed in The Companion.

By following this strategy local government will be better able to protect itself from fraud and corruption and will provide a more effective fraud response.



Our vision is that by 2019:

- There is a culture in which fraud and corruption are unacceptable and everyone plays a part in eradicating them
- By better understanding of risk and using technology local authorities will shut the door to fraudsters who try to access their systems or services
- Local authorities will have invested in sustainable systems to tackle fraud and corruption and will see the results of recovery
- Local authorities will be sharing information more effectively and by using advanced data technology will prevent and detect losses
- Fraudsters will be brought to account quickly and efficiently and losses will be recovered.

Since the first local government counter fraud strategy, *Fighting Fraud Locally*, was published in 2011, local authorities have made significant progress in tackling fraud by acknowledging and understanding the risks they face and by collaborating, making more use of technology and information sharing to prevent fraud.

In addition, local authorities have made good use of legislation to recover assets and to take action against fraudsters. There are many examples in this document and the companion that demonstrate the efforts and achievements of local authorities despite reductions in resources and a changing enforcement landscape.

Local authorities should be commended for their part in the fight against fraud and other agencies should learn from their good practice. However, the scale of losses demonstrate that more needs to be done. The landscape continues to change and local authorities will need to respond within the context of budget reductions. There is a need to do more with less.

This document is divided into three sections:

Section 1: The Fraud Challenge

Sets out the nature and the scale of fraud losses, the changes to the national and public sector fraud landscape that require a response from local authorities, and the key issues raised by stakeholders.

Section 2: The Strategic Response

Describes the response that is required from local authorities to address the challenges it is facing, identifying the activities necessary in order to achieve the strategic vision.

Section 3: Delivery Plan

Sets out the recommendations and the framework for delivery.

The Companion

This additional document is aimed at counter fraud practitioners in local authorities and taken together with this strategy sets out a comprehensive blueprint for counter fraud and corruption activities that will deliver the vision.

It identifies the most pressing and serious fraud risks and sets out ways of tackling them, as well as identifying the key organisations that local authorities should work with and the roles they play.

“

Birmingham City Council has invested in creating an anti-fraud culture for some years and a number of examples of its good practice are contained within this document.

At Birmingham City Council, we are committed to protecting the public funds that we are entrusted with. In these times of austerity, the minimisation of losses to fraud and corruption is even more important in ensuring that resources are used for their intended purpose of providing essential services to the citizens of Birmingham.

Through our values, policies and procedures, the council has sought to develop an anti-fraud culture and maintain high ethical standards in its administration of public funds. Anyone who commits, or attempts to commit, fraudulent or corrupt acts against the council, will be held to account in a decisive manner.

The work of our Counter Fraud Team in identifying fraud is invaluable in ensuring that our scarce resources are protected. The development of a sophisticated data analysis capability enables the team not only to detect fraud, but helps our frontline services to prevent it as well. This helps to make sure that the council's services are provided to only those in genuine need and that our valuable resources are directed to where they are needed most”.

Mark Rogers

Chief Executive, Birmingham City Council

Section 1: The Fraud Challenge

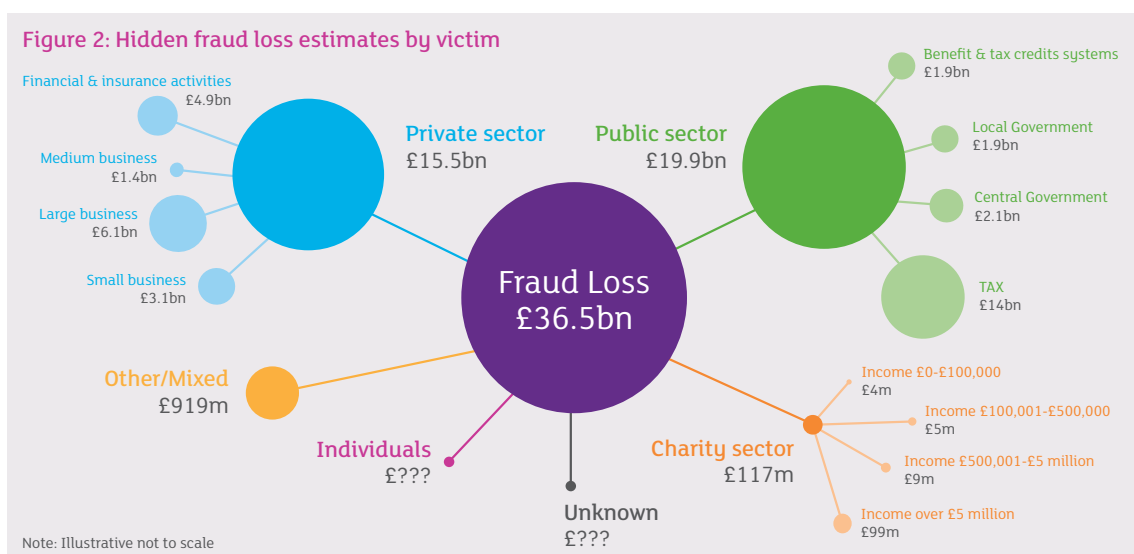
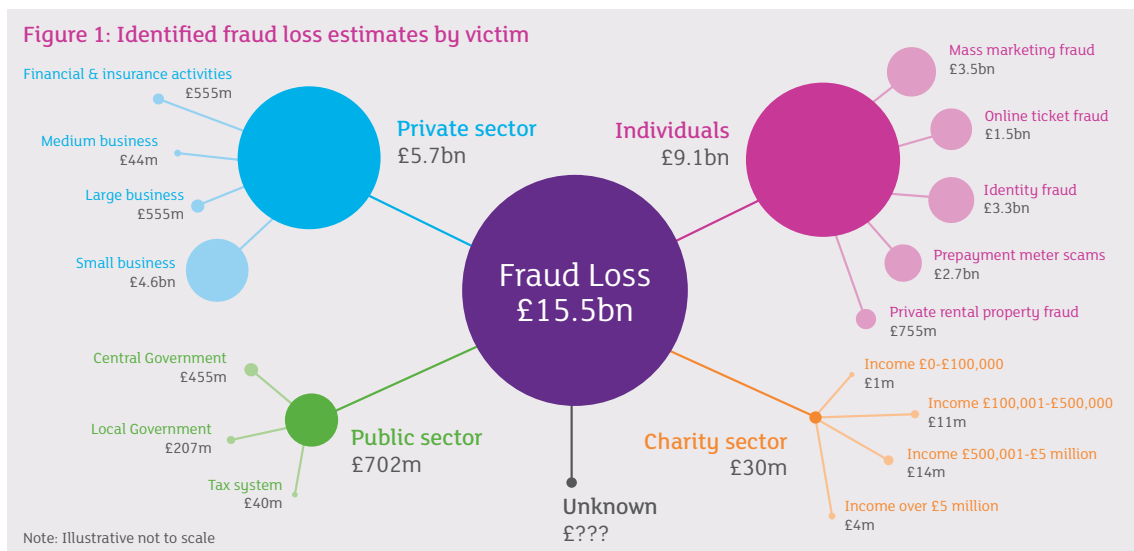
In compiling the evidence that underpins this strategy it became clear that there are three main areas of concern that necessitate a coordinated response from local authorities:

- The scale of fraud losses
- Changes to the national and public sector counter fraud landscape
- Issues raised directly by stakeholders.

The Scale of Fraud Losses

It is accepted that fraud affects the UK across all sectors and causes significant harm. The last, most reliable and comprehensive set of figures was published by the National Fraud Authority in 2013, and indicates that fraud may be costing the UK £52bn a year.

Within these figures the estimated loss to local authorities totalled £2.1bn. The estimated losses for local authorities in 2013 are broken down in the following by identified fraud losses and hidden fraud losses:



Annual Fraud Indicator 2013

Estimated Local Government Fraud Loss 2013

Fraud Type	Estimated Loss	Fraud Type	Estimated Loss
Housing tenancy fraud	£845m	Blue Badge Scheme misuse	£46m
Procurement fraud	£876m	Grant fraud	£35m
Payroll Fraud	£154m	Pension fraud	£7.1m
Council Tax fraud	£133m		

Annual Fraud Indicator 2013

These figures do not take into account the indirect costs of responding to and dealing with fraud and exclude some potentially significant areas of fraud loss.

The Audit Commission's Protecting the Public Purse 2014 identified detected fraud to the value of £188m following a comprehensive survey of local authorities: this was fraud after the event and did not include potential losses.

Local authorities detected 3% fewer cases of fraud than in the previous exercise but the value increased by 6%, which implies larger fraud cases.

It is clear, even allowing for inaccuracies in the measurement of fraud risk and the absence of recent data, that like other sectors of the economy local government is under attack from fraudsters and the scale of losses to local authorities is significant. There are opportunities for local authorities to take action to reduce their losses, and these are discussed in Section 2 of this document.

Changes to the National and Public Sector Counter Fraud Landscape

Since Fighting Fraud Locally was published in 2011, there have been significant changes in the landscape nationally, including areas covering organised fraud and anti-corruption.

The National Response to Serious and Organised Crime

The National Crime Agency was created in October 2013, and in May 2014 published the National Strategic Assessment of Serious and Organised Crime. Organised crime costs the United Kingdom £24bn each year and includes drug trafficking, human trafficking, organised illegal immigration,

high value crimes, counterfeiting, organised acquisitive crime and cybercrime.

Serious and organised criminals operate across police force boundaries and in complex ways, and the police require sophisticated capabilities to detect and disrupt their activity. The Government invested in the development of the Regional Organised Crime Unit (ROCU) network to ensure that forces have access to the capabilities they need to tackle these threats. Regional Organised Crime Units provide high end specialist capability, including regional fraud teams, to local forces tackling the threat from serious and organised crime in their region.

Action Fraud is the national reporting point for fraud and also cyber crime. As of April 2014, both Action Fraud and the NFIB are run by the City of London Police, which is the UK's lead force for fraud. This change was made by the Government to ensure that one body was responsible for the whole process of recording and analysing reports of all types of fraud.

Organised crime affects local authorities as well as other organisations. The Government launched a new Serious and Organised Crime Strategy in October 2013. Its aim is to substantially reduce the level of serious and organised crime affecting the UK and its interests. All frauds, including those committed within the context of local government should be reported to Action Fraud, either by calling: **0300 123 2040** or by visiting: www.actionfraud.police.uk/report_fraud.

The National Crime Agency (NCA) leads work against serious and organised crime, coordinating the law enforcement response, ensuring that action against criminals and organised criminal groups is prioritised according to the threat they present.

Police forces will continue to conduct most law enforcement work on serious and organised crime. They should be supported by local organised crime partnerships boards, including local authorities and

agencies to ensure all available information and powers are used against this threat.

Local government is not immune from organised fraud. Recent years have seen a number of fraud cases where perpetrators have been part of a larger criminal network. Organised frauds often cross local authority boundaries and investigations tend to be complex, requiring the deployment of specialist resources, such as computer forensics or surveillance capability. Such resources are expensive and expertise needs to be used constantly to maintain effectiveness.

Although organised crime may not immediately seem to be a direct threat to local authorities, many organisations have already been subjected to fraud, money laundering, identity crime, intellectual property crime and theft of assets. Local authorities may be targeted by organised crime, whether to obtain council resources or to fund other activities. Local authorities need to consider how they can protect their employees, communities, businesses and themselves from the threat of organised crime.

Anti-Corruption

On 18 December 2014 the Home Office published the first UK Anti-Corruption Plan. The aim of the plan is to bring about a co-ordinated and collaborative approach, setting out clear actions and priorities. The plan covers both UK and international activities, and includes local government.

“

Most public officials have probably never been offered a bribe and would feel pretty confident that they could spot the offer. If they don't necessarily think of themselves as totally incorruptible, they often think they can avoid getting entangled in situations where their conduct may be called into question.

However, thinking you don't need help or guidance in knowing what is legal or illegal, or even what is right or wrong, in every circumstance is a risk – a risk that could and should be avoided by getting the most of what help and guidance is available.”

Prof Alan Doig – Visiting Professor,
Centre for Public Services Management,
Liverpool Business School, Liverpool John Moores University

The response to corruption follows the UK's four components of the Serious and Organised Crime Strategy:

- **Pursue:** prosecuting and disrupting people engaged in serious and organised criminality
- **Prevent:** preventing people from engaging in serious and organised crime
- **Protect:** increasing protection against serious and organised crime
- **Prepare:** reducing the impact of this criminality where it takes place.

The plan sets out the immediate priorities for the government, which are to build a better picture of the threat from corruption, increase protection and strengthen the law enforcement response.

Local authorities are included in a number of areas within the plan as well as within a specific section. There are areas to which they should pay close attention and ensure that they have suitable arrangements in place and that they are up to date on current arrangements. It will require a change in culture and competence.

Local government is targeted by those who wish to corrupt local processes, such as housing or planning, for their own gain; and organised crime groups are known to target local officials to consolidate their status in communities.

UK Anti-Corruption Plan, December 2014

The NCA's Economic Crime Command also has a responsibility in respect of anti-bribery and anti-corruption. It is working with the CIPFA Counter Fraud Centre to raise awareness in this area and recommends a policy of zero tolerance to bribery and corruption, which should be endorsed by the chief executive, sound whistleblowing procedures and awareness training. The NCA also recommends reflecting the commitment in all relevant policies.

The Public Sector Fraud Response

The Cabinet Office published Tackling Fraud and Error in Government: a Report of the Fraud, Error and Debt Taskforce in 2012. That report set out an ambitious but focused delivery programme that sought to reduce levels of fraud and error across government.

In his foreword, The Rt. Hon. Francis Maude wrote: “We must continue to work together to support the national fraud strategy Fighting Fraud Together, and demonstrate the significant financial benefits that can be made in reducing the harm of fraud and error in the public sector.”

The Fraud, Error and Debt Taskforce was established under the 2010 to 2015 Conservative and Liberal Democrat coalition government, and was the strategic decision-making body for all fraud and error, debt and grant efficiency initiatives across government.

It met 6 times a year and included ministers, senior officials from relevant government departments, and experts from the private sector and the wider public sector. As a result of its work, this government is putting in place a fraud, error, debt and grants function and is reviewing associated groups.

As a result of the Taskforce’s work, central government is driving ahead with a broad agenda of activity on fraud, error, debt and grants. This includes the roll out of the Debt Market Integrator, a new way of collecting public sector debt and developing capability across central government in countering fraud through the development of government standards for counter fraud work. It also includes projects to enhance the use of data analytics across government and increasing the efficiency and effectiveness of government grant

The National Fraud Initiative (NFI), an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud, is now under the control of the Cabinet Office. The NFI team continues to carry out data matching work with local authorities.

Fighting Fraud Locally 2011

Fighting Fraud Locally, published in 2011, was the first counter fraud strategy for local authorities. It set out the challenges facing local authorities and the response required, noting the good work already carried out and proposing action to overcome the barriers to further progress.

The initiative was supported and hosted by the National Fraud Authority (NFA), which led engagement with local authorities through an independent board on which stakeholders such as the Local Government Association, the Department

for Communities and Local Government, and counter fraud experts working in local authorities were represented.

As a result of Fighting Fraud Locally, local authorities and central government undertook many activities. The DCLG set up working groups to look at the areas raised by local government as barriers. Local authorities took part in around 34 pilots set by the NFA, an annual conference was set up, and an awards regime was established which eventually grew to include the whole public sector.

The NFA undertook an extensive engagement campaign with a national roadshow and events to publicise the work and garner support. It engaged CIPFA to provide a survey on FFL actions which began in 2012, and commissioned free tools and guides under the banner of FFL.

Following the abolition of the NFA in March 2014, most of its work was transferred into the National Crime Agency. Overseeing the delivery of the action plan associated with Fighting Fraud Locally remained the responsibility of the independent board. In October 2014, the Chartered Institute of Public Finance and Accountancy (CIPFA), which was already providing pro bono support by hosting the Fighting Fraud Locally web pages and providing several guides and tools, was asked by the independent board to take over the secretariat and begin research for the next iteration of the strategy.

The CIPFA Counter Fraud Centre now hosts Fighting Fraud and Corruption Locally, manages the secretariat and holds the Fighting Fraud and Corruption Locally Good Practice Bank.

Police Resources

Local authorities collaborate with the Police where appropriate. The law enforcement response to fraud is led by the City of London Police, which is the national lead force for fraud. The City of London Police runs Action Fraud, the national reporting service for fraud and cyber-crime.

It is not only local authorities that are affected by changes in the landscape and a reduction in resources due to the need to curb public expenditure: other enforcement agencies are also facing reductions. It is the view of local authorities that police will have reduced resources to support local authorities on tackling local authority led fraud.

Local authorities will therefore need to consider how they can achieve the results necessary by reconfiguring their approach to enforcement

Whistle-blowing Arrangements

The best fraud fighters are the staff and clients of local authorities. To ensure that they are supported to do the right thing a comprehensive, management-led, anti-fraud and corruption culture needs to be maintained, including clear whistle-blowing arrangements.

These arrangements should ensure that staff and the public have access to a fraud and corruption whistle-blowing helpline, and should be kept under review.

The terms should conform to the British Standards Institute 2008 Whistle-blowing Arrangements Code of Practice as updated within the Code of Practice published in 2013 by the Whistle-blowing Commission set up by Public Concern at Work.

The Department for Business, Innovation and Skills, also recently published Whistle-blowing Guidance and a Code of Practice (March 2015) this helps employer's understand the law relating to whistle-blowing and provides practical advice for putting in place a robust whistle-blowing policy.

The NAO is available as a prescribed body to take calls from whistle-blowers and the NAO has good practice on its website.

“

Whistleblowing arrangements help to provide employees of public bodies, and users of public services with confidence that wrongdoing or the misuse of public funds can be investigated by an independent and impartial party. This is all the more important where services are subject to considerable change and innovative ways of delivering those services are adopted.

The Head of the National Audit Office is a prescribed person for central government, and from 1 April will also be a prescribed person for local government – we take our responsibilities to provide an impartial and objective service extremely seriously, and draw on the lessons learned from our wider work, to support those who make reports to us.”

Sue Higgins

Executive Leader, National Audit Office

The Transparency Code

DCLG published The Transparency Code on 31 October 2014. The aim is to strengthen transparency within local government. It also affords the opportunity for residents to see how money is spent. The section in respect of local authorities is also referred to in the UK Anti-Corruption Plan as an aid to making anti-corruption issues more transparent.

The Code sets out requirements for local authorities to report on their counter fraud work:

The Code legally requires local authorities to publish annually details of their counter fraud work, including information about the number of occasions they use powers to obtain information from specified bodies to help investigate cases of fraud, the number of staff investigating fraud cases and the number of fraud cases they have investigated.

Specifically, local authorities must publish the following information about their counter fraud work:

- number of occasions they use powers under The Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers
- total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud
- total number (absolute and full time equivalent) of professionally accredited counter fraud specialists
- total amount spent by the authority on the investigation and prosecution of fraud, and
- total number of fraud cases investigated.

The Code also recommends that local authorities publish details about the number of cases where fraud and irregularity has been identified and the monetary value for both categories that has been detected and recovered.

The above is an extract from the UK Anti Corruption Plan

Issues Raised Directly By Stakeholders

In addition to considering relevant policy and academic research, the foundations for this strategy were researched through a series of workshops, surveys, and face to face individual meetings.

There were many instances of good practice, collaborative working and examples of innovative use of data provided by participants.

Local authorities reported issues in the following areas:

Counter Fraud Capacity

Many local authority practitioners reported that the capacity to tackle fraud and corruption was likely to be reduced, or had already been reduced, as a result of austerity-related local authority funding reductions.

In many cases practitioners also reported that the skilled investigation resource transferred to the Department for Work and Pensions Single Fraud Investigation Service (SFIS) had not been replaced, and some stated that after the SFIS transfer their authority would have no fraud team.

Skills

Local authorities reported that their staff did not always have the skills or training to tackle fraud and corruption. Some local authorities stated that they would recruit new staff or transfer staff into fraud-related work post SFIS, but raised the concern that they did not have budgets to train their staff to tackle new areas.

Culture

Some local authority practitioners reported that senior managers were finding it difficult to dedicate sufficient time to demonstrate their support for counter fraud activities due to the focus being on other priorities such as meeting budget savings targets and maintaining key services to residents.

This was considered to have a negative effect upon performance, and was associated with counter fraud work having a low profile and the benefits of counter fraud work not being fully appreciated.

Collaboration

Local authority practitioners demonstrated an appetite for working more formally across local authority boundaries and with other agencies, departments, and the private sector; but reported a range of difficulties in securing progress.

Some examples of this were: counter fraud work not being consistently prioritised; lack of financial incentives to make the business case; a lack of understanding of data protection rules; and lack of funding.

They also reported an appetite for innovative use of data and wider data sharing, but had encountered barriers to this or made very slow progress.

Local authorities further reported that they found it hard to obtain police involvement in their cases and that they did not receive feedback on cases from crime reporting hotlines.

“In times of austerity, collaboration is key. It is of increasing importance to consolidate the approach to fighting fraud and corruption across public services to better inform strategies and to gain a more comprehensive picture of the fraud landscape. We have created CIPFA’s Counter Fraud Centre to lead on creating a coordinated approach, as well as offering thought leadership and to fill the gaps led by others.

Fraud is a pointless drain on resources emphasised by the need for local authorities to save every penny, but we are committed to helping authorities work together to tackle fraudulent activity, protecting the public pound.

”

Rob Whiteman, CEO CIPFA

Types of Fraud

Local authorities reported a wide range of fraud types. The main areas of fraud that were reported in Fighting Fraud Locally 2011 continue to feature as significant risks. However, there are also new fraud types emerging and some of these are more prevalent in particular parts of the country. It is clear that a one size fits all approach is not appropriate: local authorities will need to tailor their approach to their particular fraud risks.

Known Fraud Risks Remaining Significant

Tenancy – Fraudulent applications for housing or successions of tenancy, and subletting of the property.

Procurement – Tendering issues, split contracts, double invoicing.

Payroll – False employees, overtime claims, expenses.

Council tax – Discounts and exemptions, council tax support.

Blue Badge – Use of counterfeit/altered badges, use when disabled person is not in the vehicle, use of a deceased person's Blue Badge, badges issued to institutions being misused by employees.

Grants – Work not carried out, funds diverted, ineligibility not declared.

Pensions – Deceased pensioner, overpayments, entitlement overstated.

Schools – Procurement fraud, payroll fraud, internal fraud.

Personal budgets – Overstatement of needs through false declaration, multiple claims across authorities, third party abuse, posthumous continuation of claim.

Internal fraud – Diverting council monies to a personal account; accepting bribes; stealing cash; misallocating social housing for personal gain; working elsewhere while claiming to be off sick; false overtime claims; selling council property for personal gain; wrongfully claiming benefit while working.

Identity fraud – False identity / fictitious persons applying for services / payments.

Emerging / Increasing Fraud Risks

Business rates – Fraudulent applications for exemptions and reliefs, unlisted properties.

Right to buy – Fraudulent applications under the right to buy/acquire.

Money laundering – Exposure to suspect transactions.

Insurance Fraud – False claims including slips and trips.

Disabled Facility Grants – Fraudulent applications for adaptations to homes aimed at the disabled.

Concessionary travel schemes – Use of concession by ineligible person, including Freedom Passes.

No recourse to public funds – Fraudulent claim of eligibility.

New Responsibilities – Areas that have transferred to local authority responsibility e.g. Public Health grants, contracts.

Commissioning of services – Including joint commissioning, third sector partnerships – conflicts of interest, collusion.

Local Enterprise Partnerships – Voluntary partnerships between local authorities and businesses. Procurement fraud, grant fraud.

Immigration – Including sham marriages. False entitlement to services and payments.

Cyber dependent crime and cyber enabled fraud – Enables a range of fraud types resulting in diversion of funds, creation of false applications for services and payments.

Though uncommon, incidents of electoral fraud in the UK undermine wider public confidence in the electoral process and trust in the outcome of elections. Fraudulent electoral registration may also be linked to other types of financial or benefit fraud.

Electoral Registration Officers (EROs) and Returning Officers (ROs) are uniquely placed to identify incidents and patterns of activity that might indicate electoral fraud. In line with Electoral Commission guidance they should ensure mechanisms are in place to assess the risks and monitor indicators of possible electoral fraud.

It is essential that local authorities work in partnership with the police on any issues around registration and the planning for elections and share information relevant to identifying and preventing electoral fraud.

The ERO/RO should be in touch with the relevant police force's Single Point of Contact (SPOC) for electoral matters and agree the division of responsibilities and the approach for the ERO/RO to refer allegations of electoral fraud to the police where appropriate.

The police are responsible for investigating allegations of electoral fraud and should keep the ERO/RO informed of the progress of cases.

The Electoral Commission has identified 17 local authority areas in the UK which have a higher risk of allegations of electoral fraud, where it recommended a sustained approach to tackle the risks. It is essential that the EROs and ROs for those areas maintain their focus on electoral fraud prevention.

The Government is completing the roll-out of individual electoral registration across Great Britain, which will help reduce the scope for fraud.

The individual nature of the new registration system, in combination with increased assurance of the identity of applicants, means that the register now has greater value as a tool for local authorities and the police to aid in the prevention and detection of crime, including other forms of fraud.

Powers

In Fighting Fraud Locally 2011, local authorities reported that they did not have sufficient powers to tackle non benefit fraud and cited examples of this across their counter fraud activities. In the area of social housing fraud, the Department for Communities and Local Government dedicated resource to improving this situation and, in October 2013, The Prevention of Social Housing Fraud Act was introduced which enabled local authorities to acquire information by using new powers.

However, local authorities are still reporting that they do not have sufficient powers to tackle non benefit fraud. For example, local authorities reported having difficulty obtaining evidence from suppliers in procurement fraud investigations.

Further action is required to ensure that local authorities are able to deal with fraud effectively in all areas of their business.

Good Practice Case study – Manchester City Council

Manchester was awarded DCLG tenancy fraud funding to work in partnership with Registered Social Landlords in the area including:

- Review their tenancy fraud processes and procedures
- Produce a tenancy fraud publicity toolkit containing template leaflets and posters
- Develop capacity through delivery of training packages to enable partners to: identify tenancy fraud; gather evidence in compliance with CPIA 1996;
- Provide PACE awareness training enabling social housing staff to work alongside the council counter fraud specialists.

Kate Sullivan, Tenancy Enforcement and Support Manager at Adactus Housing said:

“The Fraud Investigations team has assisted Adactus with complex investigations and has worked with us to create the environment of a true partnership. The investigations they have carried out have been in cases where, prior to the project, we had drawn a blank and had been unable to gather meaningful evidence to proceed with a case.

The team has welcomed an Adactus member of staff to shadow its officers, which has been a valuable learning opportunity for my team member and given an understanding on both sides of the constraints both teams face.”

Barriers to Information Sharing

In Fighting Fraud Locally 2011, local authorities expressed frustration that they had difficulty obtaining information from government agencies and departments as well as from internal colleagues. They also provided examples of instances where they were not permitted to share data, even to tackle fraud.

A number of local authorities that subsequently set up hubs to collaborate and share information in line with recommendations in Fighting Fraud Locally 2011 experienced difficulties over exchanging data and, even where they did not have difficulty,

processes were lengthy. Without exception, at every workshop during research, this issue was raised; across different types of fraud and across different agencies.

Incentives

During the development of Fighting Fraud Locally 2011, DCLG took on board issues raised about housing tenancy fraud and an incentive fund was created. Two tranches of funding were made available in 2009 and 2011 and the last tranche in 2015. This funding has enabled local authorities to set up bespoke counter fraud teams and to undertake data matching and other innovative measures.

Local authorities report that once this stream of funding expires, however, they will not be able to sustain activity in this area. The reason for this is that stopping a housing tenancy fraud rarely provides a cashable saving (tenants sub-letting their property are almost always very good rent payers) and it is difficult to identify sufficient financial benefit to support the business case to undertake counter fraud activity.

In December 2014, DCLG made available a one-off Counter Fraud Fund of £16m to support local authorities in tackling fraud in the period during which the SFIS is due to be implemented.

This fund received bids totalling around £36m, which included innovative ideas and proposed joint working across local authorities, central government and with private sector providers.

Many of the outcomes of this work will be seen during the period of this strategy. The interest and appetite for this initiative on the part of local authorities has not only resulted in many good proposals and mechanisms being put forward, but signals their strong commitment and goodwill to continue to tackle fraud.

Local authorities are still reporting that, apart from these one-off funds, it remains difficult to access funding to tackle fraud. The business case is often not clear cut, which makes it difficult for local authorities to fund initiatives on an invest-to-save basis, and in some instances the business case is frustrated by existing local government funding mechanisms.

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Councils need central government to set in place the right legal and financial frameworks so that they can tackle fraud and corruption effectively. This strategy offers the opportunity for central government to work with councils in protecting the public purse by providing appropriate powers, removing barriers to information sharing across government, and by providing the right financial incentives for councils to tackle fraud and removing disincentives. Councils should not be expected to fight fraud with one hand tied behind their back.”

Ian O'Donnell

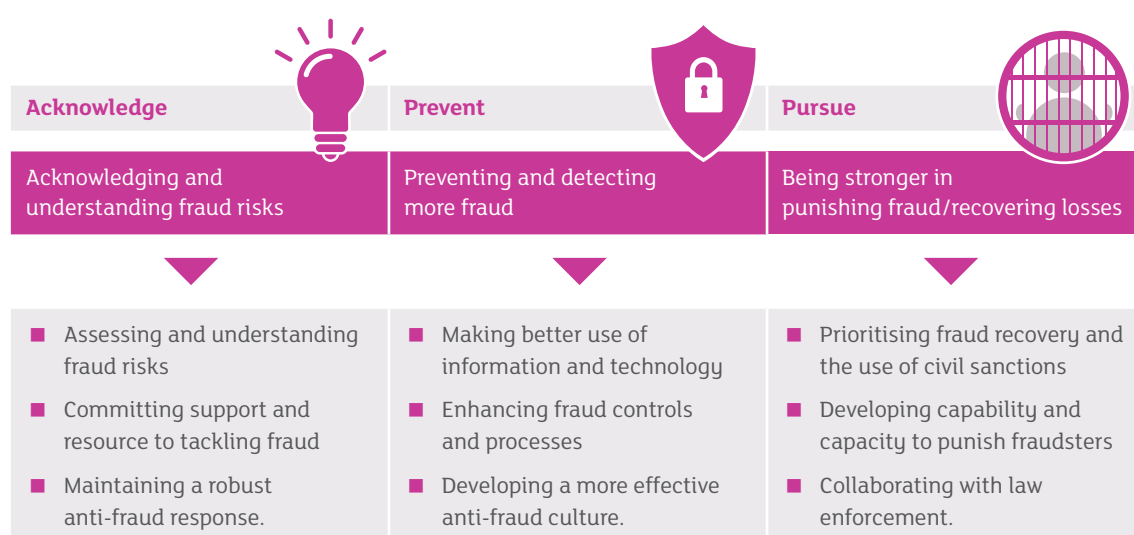
Executive Director of Corporate Resources,
London Borough of Ealing



Section 2: The Strategic Response

The principles of the strategic response to fighting fraud in local authorities remain unchanged from Fighting Fraud Locally 2011. These are set out in the first section below.

The Principles - Acknowledge, Prevent and Pursue



Fighting Fraud Locally official NFA Board Slides

The changing context in which local government services are delivered, the increasing risk of fraud by motivated offenders, reduced local authority resources and associated changes to existing local control frameworks together create a pressing need for a new approach to tackling fraud perpetrated against local government.

Fighting Fraud and Corruption Locally recognises these challenges and the need for a cost effective way to reduce fraud. This strategy calls for a greater emphasis on prevention and the recovery of stolen money and highlights the need to create new arrangements to ensure that local authorities retain a resilient response to fraud based on the sharing of services and specialist resources.

Strong leadership will be required in order to achieve this, with greater use of technology and a stronger emphasis on collaboration. The starting point of the strategic response is to acknowledge the threat of fraud and the opportunities for protecting the public purse that exist. This acknowledgement must start at the top and lead to action.

While this document outlines the main areas of fraud risk across local government, each authority's risk profile will be different.

This strategy recommends that the starting point for each local authority is to perform its own risk assessment and fraud resilience check.

The second element of the strategy focuses on prevention. With investigative and police resources facing budget pressures, a counter fraud and anti-corruption strategy can no longer depend on enforcement activity.

Prevention is often the most efficient way to make savings and so what is called for is a radical realignment of counter fraud resources with greater investment in techniques, technology and approaches that will prevent fraud and corruption.

Stopping fraud and corruption from happening in the first place must be our aim. However, those who keep on trying may still succeed. A robust enforcement response is therefore needed to pursue fraudsters and deter others.

Fraud is an acquisitive crime and the best way to deter offenders is to ensure that they are caught and do not profit from their illegal acts.

This strategy argues for a fundamental shift in culture to emphasise civil recovery and the more rigorous pursuit of losses.

Turning Strategy into Action

The Themes – Six Cs

The Companion to this strategy document sets out more information on how local authorities can ensure that their counter fraud response is comprehensive and effective.

Local authorities should consider their performance against each of the six themes that emerged from the research conducted.

These are:

- **Culture** – creating a culture in which beating fraud and corruption is part of daily business
- **Capability** – ensuring that the range of counter fraud measures deployed is appropriate to the range of fraud risks
- **Capacity** – deploying the right level of resources to deal with the level of fraud risk
- **Competence** – having the right skills and standards
- **Communication** – raising awareness, deterring fraudsters, sharing information, celebrating successes
- **Collaboration** – working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

The Companion contains a section on each of these, with information on good practice and case studies to assist local authorities in strengthening their response and ensuring that it is fit for purpose.

Fraud knows no boundaries – London Borough of Lewisham

A former housing officer who fraudulently hijacked the tenancy of a dead Lewisham tenant was ordered by the court to pay £74,000 after Lewisham Council was granted a compensation order. At an earlier court hearing, the housing officer had received a 21-month prison sentence while her husband had received a 12-month suspended prison sentence and was ordered to conduct 100 hours of unpaid community work.

Following the death of the original tenant in 2005, the tenancy officer had manipulated the council's records to take control of the property in Catford which she then sublet at a profit. The fraud was uncovered in 2009 after Lewisham Homes, the council's arm's length management organisation (ALMO) conducted a visit to the property as part of a tenancy-checking verification program and found that the original tenant was no longer resident.

Further checks by the council's fraud team revealed that a different person from the tenant was listed as liable for Council Tax at the property.

The housing officer and her husband had also provided false information to secure a tenancy in another borough fraudulently, which they also sublet to another tenant for a higher rent.

It is estimated that the actions of the rogue housing officer resulted in a combined loss of approximately £150,000 to the public purse.

Areas of Focus

There are seven areas where a shift in activity will result in long term, sustainable improvement:

1. Leadership

Showing leadership: elected members, chief executives, finance directors and all those charged with governance should demonstrate explicit commitment to fighting fraud and corruption, and provide the necessary leadership.

Counter fraud practitioners cannot operate effectively unless those at the top in local authorities champion counter fraud and corruption work and visibly promote the message that fraud and corruption will not be tolerated.

Culture: those at the top in local authorities should maintain a robust counter fraud and corruption culture with clear values and standards. Culture fundamentally affects all elements of counter fraud and corruption activity: prevention, detection, deterrence, investigation, sanctions and redress.

A key element is having sound whistle-blowing arrangements; communicating how to report fraud and corruption and creating an environment in which reports can be made without the fear of recrimination.

Collaboration and co-ordination: those at the top in local authorities should actively seek to co-ordinate their efforts in the fight against fraud and corruption. Local authorities should seek to break down barriers to collaboration and sharing with other local authorities, central government and other organisations.

Communication: having a robust communication policy, actively publicising initiatives and celebrating successes is integral to having an effective counter fraud culture as a visible demonstration of commitment and values.

2. Assessing and understanding the scope of fraud and corruption risks

Assessing risks: In order to continue to function effectively in a changing landscape post SFIS implementation, and to take account of the recommendations in the UK Anti-Corruption Plan, local authorities will need to make an assessment of their risks.

This will require an honest appraisal of risks and the resources required to tackle them and whether that can be done locally, with the support of the national agencies, or with neighbouring authorities.

Measuring potential and actual losses: local authorities should measure potential and actual losses on a regular basis in order to understand the scope of the challenge, assess the response required, and measure performance.

The impact of crime is not only financial: losses suffered from fraud can have a direct, adverse impact on those people who are in most need of support, and in some cases the reputational damage caused to a local authority can be serious and lasting.

Horizon scanning: in the fast-changing local authority landscape, local authorities should scan the horizon constantly for emerging risks. The Companion to this document details new and changing fraud areas that local authorities reported in the research for this strategy.

However, it is important that local authorities approach this task individually, as some risks are particular to individual local authorities (e.g. districts and counties face different risks), and some fraud risks differ geographically.

3. Making the business case

Investing in counter fraud activity:

Local authorities should pursue opportunities to invest in counter fraud and corruption activity in order to generate savings by preventing and recovering losses. Local authorities do not, as a rule explicitly budget for fraud losses (the exception to this is housing benefit, where subsidy losses are budgeted for). However, estimates of local authority losses demonstrate that there is a significant problem, and therefore a significant opportunity for local authorities.

Local authorities should seek to assess their potential losses and measure actual losses in order to make the business case for investing in prevention and detection. In many cases there is an existing business case based upon the experience of other local authorities. For example, the prevention and detection of fraud perpetrated in income areas such as council tax is now widespread and offers higher tax revenue which can be recovered through existing, efficient collection systems.

However, each local authority will need to make its own case as fraud risks will vary significantly depending on location, scope, and scale of activities.

Fighting fraud and corruption is not only a financial issue: fraud and corruption in local authorities are unacceptable crimes that attack funds meant for public services or public assets.

The result is that those in genuine need are deprived of vital services. Fraud and corruption are often linked with other criminal offences such as money laundering and drug dealing. Local authorities have a duty to protect the public purse and ensure that every penny of their funding is spent on providing local services. More often than not, in doing so they are achieving wider benefits for the community.

Preventing losses: local authorities should set in place controls that will prevent fraudsters from accessing services and employment. It is nearly always more cost-effective to prevent fraud than to suffer the losses or investigate after the event.

The technology to establish identity, check documents, and cross-check records is becoming cheaper and more widely used. Controls should apply to potential employees as well as service users – e.g. if someone lies about their employment history to obtain a job they are dishonest and it may not be appropriate to entrust them with public funds, and in any case they may not have the training or qualifications to perform the job to the required standard.

Recovering financial losses: prompt and efficient recovery of losses is an essential component in the fight against fraud and corruption. In some cases local authorities can make use of their own income collection systems to recover losses – e.g. council tax, business rates, and housing benefits. In others, local authorities will need to make use of civil and criminal courts.

The Proceeds of Crime Act 2002 remains a powerful tool for local authorities; however, local authorities should strike the right balance, making the business case for prosecutions but not setting unachievable financial targets. Local authorities should continue to work with the courts to improve the speed of processing and develop case law supporting the successful application of recovery powers.

4. Using resources more effectively

Using the right resources: local authorities should make use of the right number of properly skilled counter fraud and corruption staff, adopt best practice standards, make use of tools and technology, and generate economies of scale through collaboration.

In a changing environment where resources are

limited, where fraud types are constantly changing and where staff may be moving roles, it will be vital to ensure that these resources are kept up to date and that the response remains proportional to the threat.

Professional competence: post SFIS, it will be ever more important to have a common set of standards for those working in counter fraud and for them to have proper training and an understanding of the whole picture within counter fraud.

Fighting Fraud Locally 2011 recommended professionally accredited training. A vital element of any effective counter fraud strategy is the ability of the organisation to call upon competent, professionally accredited counter fraud specialists trained to the highest possible professional standards to investigate suspected fraud.

Local authorities need to be confident that evidence has been lawfully obtained and professionally presented, regardless of whether the anticipated outcome of an investigation is a disciplinary hearing, civil action or criminal proceedings.

5. Collaborating to improve

Sharing resources: in the context of budget reductions and post SFIS many local authorities are faced with reduced counter fraud and corruption resources. Sharing resources and information can help mitigate the risks by ensuring that the response remains proportional and is properly skilled and equipped.

Working together: fraudsters do not respect boundaries of any type – they attack neighbouring local authorities, other agencies and commit other frauds. By working across boundaries local authorities will be better placed to detect the range of fraudulent activity carried out by individuals and gangs.

Local authorities already work with other agencies; the creation of multiple intelligence, data and investigative hubs opens up further opportunities to link up with other local counter fraud agencies – e.g. NHS Local Counter Fraud Specialists.

There are often links between frauds against local authorities and benefit frauds, immigration offences and shadow economy tax evasion, and there are already many examples of good practice and joint working where local authorities work in collaboration

with local police, HMRC, DWP or other agencies. Some local authorities even have police officers seconded and physically located in the authority, while others have access to officers from other enforcement agencies, for example UK Visas and Immigration or Immigration Enforcement and as a result, are more able to detect and investigate fraud.

Local authorities should collaborate with law enforcement partners to understand and mitigate the risks of organised and serious frauds, raise awareness of the tactics used by organised criminals and where possible share fraud data to help prevent future frauds. And where possible share fraud data to help prevent future frauds. Where police investigative support into fraud is required, the fraud must be recorded with Action Fraud.

6. Using technology to tackle fraud

Birmingham City Council Case Study – The value of data

Birmingham City Council makes extensive use of its data warehouse to identify fraud through data matching and data mining. By expanding the data warehouse to hold not only the Council's data, but that of neighbouring authorities and partner organisations, the Council has greatly enhanced its data analysis capability. The facility has now been embedded into frontline housing services to enable users to validate information provided on application forms at the point of receipt.

This provides greater assurance that housing tenancies are being awarded only to those in genuine need and that homes are only sold to those who are genuinely entitled to buy them. Furthermore, it has helped to identify former tenancy arrears of tenants who have been re-housed elsewhere, thereby helping in the collection of those debts.

Data sharing: for many years local authorities have funded and participated in the National Fraud Initiative (NFI); a periodic data matching exercise that identifies potential fraud cases for local authorities to investigate. Local authorities are now pursuing further opportunities to use their data to prevent and detect fraud, taking advantage of

changes in technology and in the appetite of other organisations to collaborate.

These include advanced data analytics, the availability of third party data, and channel shift within local authorities towards online customer contact. Data hubs offer a huge opportunity to work with and inform the wider counter fraud landscape, feeding into the work of the NCA and the Home Office and connecting into the wider architecture of other hubs.

Prevention: local authorities are using new technology to prevent fraud. The availability of relevant data when an application is made for local authority services can prevent fraudsters from obtaining access. Identity can be verified quickly and efficiently.

Technology is being used to check the validity of official documents, such as passports, with the originating government department, and is also being used to generate intelligence alerts, warning local authorities of fraud risks so that a proportional response can be set in place. Local authorities should continue to invest in technology that assists in preventing fraud and corruption.

Sharing good practice: local authorities should make use of good practice to achieve the best results. Within this strategy are examples of a number of local authorities that have begun to do this. The Companion to this strategy contains a checklist for local authorities, a detailed description of fraud types, and examples of good practice with information on where to find more.

As part of Fighting Fraud Locally 2011, the National Fraud Authority undertook research on good practice, legislation and procedure and produced a number of guides. The original research showed the need for a one stop shop for local authorities for good practice, and the guides, which cover recovery, case building and risks, were placed in the CIPFA Good Practice Bank. A number of local authorities have used these documents and they should now be updated where necessary and publicised anew.

The evidence collected for this new strategy shows that the one stop approach has worked and should be continued. A one stop shop for the whole of the public sector is now provided through the CIPFA Counter Fraud Centre website, where the Fighting Fraud and Corruption Locally page can

be accessed free of charge. The London Counter Fraud Partnership has existed since 1998. It is a partnership of all the enforcement agencies involved in tackling fraud in London including local authorities, NHS, Housing Associations and the Metropolitan Police.

This partnership has produced numerous pieces of good practice and fraud prevention documents which are available free within the CIPFA Counter Fraud Centre website. The Metropolitan Police runs a webpage that covers trends in fraud including mandate and vishing/phishing scams and measures to prevent fraud including advice and where to get support. A number of other organisations also offer good practice information which can be accessed by local authorities.

Case Study – Dudley Metropolitan Borough Council Code of Practice

Dudley MBC has Codes of Conduct for employees and members which set out the high standards expected of them. These are also intended to relay certain messages to all suppliers as there is a growing expectation that all service providers in local government should adhere to the same principles of being open and transparent when dealing with colleagues, residents and partners.

In developing their Suppliers' Code of Practice they aimed to reinforce good working practices and to stamp out fraud, bribery, corruption and unacceptable business practices. Staff who buy in goods and services on behalf of the authority and all suppliers are required to work to the guidelines in the Code of Practice. All active suppliers have received an email announcing the launch of the Code and showing where the Code is available on the council website. The Code includes useful contacts if people want to report problems to the council and reinforces the availability of a Fraud Hotline operated by Audit Services. Audit Services also intends to approach key suppliers to obtain feedback and ask for written assurance that they comply with the Code.

Dudley MBC's leaflet Beating Fraud is Everyone's Business, which sets out guidelines for employees, managers and members, is available on the CIPFA website.

7. Tackling Corruption

The UK Anti-Corruption Plan requires a response from local authorities. Areas in the plan that local authorities should pay attention to are:

- Working more closely with the NCA and other law enforcement agencies
- Instituting a public awareness campaign
- Putting in place confidential reporting arrangements for whistleblowers and responding effectively to reports of corruption
- Preparing corruption risk assessments across all areas of business
- Procurement and the European Public Procurement Directives in respect of the exclusion of suppliers.

Areas in the plan that are specific to local authorities are:

- The CIPFA Counter Fraud Centre, which will promote measures and provide tools and services to the public sector in this area. The CIPFA Counter Fraud Centre is offering e-learning on anti-corruption and whistle-blowing and health checks on anti-corruption measures
- Funding which has been made available by DCLG to support local authorities' efforts to tackle fraud
- The Transparency Code
- Working more closely with the Home Office in respect of local partnerships and the way in which these interact
- The research, development and publication of Fighting Fraud and Corruption Locally.

Section 3: Delivery Plan

Recommendations

General recommendations

1. A working group from local authorities should examine and devise a standard and common methodology for measuring fraud and corruption within local authorities. Once it has been agreed, local authorities should use the standard and common measure of estimated levels of fraud and corruption.

2. A working group from local authorities should be established to look at the area of powers, incentives and information barriers to:

- Examine areas where barriers exist
- Gather evidence
- Look at achieving quick wins
- Place examples of good practice in the Fighting Fraud and Corruption Locally Good Practice Bank.

3. A working group from local authorities should be established to look at the area of fraud and corruption enablers with a view to preventing more fraud and corruption.

4. There should be an annual report for Fighting Fraud and Corruption Locally which will provide more detail of progress and developments in areas like procurement.

5. DCLG should work with local authorities and the CIPFA Counter Fraud Centre (which host Fighting Fraud and Corruption Locally) to acknowledge good practice and should share useful case studies to ensure that there is an appreciation by central government of achievements at local level.

6. DCLG should give consideration to the provision of future incentives to help local authorities to tackle housing fraud.

7. In relation to procurement fraud, a working group should be established, including subject matter experts and relevant interested parties as well as local authority counter fraud staff, to:

- Investigate and collate good practice in this area and place this in the Fighting Fraud and Corruption Locally Good Practice Bank

- Create a procurement fraud map and define the stages at which procurement fraud can happen in a local authority: highlighting low, medium and high potential risks, to inform risk awareness training for the future. This should include grant fraud where it crosses over.

- Support the implementation of the UK Anti-Corruption Plan by including corruption in procurement in the procurement fraud map

- Work with the London Counter Fraud Partnership to tailor the guidance they have created to the specific needs of local authorities

- Include in the Powers and Penalties Guide a list of powers and potential sanctions relevant to procurement fraud

- Work with the local authorities that are running pilots in order to learn lessons and communicate them to others

- Explore the possibility of cartels and mechanisms to detect them.

Recommendations for local authorities

8. There should be a structured programme on fraud and corruption awareness for elected members and senior managers.

9. Local authorities should undertake up-to-date fraud and corruption awareness programmes and use the free resources developed by local authorities that are available in the Fighting Fraud and Corruption Locally Good Practice Bank.

10. Local authorities should collaborate where it is appropriate to do so and should place examples of useful outcomes in the Fighting Fraud and Corruption Locally Good Practice Bank and use this as a conduit to exchange information with each other.

11. Local authorities should profile their fraud and corruption risks using the section on risks from the Fighting Fraud and Corruption Locally Companion document as a starting point.

12. Local authorities should ensure that they have the right resources in place by having made an assessment of the risks on fraud and corruption which should be reported to the Audit Committee or similar.

-
- 13.** Senior officers within local authorities should ensure that officers working in the counter fraud team should be provided with appropriate accredited training.
- 14.** Senior officers within local authorities should ensure that officers who work in areas where they might encounter fraud and corruption have appropriate training.
- 15.** Local authorities should continue to work together on counter fraud hubs or, should investigate the benefits of joining hubs, and should share information where possible to help each other increase resilience to fraud and corruption and establish best practice.
- 16.** Local authorities should participate in data technology pilots to improve their efforts to detect and prevent fraud and corruption.
- 17.** Local authorities should publicise and celebrate successes. Press stories should be collated on the Fighting Fraud and Corruption Locally Good Practice Bank and, where possible, publicity should be endorsed and promoted by DCLG.
- 18.** Local authorities should make an assessment using the Fighting Fraud and Corruption Locally Companion Checklist, increasing awareness of the UK's Anti-Corruption Plan, make themselves aware of NCA advice, ensure that staff are trained on anti-bribery and corruption, and report this to their Audit Committee together with actions to meet the criteria set out in the Plan.
- 19.** Local authorities should use the free CIPFA Code of Practice on Managing the Risk of Fraud and Corruption to ensure a common standard.
- 20.** Local authorities should make sure that they have in place robust reporting procedures including whistle-blowing and that these include assessment through the BSI or Public Concern at Work and that staff are trained in this area.
- 21.** Local authorities that do not have their own housing stock should consider working with their housing partners, in return for nomination rights, to prevent and detect social housing fraud.
- 22.** Where appropriate local authorities should consider participating in the Tenancy Fraud Forum.

- 23.** Local authorities should work with partners on relevant procurement projects and pilots and disseminate information as appropriate.
- 24.** Local authorities should look at insider fraud and consider using the Internal Fraud Database at CIFAS following the London Borough of Ealing pilot.
- 25.** Local authorities should horizon scan and explore new areas, e.g. cyber and identity issues and explore new methods to detect fraud, e.g. behavioural insights.
- 26.** Local authorities should use the Fighting Fraud and Corruption Locally Companion Checklist to ensure that they have the right counter fraud and anti-corruption measures in place and should report the results of this to their Audit Committee and the External Auditor.

Framework for Delivery

To support the delivery of this strategy appropriate governance arrangements should be set in place to oversee the implementation of recommendations and the maintenance of the Fighting Fraud and Corruption Locally resources for local authorities.

A board will be established to ensure activity takes place and to provide senior stakeholder support.

The day to day management and hosting of the Fighting Fraud and Corruption Locally web page, survey, and secretariat sits with the CIPFA Counter Fraud Centre and is provided on a pro bono basis. This arrangement is working effectively.

Deliverables

The FFCL Board will need to ensure that progress in implementing the recommendations in this strategy is monitored and that an annual report is provided and published setting out what has been achieved and what remains to be done, so that local authorities and other stakeholders have clear visibility of how the strategy has improved outcomes.

Thank you

The Fighting Fraud and Corruption Locally Board is:

- Ian O'Donnell (Chair) – London Borough of Ealing
- Bevis Ingram – LGA
- Andrew Hyatt – Royal Borough of Kensington and Chelsea
- Simon Lane – Former London Borough of Brent
- Mike Clarkson – Mazars
- John Baker – Moore Stephens
- Rachael Tiffen – CIPFA Counter Fraud Centre
- Ben Stoneman – DCLG
- Nick Pellegrini – DCLG

The development of this strategy was overseen by a task and finish group commissioned by the board, whose members were:

- Charlie Adan – Chief Executive, Barbergh and Mid Suffolk District Council
- Ian O'Donnell (Chair) – Executive Director of Corporate Resources, London Borough of Ealing
- Bevis Ingram – Senior Adviser, Finance, LGA
- Ben Stoneman – DCLG
- Nick Pellegrini – DCLG
- Rachael Tiffen – Head of Faculty, CIPFA Counter Fraud Centre and Governance Faculty
- 3 Local Authority representatives
 - John Rosenbloom, former Manchester City Council
 - Stuart Limb, Leicester City Council
 - Kevin Campbell-Scott, Southwark Council
- Secretariat – Olivia Coates, CIPFA Counter Fraud Centre Project Manager

The Fighting Fraud Locally Board wishes to thank:

- Andrea Hobbs
- Anna Atkinson
- Colin Sharpe
- Duncan Warmington
- Enfield Council
- Essex Council
- George Sexton
- Helen Peters

- James Flannery
- John Rosenbloom
- Karen Bellamy
- Katrina Robinson
- Les Bradshaw Dudley MBC
- Lewisham Council
- London Councils
- Manchester City Council
- Mark Astley
- Martin Crowe
- Mike Clarkson
- National Audit Office (NAO)
- Paul Bicknell
- Paul Bradley
- Paul Rock
- Phil Sapey
- Professor Mike Levi
- Professor Alan Doig
- Public Concern at Work
- Ray Joy
- Royal Borough of Kensington and Chelsea
- Rob Whiteman
- Simon Bleckly
- Simon Dukes
- Zoe Neal

Special thanks go to:

The researchers and drafters:

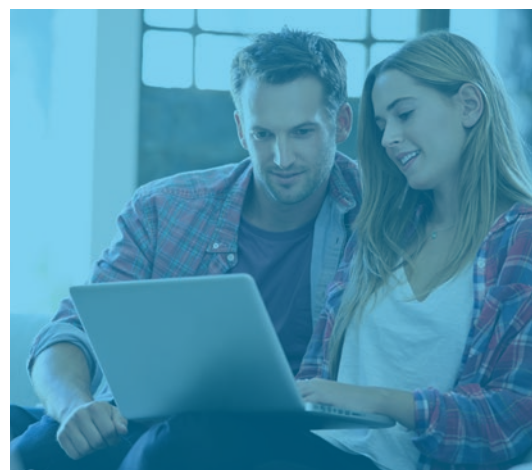
- Kate Beddington-Brown
- Leslie Marshall
- Carol Owen
- Rachael Tiffen

The Board wishes to thank Ian O'Donnell for chairing the Fighting Fraud Locally Board 2011-2016

**

And all those who attended the workshops, provided feedback or responded to surveys and who took up the actions after Fighting Fraud Locally 2011.

Produced by:



Annual Fraud Indicator 2016

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Introduction

Experian, PKF Littlejohn and the University of Portsmouth's Centre for Counter Fraud Studies have created a partnership to help consistently gauge, analyse and quantify the true scale of fraud in the UK.

The work is underpinned by a group of cross-sector fraud experts who regularly meet under a broad umbrella known as the United Kingdom Fraud Costs Measurement Committee (UKFCMC). Jim Gee, Head of Forensic and Counter Fraud Services at PKF Littlejohn, chairs the UKFCMC. Nick Mothershaw, Director of Fraud and Identity Solutions for Experian, is its vice-chair. Professor Mark Button, Director of the Centre for Counter Fraud Studies at University of Portsmouth, is the UKFCMC's secretary.

It includes members from the UK's public, private and charitable sectors - but crucially all have a specific expertise in fraud - and it's their discussions, input and supporting research, that have helped make this report possible.

The research team was led by Professor Mark Button and included David Shepherd, Dean Blackburn and Dr Martin Tunley.

The methodology used has been developed in line with the ground-breaking work of the now defunct National Fraud Authority put together to help lay down a benchmark by which year-on-year sector-specific fraud analysis can be made from here on.

A person is riding a black bicycle on a paved surface. The person is wearing a grey t-shirt, black pants, and orange and white sneakers. They are holding the handlebars with their right hand, which has a gold watch. The background shows green trees and a brick building. A blue semi-transparent overlay covers the middle of the image, containing a quote in white text.

“
**Unsurprisingly, the results
make for sobering reading
and highlight the prevalence
fraud has on our lives.**
”



**Annual UK
fraud losses**
could be

£193 billion

**Private Sector
fraud losses
estimated**
to be

£144 billion
per year

Public Sector fraud estimated at

£37.5 billion
per year

Charities and charitable
trusts are believed to be
losing up to
£1.9 billion



every year to fraud



Fraud committed
directly against
individuals is
estimated at around

£10 billion
a year

Expert views



No one knows the true cost of fraud in the UK, but it's taking place on an industrial scale and is without question one of the biggest crimes afflicting UK plc today. It is unrelenting and indiscriminate with many organisations estimated to be losing around five per cent of their annual revenue to fraud.

The state infrastructure has a modest impact on fraud and means it's largely down to industry, business and commerce to take steps to protect themselves. Inside, the prevalence, frequency and features of key losses are outlined.

The strengths and weaknesses of different sectors in tackling fraud, error and loss are also highlighted. But it's also clear there are huge variances in the size of losses and the quality of counter fraud strategies across the sectors.

By highlighting Britain's vulnerabilities to fraud, it is hoped our resilience to the crime can be tackled from the grass-roots up.

Professor Mark Button
Director of the Centre for Counter Fraud Studies
University of Portsmouth.

Professor Mark Button is Director of the Centre for Counter Fraud Studies at the Institute of Criminal Justice Studies, University of Portsmouth. He has written extensively on counter fraud and private policing issues, publishing numerous articles, chapters and completing seven books with more in the pipeline.

Some of his most significant research projects include leading the research on behalf of the National Fraud Authority and ACPO on fraud victims, the Department for International Development on fraud measurement, Acromas (AA and Saga) on 'Cash-for-Crash fraud', the Midlands Fraud Forum, law firm Eversheds and forensic accountancy firm PKF, on 'Sanctioning Fraudsters'.

Mark has also acted as a consultant for the United Nations Offices on Drugs and Crime on Civilian Private Security Services and for the United Nations Development Programme on Improving the Civilian Oversight of Security in Turkey.

He currently holds the position of Head of Secretariat of the Counter Fraud Professional Accreditation Board. Before joining the University of Portsmouth he was a Research Assistant to the Rt Hon Bruce George MP, specialising in policing, security and home affairs issues. Mark completed his undergraduate studies at the University of Exeter, his Masters at the University of Warwick and his Doctorate at the London School of Economics.

Unless you know the nature and scale of fraud, how can you implement an effective solution?

On behalf of the UK Fraud Costs Measurement Committee I am pleased to present our 2016 estimate of the cost of fraud to UK Plc. This is important because it is the cost of fraud that undermines the financial health and stability of private companies, that stops public sector organisations providing the quality of public services for which we pay our taxes and which denies charities the full value of the donations which we make.

After many years of research we now know that fraud isn't just a series of low volume, high value incidents which, if you are lucky, you can avoid, and which, if you are not, you react to after losses have been discovered. We now know that it is a mostly high volume, low value phenomenon which is present in any organisation of any size as an ongoing business cost, and which is best pre-empted by raising levels of fraud resilience (a measure of protection against fraud).

The publication of this report makes the true nature and scale of the problem much clearer, something which will develop further with future annual reports, and as measurement of the nature and scale of the problem is undertaken more and more widely. It is obvious that the more you know about a problem, the better you can design an effective solution. In that way, this report makes an important contribution to the success of counter fraud work.

Jim Gee
Partner and Head of Forensic & Counter Fraud Services
PKF Littlejohn LLP



Jim Gee is Partner and Head of Forensic and Counter Fraud Services at PKF Littlejohn. He is also Visiting Professor at the University of Portsmouth and Chair of the Centre for Counter Fraud Studies, Europe's leading centre for research into fraud and related issues.

During more than 25 years as a counter fraud specialist, he has advised Ministers, Parliamentary Select Committees and the Attorney-General, as well as national and multi-national companies and some of the most prominent charities. To date he has worked with clients from 38 countries.

He specialises in helping organisations reduce the cost and incidence of fraud through strengthening the resilience to fraud of relevant processes and systems.

Jim is widely published and recent publications include The Financial Cost of Fraud, a global study published last year and The Resilience to Fraud of UK Plc, a report on how different UK economic sectors protect themselves against fraud, to be repeated this year.

He has also co-authored a book, with Professor Mark Button from the University of Portsmouth, called 'Countering Fraud for Competitive Advantage' which was published globally in 2013. This explains how cutting the cost of fraud can boost profitability. His second book, 'The Handbook for Accredited Counter Fraud Specialists', was published in early 2015.'



The UK fraud picture is punctuated by some mind-boggling numbers, clearly as a result of sustained, organised and deliberate attacks on consumers, commerce, industry and government alike.

We're all at risk and we all share a common responsibility for vigilance because the fraudsters will continue to be inventive, adaptable and willing to exploit any perceived weaknesses in any back-office operation.

The good news is that the figures lay down a benchmark and indicate where the vulnerabilities may lie.

Clearly, increasing effort and investment in seamless digital offerings that can continue to offer the same level of due diligence and consumer protection, with real-time alerts to identify high-risk and fraud activity, will be critical. In the meantime, the growth of the Internet of Things will also make the development of improved fraud prevention systems hugely important.

Unfortunately Fraudsters remain innovative - Consumers need to continue to be vigilant in the protection of their own Identity.

The shift to consumer-centric digital identities, where a consumer re-uses a single, strongly verified digital identity to access many different online services, will help combat ID theft. However, it will also undoubtedly introduce new types of fraud attack that we must be prepared to defend against.

Nick Mothershaw
Director of Fraud and Identity Solutions, Experian.

Nick is responsible for the strategic development of Experian's fraud and identity solutions.

The Identity Solutions portfolio includes electronic ID validation and ID verification through challenge questions or document verification. Experian now offers a full Identity as a Service solution, including ID proofing and strong credential management, and is one of the consumer identity providers within the GOV.UK/Verify scheme. Fraud solutions in the portfolio include Device Fraud (FraudNet) and Application Fraud (Detect and Hunter).

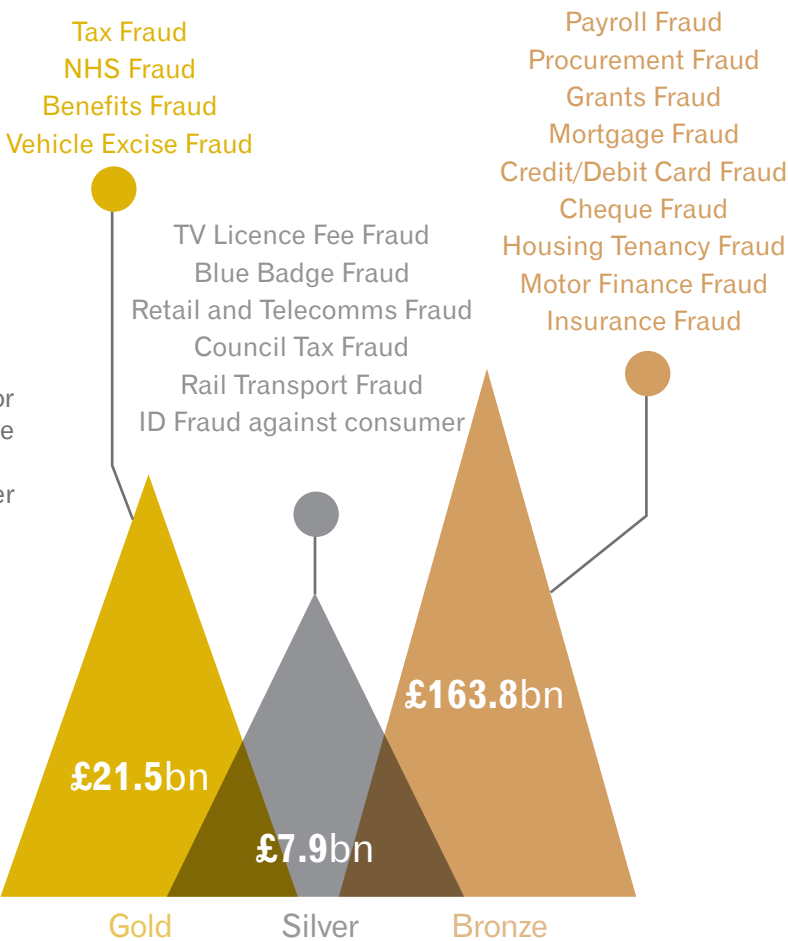
Key to the role is to ensure clients gain maximum value from our solutions by offering highly skilled consultancy services, expert analytics, trend analysis and insight around our fraud products, fitting our solutions to clients' specific needs.

Nick has been with Experian for more than 12 years. Previously, he was a director of a company providing global solutions within the broader criminal justice arena. Here he developed the Scottish Intelligence Database - the only cross-force intelligence sharing and matching solution in the UK.

Nick is also Vice-Chair of the UK chapter of the Open Identity Exchange (OIX), a member organisation whose mission is to define open policies and standards that will allow a marketplace of interoperable Digital Identities to be created in the UK.

Overview and analysis

The report's methodology was overseen and reviewed by an independent panel of fraud experts drawn from a broad cross-section of private and public sectors before being categorised gold, silver or bronze. For each fraud category, the most appropriate estimates were applied - particularly in instances when available data was not as credible as the higher quality and up-to-date gold standard data. A detailed summary can be found in the Appendix.



UK fraud by sector



Classification and confidence

Category	Definition
Gold	Gold standard analysis is met when a statistically valid sample of expenditure / income has been examined, with a clear and legally-anchored concept of fraud applied. Estimates produced offer a 90% minimum level of statistical confidence with an accuracy level of + or – 2.5%, or better. Results have also been independently validated. Also included in the Gold standard were statistically valid assessments of levels of victimisation of individuals, conducted by reputable organisations.
Silver	The Silver standard is met when detected cost levels of fraud have been identified and underpinned by a credible estimate of undetected fraud to offer a credible total fraud cost.
Bronze	The Bronze standard is met when an attempt at identifying the cost of fraud has been made, but there may be limited confidence in its credibility.

Where a confidence category is followed with a # symbol, data has been updated to the most recent costs based on the Bank of England Inflation Calculator.

Private sector fraud

It is estimated private sector fraud could cost the UK economy up to £143.6 billion. But further analysis suggests that may be a conservative figure, given the general sentiment among our biggest businesses against releasing commercially sensitive, or potentially damaging, financial fraud data.

Right now no comprehensive data exists in the public domain in the UK. As a result, the gold standard level of risk may be artificially low and is likely to stay under wraps for the foreseeable future. It's well known that in-depth fraud studies have been commissioned in some sectors but they have rarely been publicised. It's fair to say, private sector fraud estimates are less robust than for the public sector – but many agree the actual picture is gloomier than the one currently being painted – particularly given the scale of potential losses.

The value of private sector expenditure and income generated from sales is huge. During 2014, the private sector – even without including banking and finance – spent nearly £2.7 trillion on procurement (ONS, 2014a), while generating £3.5 trillion in sales (BIS, 2014). By comparison, GDP for the same period was £1.7 trillion (ONS, 2015a). In the past fraud losses have been directly linked to GDP, but it's a blunt measure simply based on a proportion of the value added to the economy – rather than as a proportion of actual expenditure or income.

Financial sector estimates also exclude investment activities, which generate revenue but are not strictly customer facing sales activities. But any related frauds, which are generally perpetrated by employees, can be prone to spectacular losses. There are also no precise estimates for losses to delinquent corporations, rogue governments or state-sponsored cyber crime.

Procurement Fraud

A significant proportion of the costs of fraud in this report have been attributed to procurement fraud. The procurement of goods and services often accounts for a significant slice of an organisation's expenditure and is open to a wide range of potential risks of fraud. This is because there are usually multiple individuals involved in a process who often do not work closely together, i.e. the person who wants something purchased does not always work directly with the people who initiate orders and with those responsible for paying. There are often multiple opportunities for fraud in procurement and some of the most common are listed below:

- Legitimate suppliers adding unauthorised additional cost to an invoice
- Legitimate suppliers colluding with staff to add additional costs to an invoice
- Fraudulent suppliers/staff submitting false invoices for payment
- Fraudulent suppliers/staff diverting legitimate payments to legitimate suppliers to themselves
- Under-provision of goods and services in terms of quality or quantity

Procurement fraud is estimated to be £127 billion – or 4.78% - of the £2.7 trillion of total expenditure

Counting the cost of procurement and payroll fraud

Clearly, procurement expenditure of nearly £2.7 trillion and sales income of £3.5 trillion in the non-financial private sector means that even a low rate of fraud will result in very sizeable losses.

Procurement estimates include expenditure on everything from goods, materials and services, to spending on large-scale capital projects. They also include expenses. But the total value of procurement expenditure data excludes the financial sector and, as a result, its coverage only really relates to around two-thirds of the UK economy (ONS, 2014a).

Total value of payroll expenditure includes income tax, employees' national insurance and employers' national insurance.

It has been calculated by assuming an average salary of £25,012 per year (ONS, 2014d) and - for ease of calculation given the available data – accepted that the 13.8% contribution rate for employers' national insurance is the same for all staff across all business categories. Other forms of business taxation, such as corporation tax, are outside the scope of our analysis.

In order to maintain consistency, a procurement expenditure fraud loss rate of 4.78% and a payroll fraud loss rate of 1.7%, applied elsewhere to public sector expenditure, have been adopted to gauge the losses.

Procurement fraud is estimated to be £127 billion – or 4.78% - of the £2.7 trillion of total expenditure. Total losses from payroll expenditure are estimated to be £12 billion – or 1.7% - from an expenditure of £690 billion. The aggregate loss is nearly £139 billion.

Case Studies

In February 2015 two men were convicted after they had been found to have submitted 90 false invoices to their company amounting to £700,000 for 'system maintenance work' for which no such work was delivered (City of London Police, 2015).

In 2012 three men were convicted for their part in a major bribery case involving the award of contracts from a major supermarket for potatoes. The men had taken bribes to award the contracts and amounted to over £9 million in losses.

Procurement and payroll fraud by company size

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Expenditure (£million)	Fraud (£million)	Fraud %
Small enterprises	36,393	Procurement fraud	Bronze#	UK	2013	643,390	30,776	4.78%
		Payroll fraud	Bronze	UK	2013/14	330,414	5,617	1.70%
Medium enterprises	20,902	Procurement fraud	Bronze#	UK	2013	407,077	19,472	4.78%
		Payroll fraud	Bronze	UK	2013/14	84,080	1,430	1.70%
Large enterprises	81,762	Procurement fraud	Bronze#	UK	2013	1,611,396	77,081	4.78%
		Payroll fraud	Bronze	UK	2013/14	275,373	4,681	1.70%
						Total	139,057	

Plugging in to cyber-fraud

During the past 12 months, the UK saw a significant jump in phishing attacks as cyber criminals increasingly targeted consumers and company staff with online scams.

Figures from government-backed cyber security body GetSafeOnline, found that phishing attacks rose by more than a fifth (21%) last year and were estimated to cost Britain more than £280 million.¹

The organisation has also partnered with the National Fraud Intelligence Bureau, along with a number of leading UK banks and anti-crime bodies, to launch a new campaign warning of the dangers of online and social engineering scams, fake phone calls and emails. It comes as the number of phishing scams reported between November 2014 and October 2015 topped 95,500, according to figures from Action Fraud.

But additional research from Get Safe Online indicates that more than one in four (26%) of those who fell foul of online crime were typically scammed by a combination of either social engineering emails or phone calls.

“

The number of phishing scams reported between November 2014 and October 2015 topped 95,500

”

Phishing attacks rose by more than a fifth (21%) last year and were estimated to cost Britain more than £280 million.

Unsurprisingly, email phishing proved the most commonplace scam, accounting for more than three out of four (77%) of all reported incidents, followed by phone calls, which accounted for around one in ten (12%) incidents.

Nearly one in three (29%) reported phishing emails were also found to contain a potentially malicious link which, when clicked, could directly deliver malware to the users' computer, or request their personal details.

The favoured angles and guises for phishing scams hinge on an unsolicited email impersonating a legitimate company or organisation.

Financial sector sales fraud

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Sales/ transactions (£million)	Fraud (£million)	Fraud %
Financial sector sales	3,175	Insurance fraud	Bronze#	UK	2013/14	220,000	1,323	0.60%
		Mortgage fraud	Bronze#	UK	2013/14	205,922	1,310	0.64%
		Plastic card fraud	Bronze#	UK	2014	608,648	450	0.07%
		Online banking fraud	Bronze#	UK	2014	na	41	na
		Cheque fraud	Bronze#	UK	2014	511,267	28	0.01%
		Telephone banking fraud	Bronze#	UK	2014	na	12	na
		Motor finance fraud	Bronze#	UK	2013/14	32,400	11	0.03%
Total						3,175		

Insurance industry identifies record-high of £3.6 million of fraud every day

Insurance industry body the Association of British Insurers (ABI), revealed 350 insurance frauds valued at £3.6 million were being uncovered every day last year.² It equated to more than £1.3 billion per year, marking a three per cent year-on-year rise on 2013, with the value of frauds detected now at an all-time high. The ABI's figures also revealed:

- Insurers detected 130,000 fraudulent claims during the same period.
- Between 2009 and 2014 the overall value of frauds detected had risen by more than half (57%).
- Dishonest motor insurance frauds were most common and of highest value with 67,000 detected, up by 12 per cent on 2013 and costed at £835 million.
- The number of liability insurance frauds detected jumped by three-quarters (75%) to 19,800, with a value of £330 million, marking a rise of a fifth (20%) on 2013.

But the detection rate also highlights insurers' determination and greater focus on bogus liability claims, so-called 'slip and trip' scams and industrial deafness complaints. The fall in the number of bogus domestic and commercial property insurance claims, reflects determined moves by the industry to tackle criminality. In 2014, the number of detected property frauds was 24,533, down nearly a third (29%) year-on-year, with the detected value of £108 million also down by more than a fifth (21%).

Mortgage fraud

Given there are 11.1 million mortgages in the UK, underpinned by borrowing worth more than £1.3 trillion, home loans continue to be an attractive target for fraudsters.³

But calculating a reliable estimate of mortgage fraud has been challenging for the mortgage lending community. During the past five years, experts from most of the UK's main lenders, representing 98% of the mortgage market, were canvassed to gauge their opinion on mortgage fraud losses. The consensus estimate of fraud losses to the industry was around £1 billion.⁴

Analysis by Experian and National Hunter, an anti-fraud data-sharing system used by members of the financial services industry, showed the proportion of detected mortgage fraud cases was around 84 cases per 10,000 applications, although the broad trend has been steadily falling.⁵

Last year, the vast majority of mortgage fraud being attempted by applicants included lying about hidden or adverse credit, non-disclosure of critical financial information, or misrepresenting employment status.

²You could not make it up, but they did - ABI - <https://www.abi.org.uk/News/News-releases/2015/07/You-could-not-make-up-Savings-honest-customers-insurers-expose-3-6-million-worth-insurance-frauds>

³House purchase lending up 18% year-on-year - CML - <https://www.cml.org.uk/press-releases/november-press-release/>

⁴Annual Fraud Indicator - NFA - https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206552/nfa-annual-fraud-indicator-2013.pdf

There are pockets of reliable data relating to retail fraud, telecoms fraud and fare evasion. The British Retail Consortium estimates current total sales fraud losses at £223 million per year (BRC, 2015). It is a comparably low 0.06% of the total sales for the sector (ONS, 2014e). Retail fraud losses in the USA are currently estimated at US\$60 billion (£42 billion) a year and represent around 1.3% of sales.⁶

Non-financial sector sales fraud

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Sales (£million)	Fraud (£million)	Fraud %
Non-financial sector sales	1,363	Retail	Silver	UK	2014	371,956	223	0.06%
		Telecoms fraud	Silver#	UK	2013	38,600	926	2.40%
		Rail transport fare evasion	Silver#	UK	2013	8,200	214	2.61%
						Total	1,363	

The telecoms fraud loss rate of 2.4% has been directly adopted from the National Fraud Authority's analysis in 2013, before being applied to the £38.6 billion of industry sales recorded in 2014 (Ofcom, 2014).

Similarly, the rail transport fraud figure is made up predominantly by fare dodgers and has been inflated by two per cent since the NFA's 2013 report.

⁵Fraud Report 2015 - Experian - http://www.experian.co.uk/identity-and-fraud/fraud-statistics/?utm_source=direct&utm_medium=bottominclude&result=success

⁶US Retail Fraud Survey - <http://www.retailfraud.com/us-retailers-losing-60-billion-a-year-to-fraud/>

Sources: NFA (2013); ONS (2014e); Ofcom (2014); Office of Rail Regulation (2015)

Public sector fraud

Public sector fraud accounted for £37.5 billion, or 5.5% of the £694 billion spent by central and local government in 2013/14 - excluding debt interest (HM Treasury, 2014). Crucially, public sector fraud in the UK in the areas of central taxation and benefits is subject to some of the most accurate and critical fraud loss measurement. Below, we have analysed the estimates further into discrete income and expenditure categories.

Central Government tax fraud

The estimate of tax losses to fraud is derived from robust data amounting to £15.4 billion or 3% of the £510 billion collected in tax revenue.

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Sales (£million)	Fraud (£million)	Fraud %
Central Government	15,435	Tax fraud	Gold	UK	2012/13	504,000	15,400	3.06%
		Vehicle excise fraud	Gold	UK	2013/14	5,800	35	0.60%
						Total	15,435	

“

Public sector fraud accounted for £37.5 billion, or 5.5% of the £694 billion spent by central and local government in 2013/14

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The Government's own estimate of TV licence evasion losses was put at £205 million

TV licence fee income

Central government generates around £20 billion a year from the sale of goods and services, licences, fee income and the sales of assets (HM Treasury, 2014).

TV licence fee and NHS prescription charges are put under the spotlight below, given they have the potential to be at risk as a result of consumers not paying, or by falsely claiming exemption from prescription charges.

The Government's own estimate of TV licence evasion losses was put at £205 million (TV Licensing, undated).

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income (£million)	Fraud (£million)	Fraud %
Central Government other income	205	Television licence fee evasion	Silver	UK	2014	3,726	205	5.50%

NHS England fraud

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income/ expenditure (£million)	Fraud (£million)	Fraud %
NHS England	2,472	Dental charge fraud	Gold#	E	2013/14	1,132	43	3.80%
		Optical charge fraud	Gold#	E	2013/14	766	23	3.00%
		Prescription charge fraud	Gold#	E	2013/14	7,676	237	3.09%
		Dental contractor fraud	Bronze#	E	2013/14	3,010	121	4.02%
		Phamaceutical contractor fraud	Bronze#	E	2013/14	2,094	83	3.96%
		Optical contractor fraud	Bronze#	E	2013/14	518	13	2.51%
		General practice contrac- tor fraud	Bronze#	E	2013/14	7,632	349	4.57%
		Other procurement fraud	Bronze	E	2013/14	21,900	1,048	4.78%
		Payroll fraud	Bronze	E	2013/14	32,660	555	1.70%
Total						2,472		

The total spent on the NHS in England in 2013/14 was £109.7 billion (Gee and Button, 2015b). Areas examined covered £67.7 billion of expenditure - procurement, payroll, dental, pharmaceutical, optical and GP fraud – as well as £9.57 billion of income from dental, optical and prescription charges.

Losses relating to expenditure total £2.169 billion. Losses relating to income total £303 million.

NHS gold standard measurements of patient charges fraud were applied to the latest data to estimate total fraud losses at £303 million (Gee and Button, 2015b).

The figures for the medical contractor frauds are adopted from the study by Gee and Button (2015b).

The total loss from £21.9 billion of procurement expenditure is estimated to be £1.05 billion, while the total loss to payroll fraud is estimated to be £0.56 billion.

Local government fraud (excluding benefits)

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income/ expenditure (£million)	Fraud (£million)	Fraud %
Local government (excluding benefits)	7,319	Blue Badge Scheme misuse	Silver#	E	2013-14	1,547	48	3.10%
		Housing tenancy fraud	Bronze#	E	2013-14	na	1,755	na
		Procurement fraud	Bronze	UK	2013/14	86,354	4,131	4.78%
		Payroll fraud	Bronze	UK	2013/14	65,171	1,108	1.70%
		Grant fraud	Bronze	UK	2013/14	5,063	198	3.91%
		Pension fraud	Bronze	UK	2013/14	2,023	79	3.91%
						Total	7,319	

Local and regional government expenditure in 2013/14 was £160 billion (HM Treasury, 2014). Total estimated fraud losses amounted to £7.3 billion. Much of the data available concerning fraud in local government was bronze quality data with some silver quality data.

In line with procurement and payroll fraud for central government and the NHS, the same analysis was applied producing fraud losses of £4.1 billion and £1.1 billion respectively.

For housing tenancy fraud, the same methodology used by the NFA to assess losses was used. It is now at £1.76 billion.

Blue Badge fraud – the fraudulent misuse of disabled parking permits – was also based on NFA analysis and currently estimated to be £48 million (NFA, 2013).

Fraud involving grant expenditure was estimated to accrue annual losses of £198 million.

Similarly, analysis of fully funded local government pensions, resulted in estimated losses of £79 million.

Benefits and tax credits fraud

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income/ expenditure (£million)	Fraud (£million)	Fraud %
Benefit and tax credits	2,370	Housing benefit fraud	Gold	E,S,W	2013/14	24,200	430	1.78%
		Income support	Gold	E,S,W	2013/14	3,700	100	2.70%
		Jobseekers allowance	Gold	E,S,W	2013/14	4,400	110	2.50%
		Employment and support allowance	Gold	E,S,W	2013/14	10,500	130	1.24%
		Pension credit	Gold	E,S,W	2013/14	7,200	150	2.08%
		Incapacity benefit	Gold#	E,S,W	2010-14	1,200	4	0.33%
		Disability living allowance	Gold#	E,S,W	2005-14	13,800	70	0.51%
		Carer's allowance	Gold#	E,S,W	1997-14	2,100	80	3.81%
		State pension	Gold#	E,S,W	2005-14	83,100	na	na
		Council tax reduction fraud	Silver#	E,S,W	2012/13	4,900	60	1.22%
		Tax credit fraud	Gold#	UK	2013-14	29,394	1,146	3.90%
		Other	Bronze	E,S,W	2013/14	13,800	90	0.65%
Total						2,370		

The most accurate and extensive data collected by Government for fraud losses relates to benefits fraud. It is nearly all regarded as gold standard data. Estimated losses currently stand at £2.4 billion to the Government.

Central government expenditure fraud

Central government spends around £269 billion (excluding NHS England) a year, even when benefits, local authority financing and debt interest are excluded (HM Treasury, 2014). The types of fraud associated with that level of expenditure have been further analysed and categorised into distinct areas of expenditure.

They include procurement, payroll, grant fraud, pension fraud, along with National Savings and Investment fraud. For each, best estimates were derived in calculating the fraud losses. It was estimated that the total value of fraud was £10 billion, or 3% of the Government's total £337 billion annual spend.

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Expenditure (£million)	Fraud (£million)	Fraud %
Central Government (excluding benefits)	10,020	Procurement fraud	Bronze	UK	2013/14	112,189	5,363	4.78%
		Payroll fraud	Bronze	UK	2013/14	66,537	1,131	1.70%
		Grant fraud	Bronze	UK	2013/14	68,659	2,685	3.91%
		Student finance fraud	Bronze#	E,W,NI	2013-14	10,473	409	3.91%
		Pension fraud	Bronze	UK	2013/14	9,296	363	3.90%
		National Savings and Investments fraud	Bronze	UK	2013/14	2,010	69	3.43%
Total						10,020		

Central government spends around £269 billion a year, even when benefits, local authority financing and debt interest are excluded

Central government spends nearly £112 billion (HM Treasury, 2014) on procurement. As a result, there are clearly many opportunities for frauds to take place, including false invoices, additional items on invoices, goods and services ordered for private gain, under-provision of goods or overcharging.

In the past, several unpublished loss measurements have been made relating to procurement expenditure. Findings have ranged from 7.8% to nearly 19%. But our panel of fraud experts reviewed the figures and opted for prudence, estimating losses at 4.78%, resulting in a total of £5.4 billion of losses in this area.

Unsurprisingly, payroll is also a significant area of expenditure in central government, amounting to nearly £67 billion a year (HM Treasury, 2014).

Fraud analysts reviewed the data in line with benchmarks used elsewhere in other public sector fraud measurements and opted for consistency by applying a loss rate of 1.7 per cent (Gee and Button, 2015a). It yields an estimated annual fraud loss of £1.1 billion.

Similar analysis of fraud involving grant expenditure delivered an estimate of £2.7 billion of annual losses.

Student finance fraud was also analysed and adjusted in line with average welfare and health expenditure resulting in an estimated annual loss of £409 million.

In analysing fraud within fully funded pensions paid by the Government to former civil servants, the welfare and health benchmark was also deemed to be the most appropriate measure, producing an annual estimated loss of £363 million.

National Savings and Investments were also put in the spotlight resulting in an estimated annual loss of £69 million

Charities

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Expenditure/ income (£million)	Fraud (£million)	Fraud %
Registered Charities in UK	1,858	Expenditure:						
		Procurement fraud	Bronze	UK	2013/14	16,224	776	4.78%
		Payroll fraud	Bronze	UK	2013/14	52,143	886	1.70%
		Grant fraud	Bronze	UK	2013/14	5,000	196	3.92%
Total						1,858		

Charity sector fraud is estimated to cost around £1.9 billion, representing 2.5% of the sector's annual £74 billion income and expenditure (BIS, 2014). It is also worth noting that the sector does not just include voluntary and aid organisations. There are 164,348 registered charities in England and Wales alone serving a host of causes from aid, education, welfare, professional institutions, religious bodies, arts, research, to housing – and more.

But as with much of the private sector there is no comprehensive gold standard to precisely benchmark the available data against.

Fraud analysts looked at several sets of figures including recent studies by the National Fraud Authority (2013) and adjusted DWP datasets (DWP, 2014).

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Fraud against individuals

Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Expenditure (£million)	Fraud (£million)	Fraud %
UK Adult Population	9,730	Mass marketing fraud	Gold#	UK	2006-13	831,532	3,562	0.43%
		Identity fraud	Silver#	UK	2013-14		5,396	0.65%
		Private rental property fraud	Silver#	UK	2010-13	37,317	769	2.06%
		Prepayment meter scams	Silver#	UK	2013-14	na	3	na
Total						9,730		

Fraud against UK citizens is estimated at £9.7 billion per year, which is a relatively modest 1.2 per cent of the £831 billion annual family expenditure. A host of datasets were carefully considered in a bid to help ensure accuracy and avoid any double-counting.

The last time mass marketing fraud was reviewed was by the OFT in 2006. The study revealed a likely fraud rate of 6.5 per cent. Despite its relative age, fraud analysts uprated the numbers to allow for inflation and changes in population. As a result, it is now estimated there are currently 3.25 million victims every year with annual combined losses of around £3.6 billion. But given the rise in identity theft and prevalence of cyber-crime as covered in earlier sections, it is fair to say figures are an under-estimate.

The England and Wales crime survey is being revised to better accommodate these types of crime and is likely to produce a more accurate picture of fraud in this area in the future (ONS, 2015b).

Identity fraud has been growing steadily over the past 10 years as a problem. Again, fraud analysts scrutinised a host of data sets to yield an estimated loss of £5.4 billion per year.

Both the private rental property fraud rate and the pre-payment meter scam rates shown in the table above were analysed from the previous NFA (2013) report and adjusted in line with current trends to bring them up to date.

Fraudsters are fast, inventive, adaptable and willing to quickly exploit new opportunities

Conclusion

There's no question fraud in Britain is taking place on an industrial scale. We've highlighted how it could be costing the UK economy up to £193 billion a year. But given a significant slice of that is in procurement, where analysis has been underpinned by incomplete data and best estimates, more work clearly needs to be done to continue measuring the scale of the problem.

Despite a broadly conservative and prudent approach being adopted in this report, it is likely annual fraud estimates are being under-evaluated.

But irrespective of any specific challenges thrown up, the project has enabled a benchmark to be laid down against which further fraud analysis can be measured.

It's also a dynamic crime. Fraudsters are fast, inventive, adaptable and willing to quickly exploit new opportunities. From here on, as the available data improves and expertise is further expanded, the report will be able to highlight how and where you and your customers may be at risk, along with the best way to ensure they can be safeguarded.

In the meantime, the speed and shape of global innovation, along with the growth of the Internet of Things, make on-going investment in the development of improved fraud detection systems ever more important.

For live and up-to-date hints, tips, news and information on emerging fraud trends, or to simply join the debate online, please visit the live Twitter feed.



#CostofFraud

Appendix and references

The complete cost of fraud table

Sector	Fraud loss by victim sector (£million)	Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income (£million)	Fraud (£million)	Fraud %
Private Sector	143,595	Expenditure small enterprises	36,393	Procurement fraud	Bronze#	UK	2013	643,390	30,776	4.78%
				Payroll fraud	Bronze	UK	2013/14	330,414	5,617	1.70%
		Expenditure medium enterprises	20,902	Procurement fraud	Bronze#	UK	2013	407,077	19,472	4.78%
				Payroll fraud	Bronze	UK	2013/14	84,080	1,430	1.70%
		Expenditure large enterprises	81,762	Procurement fraud	Bronze#	UK	2013	1,611,396	77,081	4.78%
				Payroll fraud	Bronze	UK	2013/14	275,373	4,681	1.70%
		Financial sector sales	3,175	Insurance fraud	Bronze#	UK	2013/14	220,000	1,323	0.60%
				Mortgage fraud	Bronze#	UK	2010-14	205,922	1,310	0.64%
				Plastic card fraud	Bronze#	UK	2014	608,648	450	0.07%
				Online banking fraud	Bronze#	UK	2014	na	41	na
				Cheque fraud	Bronze#	UK	2014	511,267	28	0.01%
				Telephone banking fraud	Bronze#	UK	2014	na	12	na
				Motor finance fraud	Bronze#	UK	2013/14	32,400	11	0.02%
		Non-financial sector sales	1,363	Retail	Silver	UK	2014	371,956	223	0.06%
				Telecoms fraud	Silver#	UK	2013	38,600	926	2.40%
				Rail transport fare evasion	Silver#	UK	2013	8,200	214	2.61%
Public Sector	37,821	Central Government	15,435	Tax fraud	Gold	UK	2012/13	504,000	15,400	3.06%
				Vehicle excise fraud	Gold	UK	2013/14	5,800	35	0.60%
		Central Government other income	205	Television licence fee evasion	Silver	UK	2014	3,726	205	5.50%
		NHS England	2,472	Dental charge fraud	Gold#	E	2013/14	1,132	43	3.80%
				Optical charge fraud	Gold#	E	2013/14	766	23	3.00%
				Prescription charge fraud	Gold#	E	2013/14	7,676	237	3.09%
				Dental contractor fraud	Bronze#	E	2013/14	3,010	121	4.02%
				Pharmaceutical contractor fraud	Bronze#	E	2013/14	2,094	83	3.96%
				Optical contractor fraud	Bronze#	E	2013/14	518	13	2.51%
				General practice contractor fraud	Bronze#	E	2013/14	7,632	349	4.57%
				Other procurement fraud	Bronze	E	2013/14	21,900	1,048	4.78%
				Payroll fraud	Bronze	E	2013/14	32,660	555	1.70%

Sector	Fraud loss by victim sector (£million)	Victim	Total fraud loss (£million)	Fraud type	Confidence	Coverage	Year	Income (£million)	Fraud (£million)	Fraud %		
Public Sector		Local government (excluding benefits)	7,319	Blue Badge Scheme misuse	Silver#	E	2013-14	1,547	48	3.10%		
				Housing tenancy fraud	Bronze#	E	2013-14	na	1,755	na		
				Procurement fraud	Bronze	UK	2013/14	86,354	4,131	4.78%		
				Payroll fraud	Bronze	UK	2013/14	65,171	1,108	1.70%		
				Grant fraud	Bronze	UK	2013/14	5,063	198	3.91%		
				Pension fraud	Bronze	UK	2013/14	2,023	79	3.91%		
		Benefit and tax credits	2,370	Housing benefit fraud	Gold	E,S,W	2013/14	24,200	430	1.78%		
				Income support	Gold	E,S,W	2013/14	3,700	100	2.70%		
				Jobseekers allowance	Gold	E,S,W	2013/14	4,400	110	2.50%		
				Employment and support allowance	Gold	E,S,W	2013/14	10,500	130	1.24%		
				Pension credit	Gold	E,S,W	2013/14	7,200	150	2.08%		
				Incapacity benefit	Gold#	E,S,W	2010-14	1,200	4	0.33%		
				Disability living allowance	Gold#	E,S,W	2005-14	13,800	70	0.51%		
				Carer's allowance	Gold#	E,S,W	1997-14	2,100	80	3.81%		
				State pension	Gold#	E,S,W	2005 -14	83,100	na	na		
				Council tax reduction fraud	Silver#	E,S,W	2012/13	4,900	60	1.22%		
				Tax credits fraud	Gold#	UK	2013-14	29,394	1,146	3.90%		
				Other	Bronze	E,S,W	2013/14	13,800	90	0.65%		
				Central government (excluding benefits)	10,020	Procurement fraud	Bronze	UK	2013/14	112,189	5,363	4.78%
						Payroll fraud	Bronze	UK	2013/14	66,537	1,131	1.70%
		Grant fraud	Bronze			UK	2013/14	68,659	2,685	3.91%		
		Student finance fraud	Bronze#			E,W,NI	2013-14	10,473	409	3.91%		
		Pension fraud	Bronze			UK	2013/14	9,296	363	3.90%		
		National Savings and Investments fraud	Bronze			UK	2013/14	2,010	69	3.43%		
Charity Sector	1,858	Registered charities	1,858	Procurement fraud	Bronze	UK	2013/14	16,224	776	4.78%		
				Payroll fraud	Bronze	UK	2013/14	52,143	886	1.70%		
				Grant fraud	Bronze	UK	2013/14	5,000	196	3.92%		
Adult individuals	9,730	UK Adult Population	9,730	Mass marketing fraud	Gold#	UK	2006-13	831,532	3,562	0.43%		
				Identity fraud	Silver#	UK	2013-14		5,396	0.65%		
				Private rental property fraud	Silver#	UK	2010/13	37,317	769	2.06%		
				Prepayment meter scams	Silver#	UK	2013-14	na	3	na		
Total									193,004			

Calculating procurement fraud

Procurement fraud represents a massive proportion of the UK's annual total fraud losses at £127 billion, from a total annual spend of £2,662 billion. The figures were reached by using the lowest fraud and error rate (FER) of 4.78% derived from several confidential loss measurement exercises. The error element was removed by applying the mean fraud / error adjustment factor (AF) of 61.3% to produce a subsequent fraud loss rate (FLR) of 4.78%.

Fraud losses were then calculated by applying the FLR to Government revenue and capital procurement expenditure as reported in PESA (HM Treasury, 2014) and the Annual Business Survey records (ONS, 2014a) for all sectors bar the financial sector. There is no precise data for the financial sector. It also excludes dental contractor fraud. There is also no official procurement expenditure data for the charity sector. But the charity sector's purchasing levels can be estimated by subtracting its £52,143 million payroll costs and £5,000 million of grants from the £73,367 million total turnover figure (BIS, 2014; ONS, 2014e). Procurement fraud estimates are based on the methodology below.

Private sector

Expenditure = £2,661,863 million

X

Fraud loss rate = 4.78%

The cost of fraud = £127,237 million

Charity sector

Expenditure = £16,224 million

X

Fraud loss rate = 4.78%

The cost of fraud = £776 million

Central government

Expenditure = £112,189 million

X

Fraud loss rate = 4.78%

The cost of fraud = £5,363 million
(excluding dental contractor fraud)

Local government

Expenditure = £86,354 million

X

Fraud loss rate = 4.78%

The cost of fraud = £4,128 million

Calculating payroll fraud

Payroll fraud is estimated to cost the UK more than £15 billion every year.

It was calculated using a 1.7% fraud only loss rate, which was derived from confidential public sector analysis. It is the largest such exercise ever undertaken.

Central and local government payroll expenditure is recorded in PESA (HM Treasury, 2014). There is no centrally provided figure for payroll expenditure for the private and charity sectors. But on the basis of using the best available information, the figures were derived by multiplying the average annual salary cost by the number of staff employed in each sector (ONS, 2014a; BIS, 2014). In 2014 the average salary cost across both the public and private sectors was £27,343. It includes £25,012 gross salary plus £2,331 employers national insurance.

The calculation of the cost of fraud in this area was based on this formula.

Central Government

(excluding NHS England)

Expenditure = £66,537 million

X

Fraud loss rate = 1.7%

The cost of fraud = £1,131 million

NHS England

Expenditure = £32,660 million

X

Fraud loss rate = 1.7%

The cost of fraud = £555 million

Local Government

Expenditure = £65,171 million

X

Fraud loss rate = 1.7%

The cost of fraud = £1,108 million

Private sector

Expenditure = £27,343 x 25,230,000

= £689,864 million

X

Fraud loss rate = 1.7%

The cost of fraud = £11,728 million

Charity sector

Expenditure = £27,343 x 1,907,000

= £52,143 million

X

Fraud loss rate = 1.7%

The cost of fraud = £886 million

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Notes

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Accountants &
business advisers

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FINANCE, AUDIT & RISK COMMITTEE 21 SEPTEMBER 2017

*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 7

TITLE OF REPORT: SHARED INTERNAL AUDIT SERVICES (SIAS) - ANNUAL REPORT 2016-2017

REPORT OF THE SHARED INTERNAL AUDIT SERVICES AUDIT MANAGER

The above report is presented on the following pages.

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Shared Internal Audit Service

Annual Report

2016/17

Annual Report Contents

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Hertfordshire County Council

Introduction and Highlights



*Terry Barnett
Head of Assurance for the
Shared Internal Audit
Service*

Welcome to the annual report covering the activity of the Shared Internal Audit Service in the 2016/17 financial year.

Established in 2011, the Service is considered to be an exemplar of local authorities working in partnership. The commitment and dedication of the team and the co-operation of our partners continues to allow the service to combine the 'in-house' appreciation and understanding of local government, with the business-like focus of the big internal audit firms.

In 2016/17, the resilience of the Service was tested via a combination of staff absence and vacancies held over in lieu of a planned service restructure. Whilst this inevitably had an impact on the performance of the Service, our main performance indicator relating to the number of audit days delivered to clients was achieved

With the current financial climate in Local Government forcing clients to consider their investment in assurance work, there is a need for the Service to ensure that it continues to provide its services in the most cost effective manner. This has meant that the Service will undergo a restructure in 2017/18 however the Service will continue to deliver high quality audit services to its clients.

I am very proud of the work of the team and delighted to be able to share some of the highlights of our working year in this report.

Terry Barnett

Head of Assurance for the Shared Internal Audit Service

July 2017



Levels of Delivery

Whilst the Service faced some challenges during the year arising from multiple staff sickness absences and vacancies held over in lieu of a planned service restructure; it was able to meet its target of delivering 95% of days commissioned by clients. This is a testament to the hard work of the SIAS Team.

Despite the challenges referred to above, the Service was also able to deliver 86% of its audit review to draft report stage by the close of the year and through the prioritisation of outstanding work in the final quarter ensured that this did not impact on the integrity of the assurance opinions given to clients.

Figure 1: Percentage of audits days delivered

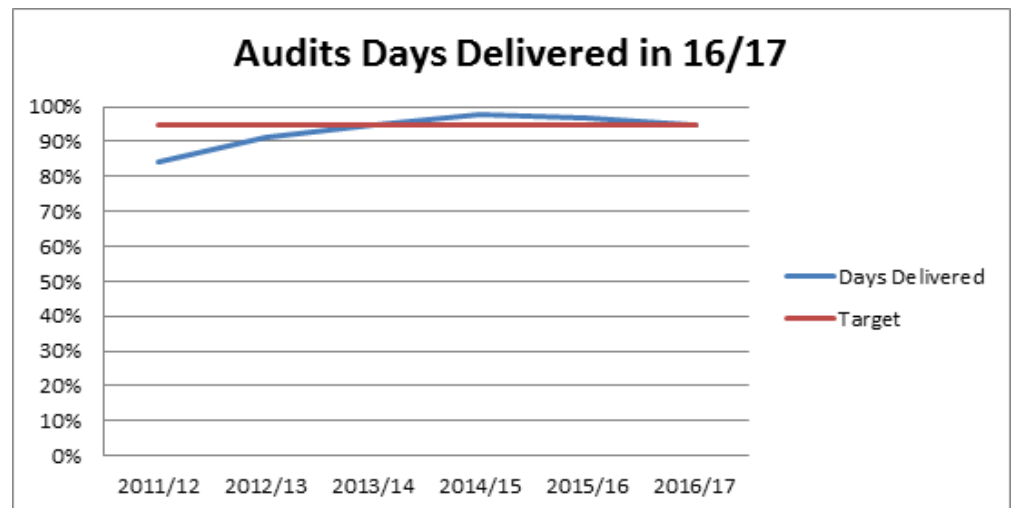
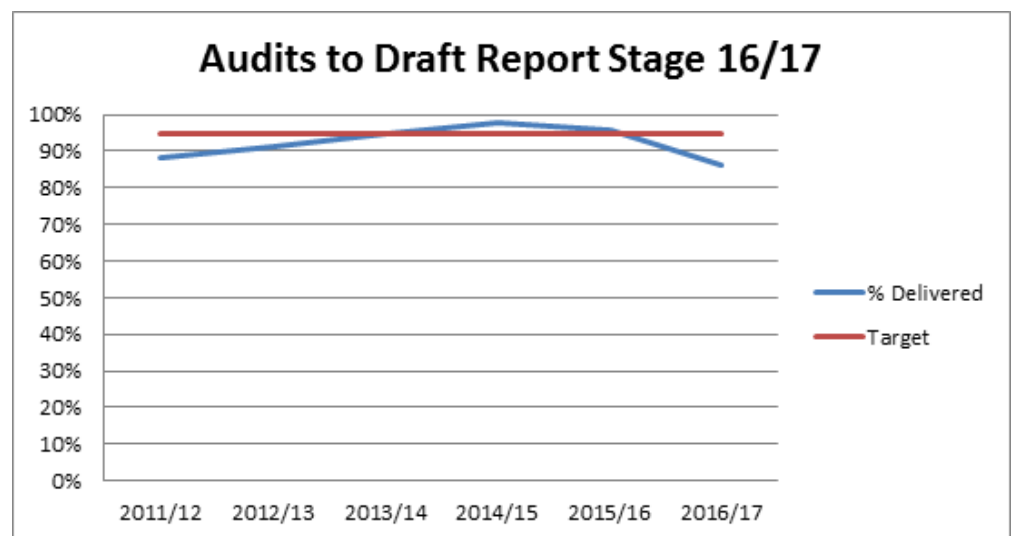


Figure 2: Percentage of audits to draft stage



Good performance despite resilience challenges...

Shared Learning - The Power of Partnership

It has long been part of the vision of our Board that the service acts to facilitate the sharing of learning across its partners. A shared learning culture, both formal and informal, is developing momentum through our team, our sister services within Assurance and across our partners and opportunities abound to publicise and promote issues big and small.

Over the course of 2016/17, our quarterly shared learning papers continued to be a regular feature at management boards, governance groups and team meetings across our partners. General learning points arising from our work and the wider local government environment have been disseminated through our regular papers with contributions from across our Assurance Service. The highlight of the last year was a special edition covering the topical issue of income generation. This dovetailed nicely with planned audits at several of our partners and indeed a keynote presentation at the Herts CFO's Conference. Our latest shared learning paper reviewed the high priority recommendations arising from our work across all partners.

Our quarterly shared learning papers are now a regular feature at management boards, governance groups and team meetings across our partners



It is also always a very valuable exercise to turn the mirror on oneself periodically. Our external quality assessment (peer review) of the Devon Audit Partnership as required by professional standards was a perfect opportunity to learn something ourselves, develop some perspective on our structure, working practices and service offerings and showcase some of the things we do well. Our involvement with 'Audit Together', a strategic alliance of similar audit partnerships, our audit delivery partners (BDO) and an array of contacts through bodies such as the Home Counties Chief Internal Auditors Group have been invaluable in sharing experiences and ideas as we examine the road we have travelled and look to where we need to be in response to client need and the ever evolving field of internal audit. Our staff, partners and Audit Committee members continue to provide helpful challenge, which causes us to pause and think about matters big and small, whether about assurance levels, recommendation priorities, professional judgement and intellectual curiosity or about our skills, performance, systems, culture and restructure.

Developing our Processes

With the SIAS trading model centred on the delivery of billable days by a large team of in house staff, the need to monitor and manage performance is a key requirement of the Service.

Since its inception SIAS has used a proprietary product that has largely met the needs of the Service however as the management of individual performance targets becomes even more important in ensuring the Service delivers against its promises, it became clear that there was a need for a level granularity in staff performance figures that the existing system could not provide.

Working with development staff within the County Council, we have developed a time recording system that provides weekly updates on performance by individual and makes real time allowances for annual leave, sickness absence etc.

The new system is scheduled to go live in 2017/18 and will allow the Service to ensure that performance issues are highlighted and addressed at the earliest stage whilst also empowering and enabling audit staff in taking ownership of their workloads and individual targets.

Continuing to innovate and improve our internal and external business information.



First Class Customer Service

In order to monitor our effectiveness and improve our service, at the end of each assignment we request the completion of a short satisfaction survey. We have been given and have acted upon invaluable improvement ideas, and we are proud of the fact that in 2016/17 we have received 96% satisfactory or higher feedback rating from our customers; an improvement on the previous year.

Some of the comments that accompany the formal scoring document are shown below:

- *“Good professional service”*
- *‘A professional piece of work that will be used to further improve our IT Network Security*
- *The content of the report and conclusions were high quality and provide a useful basis for improving the market's service’*
- *‘Excellent service - done to relevant timescales with minimal impact on the service*

Excellent service - done to relevant timescales with minimal impact on the service



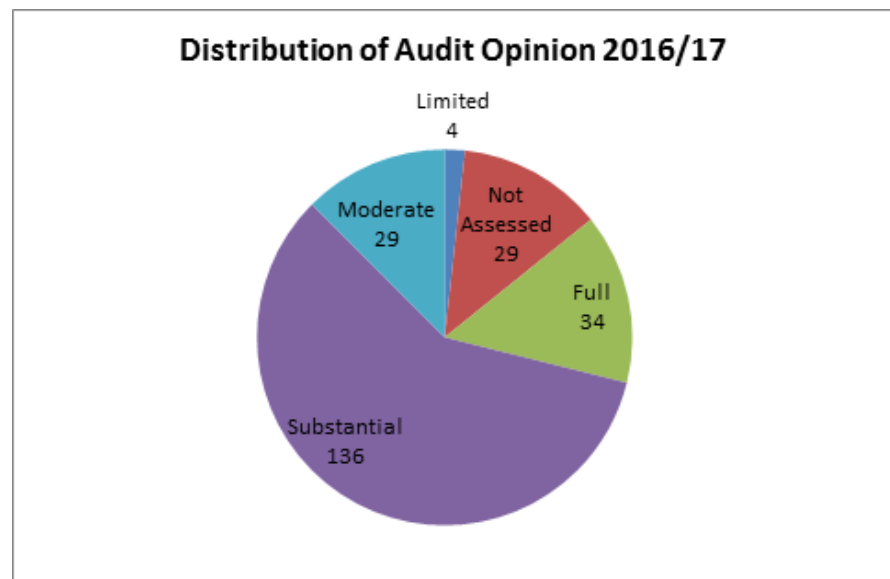
Performance - Outcomes

SIAS worked on 232 assurance and other projects during the year, giving the assurance opinions and recommendations detailed in the charts below.

For those pieces which resulted in a formal assurance opinion the distribution of opinions is set out in figure 3 below:

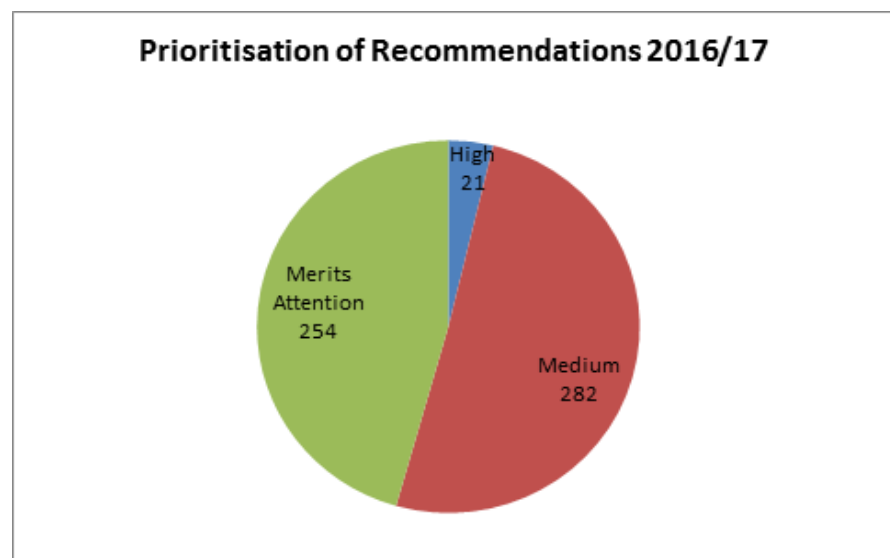
Figure 3: Distribution of Audit Opinions 2016/17

232 assurance and other projects identifying 557 recommendations



For those audits where recommendations were required, the priority ratings are set out in figure 4 below:

Figure 4: Prioritisation of Recommendations 2016/17



Performance Indicators

The overall business performance of SIAS is monitored by the SIAS Board by means of a balanced scorecard which provides a range of measures by which progress can be evaluated.

The overall performance of SIAS against our key performance indicators is reported below

Table 1: SIAS Business Performance

Indicator	Target	Actual as at 31 March 2016	Actual as at 31 March 2017	Commentary
Progress against plan: actual days delivered as a percentage of planned days.	95%	97%	95%	The service hit one of its two key performance indicators despite resilience challenges.
Progress against plan: audits issued in draft by 31 March	95%	96%	86%	
Client satisfaction	Satisfactory and above	95%	95%	Good performance in this area

Financial Performance of SIAS

SIAS began operating on a fully traded basis in 2012/13.

Appendix A sets out the summary financial position at 31 March 2017.

The partners determined that the service should aim to build a small surplus and to move to considering the financial position of the service on a three year rolling basis.

The intention of this is to smooth the impact of any unforeseen events impacting on trading performance in future years.

Future Developments



In 2017/18 the Shared Internal Audit Service will be undergoing a restructure to ensure that it is able to continue to provide its clients with a high quality cost effective service.

With clients having to consider the amount of investment in their internal audit services, the Service must continue to look at ways of delivering the levels of assurance required in the most efficient way, ensuring that draws on client officer time are minimised.

The changing face of service delivery within Local Government also presents the Service with new challenges and a need to provide higher levels of consultancy advice on the control aspect of the commercial ventures that clients are engaging in.

The increased use of data analytics tools is likely to become a key feature in the work of the Service going forward. The use of these tools will allow the Service to facilitate delivery of the widest coverage of process driven areas.

Our Board Members

The SIAS Board provides strategic direction and oversight for the partnership, bringing a wealth of local government experience and insight to our operation.



Clare Fletcher, SBC
Assistant Director
(Finance and Estates)



Sajida Bijle, HBC
Corporate Director



Owen Mapley, HCC
Director of Resources



Norma Atlay, NHDC
Director Finance, Policy &
Governance



Ka Ng, WHBC
Executive Director –
Resources, Environment
and Cultural Services



Isabel Brittain, EHC
Head of Strategic
Finance & Property



Jo Wagstaffe, WBC and
TRDC
Shared Director of Finance



Terry Barnett, SIAS
Head of Assurance

SIAS cost centre: revised budget against outturn 2016/17

	<u>Budget</u>	<u>Outturn</u>
	<u>£</u>	
Salaries & Salary Related	1,183,381	993,440
Partner / consultancy costs	51,786	189,318
Transport	11,000	7,826
Supplies	22,780	19,563
Office Accommodation cost	17,005	17,005
Total expenditure	1,285,952	1,227,152
Income	1,292,313	1,214,858
Net (surplus) / deficit	(6,361)	12,294

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

Priority of recommendations	
High	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
Medium	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
Merits Attention	There is no significant weakness, but the finding merits attention by management.

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FINANCE, AUDIT & RISK COMMITTEE 21 SEPTEMBER 2017

*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 8

**TITLE OF REPORT: SHARED INTERNAL AUDIT SERVICES (SIAS) - UPDATE ON
PROGRESS AGAINST THE 2017 - 2018 AUDIT PLAN**

REPORT OF THE SHARED INTERNAL AUDIT SERVICES AUDIT MANAGER

The above report is presented on the following pages.

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North Herts District Council Audit Committee Progress Report 21 September 2017

Recommendations

Members are recommended to:

- Note the Internal Audit Progress Report for the period to 28 August 2017
- Note the proposed amendments to the 2017/18 Annual Audit Plan
- Note the implementation status of high priority recommendations.

Contents

- 1 Introduction and Background
 - 1.1 Purpose
 - 1.2 Background
- 2 Audit Plan Update
 - 2.1 Delivery of Audit Plan and Key Findings
 - 2.4 Medium Priority Recommendations
 - 2.5 High Priority Recommendations
 - 2.8 Proposed Amendments to the 2017/18 Annual Audit Plan
 - 2.12 Performance Management

Appendices

- A Progress against the 2017/18 Audit Plan
- B Implementation Status of High Priority Recommendations
- C 2017/18 Audit Plan Items – Start dates agreed with management

1. Introduction and Background

Purpose of Report

1.1 This report details:

- a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Audit Plan for 2017/18 as at 28 August 2017.
- b) Implementation status of previously agreed high priority audit recommendations and request to agree removal of completed actions.
- c) Proposed amendments to the 2017/18 Annual Audit report
- d) An update on performance management information as at 28 August 2017.

Background

- 1.2 The 2017/18 Annual Audit Plan was approved by the Finance, Audit & Risk Committee (the FAR Committee) on 22 March 2017.
- 1.3 The Committee receives periodic updates of progress against the Annual Internal Audit Plan. This is the second report giving feedback on the delivery of the 2017/18 Internal Audit Plan.
- 1.4 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 28 August 2017, 31% of the 2017/18 Audit Plan days had been delivered.
- 2.2 The following 2016/17 final reports have been issued since 19 May 2017 (cut-off date for the SIAS Update Report for 12 June 2017 FAR Committee) alongside a single audit from the 2017/18 Agreed Plan:

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Corporate Project Management (16/17)	July 2017	Moderate	3 medium priority 1 merits attention

Careline (16/17)	July 2017	Substantial	4 medium priority 1 merits attention
Use of Consultants (16/17)	July 2017	Substantial	3 merits attention
RPR Process (16/17)	August 2017	Full	No recommendations made
Hitchin Town Hall - Operation	August 2017	Moderate	5 medium priority 2 merits attention

- 2.3 Details on the status of all audits in this year's plan can be found in Appendix A.

Medium Priority Recommendations

- 2.4 The table below provides a summary of the medium priority recommendations that were made in the period:

Audit	Summary of medium priority recommendations
Corporate Project Management	• Timely reports are presented to Cabinet / committee where a decision is made by officers not to proceed with projects approved by Cabinet. • Parameters on pay back periods and financial exposure, linked to the Council's risk appetite are developed to feed into project decisions and delegated responsibilities. • Overall Corporate Programme Management processes are reviewed to ensure that sufficient project management, legal and procurement resources are in place. This process should include consideration of the number of projects adopted and (where necessary) consideration of the benefits of procuring external support. • Project managers are reminded of the steps in the Framework checklist that refer to the lessons learned process to ensure that these are complied with for all ongoing and future corporate projects. For each project completed since March 2016, the End of Project Report should be requested by the Performance & Risk Management team and the corporate log updated.

Careline	• Careline develops and formally implements a corporately acceptable Debt Recovery Procedure for Careline customers. • For all future procurement exercises of this nature (i.e. tenders as defined by the Council's Contract Procurement Rules), records are retained that evidence the officers involved in the evaluation and their individual scores. • Careline tests its Emergency Evacuation Procedure on a periodic basis and formally records the outcomes.
Hitchin Town Hall Operation	• All payments received in person at the Town Hall are processed through the till using appropriate income codes and headings, so that till reports can be reconciled with the Weekly Takings and Banking sheets (WTBS). • The following documents are reviewed and updated: ○ Event signing in sheets ○ Weekly Takings and Banking sheets (WTBS) ○ Till operation and management guidance • All till operators and duty managers are issued with unique login ID numbers which must be used for all transactions carried out by them. It should be a disciplinary offence if an operator uses another person's login ID number. • A safe log book is introduced. It should be referred to as part of the banking procedure and used to ensure all monies are banked in compliance with the Council's Financial Regulations 2.7.7. • The insurance limit for amounts of cash income held in the safe overnight is increased • Credit card (CC) income is recorded on the Weekly Takings and Bankings sheets to advise the Council's Finance department of the expected CC income to be banked. • Monthly reconciliations are completed of the HTH CC income records to that actually

	received from the CC companies via NHDC Finance (Cashiers).

High Priority Recommendations

- 2.5 Members will be aware that a Final Audit Report is issued when it has been agreed by management; this includes an agreement to implement the recommendations that have been made. It is SIAS's responsibility to bring to Members' attention the implementation status of high priority recommendations; it is the responsibility of Officers to implement the recommendations by the agreed date.
- 2.6 No high priority recommendations have been made as a consequence of the work undertaken in the audits detailed in paragraph 2.2 above.
- 2.7 The standard template schedule attached at Appendix B shows the implementation status of previously agreed high priority audit recommendations. The two recommendations from the Data Protection and Freedom of Information audit have been implemented since the position reported to the last FAR Committee.

Proposed Amendments to the 2017/18 Annual Audit Plan

- 2.8 At the request of management, the following two audits have been cancelled and the remaining time budgets returned to contingency:
- Green Space Strategy – cancelled at the Client's request as SIAS were unable to resource the audit in a timely manner that aligned with Client requirements.
 - Asset Management System - this audit has been cancelled as the implementation of the new system is not progressing as fast as originally envisaged. The potential for this audit to be carried out in the future will be considered as part of the 2018/19 audit planning process.
- 2.9 The contingency in the 2017/18 Annual Audit Plan for the Council currently stands at 21 days. The use of this time will be considered at the next scheduled client liaison meeting on 11 September 2017 with the outcomes of this meeting reported to the Committee meeting.
- 2.10 The audit of cyber risks has been rescheduled from June to September to enable the review to be delivered by a specialist IT auditor.
- 2.11 Both the following audits have been rescheduled at the client's request to ensure that the provision of assurance is appropriately scoped and timed:
- Commercialisation / Council Property – moved from September to December 2017

- Waste Management Contract – moved from March to February 2018

Performance Management

Reporting of Audit Plan Delivery Progress

- 2.12 To help the Committee assess the current situation in terms of progress against the projects in the audit plan, we have provided an overall progress update in the table below. In addition, we have agreed formal start dates with management and have allocated resources accordingly; details can be found in Appendix C. This is designed to facilitate audit plan delivery throughout the year.

Completed - Draft or Final report has been issued (6)	
Confidence level in completion of this work – Full	
Review of FAR	Use of Consultants (16/17)
Hitchin Town Hall Operation	Careline (16/17)
Joint Review – PREVENT (16/17)	RPR Process (16/17)

Fieldwork currently being carried out or in Quality Review (8)	
Confidence level in completion of this work – Full	
SOCA Fraud Checklist	Office Accommodation Project
Joint Review - Local Authority Trading	Business Improvement Districts (BIDs)
Tree Strategy & Management	Income Generation
Northgate Contracts	HTH & Museum Project

Scope and Start date agreed with Management - preliminary work has begun (3)	
Confidence level in completion of this work – Good – resources have been allocated to these activities by SIAS and management has agreed the way forward; dates are planned in diaries.	
Member Training	New Integra system implementation - consultancy
Cyber-risks	

Formal start dates not yet agreed (18)	
Confidence level in completion of this work – Moderate – resources have been allocated by SIAS but dates have not yet been planned in diaries; generally these audits are more complex and will need good engagement with management to ensure delivery	
Audit	Status Update
General Ledger	Debtors
Creditors	Treasury Management
Council Tax	NDR
Benefits & Rent Allowances	Payroll
Taxi Licensing	Outbound New Mail System

Commercialisation / Council Company	Paperless Committee System
Telephony System Post implementation review	NHCL Refurbishment
Waste Contract – New Arrangements Progress	Joint Review 1 (subject to be determined by SIAS Board)
DFG Capital Grant Certification	Joint Review 2 (subject to be determined by SIAS Board)

Deferred (0)	
N/A	

Cancelled (2)	
Asset Management System	Green Space Strategy (16/17)

Summary – 28 August 2017		
Status	No of Audits at this Stage	% of Total Audits (35)
Draft / Final	6	17%
Currently in Progress	8	23%
Start Date Agreed	3	9%
Yet to be planned	18	51%

Deferred	0
Cancelled	2

2.13 Annual performance indicators and associated targets were approved by the SIAS Board in March 2017.

2.14 As at 28 August 2017, actual performance for North Herts against the targets that can be monitored in year was as shown in the table below.

Performance Indicator	Annual Target	Profiled Target to 28 August 2017	Actual to 28 August 2017
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	37%	31% (116.5 / 379 days)
2. Planned Projects – percentage of actual completed projects to draft	95%	37%	17% (6 / 35 projects)

report stage against planned completed projects			
3. Client Satisfaction with Conduct of the Audit – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100% (6 questionnaires sent and 1 returned)
4. Number of High Priority Audit Recommendations agreed	95%	N/A	100% (1 recommendation made and accepted)

2.15 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2017/18 Head of Assurance's Annual Report:

- **5. External Auditors' Satisfaction** – the Annual Audit Letter should formally record whether or not the External Auditors are able to rely upon the range and the quality of SIAS' work.
- **6. Annual Plan** – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the financial year.
- **7. Head of Assurance's Annual Report** – presented at the Audit Committee's first meeting of the civic year.

APPENDIX A - PROGRESS AGAINST THE 2017/18 AUDIT PLAN AS AT 28 AUGUST 2017

2017/18 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
Key Financial Systems					90			
General Ledger						Yes	0	Allocated
Debtors						Yes	0	Allocated
Creditors						Yes	0	Allocated
Treasury Management						Yes	0	Allocated
Council Tax						Yes	0	Allocated
NDR						Yes	0	Allocated
Benefits & Rent Allowances						Yes	0	Allocated
Payroll						Yes	0	Allocated
New Integra system implementation - consultancy						Yes	0	In planning
Operational Audits								
Business Improvement Districts (BIDs)					10	Yes	4	In Fieldwork
Office Accommodation Project					12	Yes	11	Drafting Report
HTH & Museum - operation	Moderate	0	4	2	12	Yes	12	Final Report Issued
Tree Strategy & Management					12	Yes	5.5	In Fieldwork
Taxi Licensing					12	Yes	0	Allocated
Income Generation					15	Yes	6.5	In Fieldwork
Commercialisation / Council Company					12	Yes	0	Allocated
Paperless Committee System					10	Yes	0	Allocated

APPENDIX A - PROGRESS AGAINST THE 2017/18 AUDIT PLAN AS AT 28 AUGUST 2017

Telephony System - post implementation review					10	Yes	0	Allocated
Outbound mail - new system					10	Yes	0	Allocated
Member Training					10	Yes	2	In Planning
Procurement / Contracts								
NHLC Refurbishment					12	Yes	0	Allocated
Waste Contract - new arrangements progress					10	Yes	0	Allocated
Northgate Contracts					12	Yes	3.5	In Fieldwork
Serious and Organised Crime Agency (SOCA) Fraud Checklist					10	Yes	7	In Fieldwork
Joint Reviews								
Joint Review 1					2.5	No	0	Allocated
Joint Review 2					2.5	No	0	Allocated
Shared Learning					5	Yes	2	Through Year
IT Audits								
Cyber-risks					10	Yes	2	In Planning
Asset Management System					0	N/A	0	Cancelled
Anti-Fraud and Governance								
Internal control issues identified by SAFS					5	N/A	0	As Required
Contingency & Ad Hoc Activity								
Contingency & Ad Hoc Activity					21			
Election Support					0	N/A	0	Cancelled

APPENDIX A - PROGRESS AGAINST THE 2017/18 AUDIT PLAN AS AT 28 AUGUST 2017

Review of FAR	Not assessed	0	0	0	3	Yes	3	Final report issued
DFG Capital Grant certification					2	Yes	0	In Planning
King George V Playing Fields					1	Yes	0	In Planning
Strategic Support								
Head of Internal Audit Opinion 2016/17					5	Yes	5	Complete
Audit Committee					12	Yes	5	Through Year
Client Meetings					10	Yes	5	Through Year
Liaison with External Audit					1	Yes	0.5	Through Year
Progress Monitoring					10	Yes	5	Through Year
SAS Development					5	Yes	5	Through Year
2018/19 Audit Planning					10	Yes	0	Allocated
2016/17 Projects requiring completion					1.5	Yes	1.5	Complete
HTH & Museum Project					11	Yes	8	In Fieldwork
Careline Operation	Substantial	0	3	1	12.5	Yes	12.5	Final Report Issued
Appraisal Process	Full	0	0	0	6.5	Yes	6.5	Final report issued
Green Space Strategy					0	N/A	0.5	Cancelled
Use of Consultants	Substantial	0	0	3	3.5		3.5	Final Report Issued
Joint Review - Local Authority Trading					0.5		0	In Fieldwork
Joint Review - PREVENT					0.5		0	Draft Report Issued
Corporate Project Management	Moderate	0	3	1			0	Final report issued

APPENDIX A - PROGRESS AGAINST THE 2017/18 AUDIT PLAN AS AT 28 AUGUST 2017

Contract Management	Substantial	0	1	2			0	Final report issued
Payroll	Substantial	0	3	1			0	Final report issued
NDR	Full	0	0	0			0	Final report issued
Total - North Herts D.C.		0	14	10	400		116.5	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment August 2017	Status of Progress
1.	Waste Contract August 2016	As part of the contract renewal process, formal requirements regarding the quality of performance data provided by the contractor should be included in the terms and conditions of the contract. This should include mechanisms by which the Council can both directly access the data and require the contractor to undertake (either directly or commissioned by the Council) data quality audits	The upgrade to the waste management IT software is expected to be in place by mid-2016. This will give officers direct access to the system.	Service Manager (Waste and Recycling)	July 2016 Revised date 29-Sep-2017	Service Manager (Waste and Recycling) March 2017 – the domestic collections are being managed through the new IT system with officers having full access. The system is being set up for trade waste collections, which are anticipated to go live by June 2017. An upgrade to the corporate financial system Integra means full set up of chargeable services is on hold indefinitely, with a review required once the Integra upgrade is complete and the new contract is awarded in late	Not yet reached due date - in progress awaiting the award of the Waste and Street Cleaning Contracts.	Carry forward to November FAR

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APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment August 2017	Status of Progress
Page 137		should these be deemed necessary.	Greater integration with the NHDC customer service centre and website will be possible with the new system and these options will be explored to reduce the risk of data transfer errors in relation to contacts reported by the public. This will be subject to cost but can be considered further for the implementation of the new contract, alongside decisions regarding the	Service Manager (Waste and Recycling), Comms Manager, Customer Services Manager.	April 2017 Revised date 29-Sep-2017	2017. March 2017 – Officers now have full system access and a series of reports are in development. Ad hoc variation orders are being processed using Integra for greater transparency. The new contract specification is in draft, which includes data access and reporting requirements. Project Board decisions have resulted in a specification to include customer service provision, therefore no work will be undertaken to improve website and current system integration in advance of the new	Not yet reached due date - in progress as above.	Carry forward to November FAR

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment August 2017	Status of Progress
Page 138			management of customer contacts.			contract. Dec 2016 – IT system up and running for domestic collections, implementation for trade is delayed due to staff vacancies. August 2016 - IT system currently in testing phase. Anticipated to go live for domestic collections and street cleansing by 1st October 2016 Dec 2016 – New contract client team discussions and IT approach likely to begin in early 2017 August 2016 - Initial meetings for project initiation set		

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment August 2017	Status of Progress
						up, however is now largely dependent on the structure of the new shared service client team, which will not be decided until later in 2017. This is therefore unlikely to be completed on time.		
2. Page 139	Waste Contract August 2016	Officers are aware of the weaknesses in the current performance management regime and given that the existing contract is due for renewal and that service delivery is adequate, we do not recommend that any action is now taken to enforce the performance management	Evidence exists that both parties agreed to implement the system on 2 nd September 2002. It is understood that the regime was in place for approximately 5 years but no data exists for this period. No officers from the current management	Service Manager (Waste and Recycling)	Development of PMR specification for new contract due September 2016 Revised date 31-Aug-2018	Service Manager (Waste and Recycling) 26-Jul-2017 A new PMR has been developed and published to bidders as part of the tender for the new waste collection and street cleansing service. This will come into effect following a three month bedding in period following the start of the contract in May	In progress	Carry forward to November FAR

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment August 2017	Status of Progress
Page 140		regime for the existing contract, as the effort required is unlikely to yield any substantial benefits prior to the contract expiring. However, the Council should ensure that it factors its experience with the current contract into the process for developing performance management on the new contract. This should include: investigating and understanding why it was not implemented for the current contract	team were present at this time and the regime in place was not sufficient to effectively monitor performance after service changes and contract extension in 2007. Efforts to review the matrix in 2011/12 failed to reach agreement and was resource intensive due to the lack of access to and reporting from a suitable waste management software system. It is anticipated that the upgraded			2018. 09-May-2017 The PMR is currently being finalised due for publishing alongside the ITT in early June 2017. Upon contract award, mechanisms for monitoring the requirements of the new PMR will be developed within the IT systems. The PMR will begin to be used after a short bedding in period, likely to be August 2018. March 2017 - Negotiations are ongoing with EHC regarding the approach to performance management in the new contract		

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment August 2017	Status of Progress
Page 141		- specification of a detailed performance management regime which is formally agreed by all partners at the commencement of the new contract; and - Monitoring the implementation of the new regime to ensure it is being applied rigorously from the start of the new contract.	IT system will provide sufficient reporting to inform a new PMR system for the new contract.			specification. Agreement is required by March 2017. Dec 2016 – Discussions ongoing, PMR specification due to be completed by January 2017 August 2016 - The specification of the PMR is on-going and examples of other Council systems is being considered. Negotiations are now also required with EHC due to the agreement to progress with the shared service. Consultants have been commissioned to assist with a critical friend analysis of final documents.		

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment August 2017	Status of Progress
3.	Data Protection and Freedom of Information December 2016	We recommend that the practice of auto-forwarding of emails is stopped as a priority before there is a breach of the Data Protection Act. It is noted that this is covered within the DP Training. All Officers and Elected Members have signed to agree the IT Information Security Policy, which at para 9 - Email Systems states: "Never auto forward emails to a lower classification domain (e.g. public internet)".	This has been raised with the Chief Executive and agreed that this will also be on the Political Liaison Board agenda for the January 2017 meeting for Senior Members to consider this point and agree an action.	Head of Revs, Benefits & IT	1 April 2017	Head of Revs, Bens & IT / ICT Manager 27-Jun-2017 Confirmed that auto-forwarding was switched off on 26 June 2017. 16-May-2017 Officers have been in touch with Members both via MIS and then at the request of the Executive Member, individually. Because the Executive Member wanted officers to consult with each Member individually to come to a solution that would suit each one, officers have delayed turning off auto-forwarding until early June 2017. So far,	Implemented	Completed to be removed

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment August 2017	Status of Progress
4.						many Members have reacted to the request in a positive way. March 2017 – seeking further information on the approach of other authorities in Hertfordshire prior to further consideration by PLB on 20 March 2017.		
	Data Protection and Freedom of Information December 2016	We recommend that Members' failure to register with the ICO as Data Controllers should be escalated to the Council's Chief Executive for resolution.	This has been raised with the Chief Executive and agreed that this will also be on the Political Liaison Board agenda for the January 2017 meeting for Senior Members to consider this point and agree	Head of Revs, Benefits & IT	1 April 2017	Head of Revs, Bens & IT / ICT Manager 05-Sep-2017 The Information Communication Technology Manager will continue to register Members as Data Controllers when requested, although Members are able to register themselves.	Implemented	Completed to be removed

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment August 2017	Status of Progress
Page 144			an action.			Officers will continue to renew Data Controller registrations for Members as and when they are due for renewal and they will encourage new Members to register, as part of new Member inductions each year. Officers now consider the implementation of the SIAS recommendation to be complete. As previously noted, the associated risk relates to individual Members rather than NHDC. 23-May-2017 Members were informed of the Cabinet resolution via both the Members' Information Service and individually. There		

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment August 2017	Status of Progress
Page 145						are now 22 Members registered as a Data Controller. Officers believe that they have done as much as possible to encourage Members to register with the ICO. The Information Communication Technology Manager will contact the two new Members to encourage them to register as a Data Controller following their appointment at Full Council on 18 May 2017. The Information Communication Technology Manager will continue to encourage those Members who have not registered to register and will check		

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment August 2017	Status of Progress
Page 146						on the ICO's website to see if any Members have registered independently. Original action completed by the due date of 1 April 2017 and the due date has now been extended to 31 August 2017 to monitor further registrations. March 2017 – There are now 15 Members registered as Data Controllers with the ICO's Office. The IT Manager was asked to seek updates from other authorities on how they manage this process in other Hertfordshire authorities. The matter will be reviewed again by PLB on 20 March 2017; however, as this		

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment August 2017	Status of Progress
						poses no real risk to the Council and any breach is the sole responsibility of any Members concerned, Officers do not intend to push this any further than bringing the risks to the attention of PLB on 20 March 2017.		

NHDC 2017/18 Audit Plan Start Months											
Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
SOCA Fraud Checklist	Office Accommodation Project	RPR Process Final report issued	Telephony System Post implementation review	DFG certification	Commercialisation / Council company Moved to December	NHLC Refurbishment	Payroll	Benefits	Outbound mail system	Waste Contract	Waste Contract Moved to February
Review of FAR Completed	Income Generation	Cyber risks Moved to September	Northgate Contracts	Integra system implementation	Cyber risks	Main Accounting	NDR	Treasury Management	Asset Management system Cancelled		
Paperless committee system	HTH & Museum operation Final report issued		Business Improvement Districts	Member Training		Debtors	Council Tax	King George V Playing field			
Member Training Moved to August	Head of Assurance Opinion 2017/18 Completed					Creditors	Taxi Licensing	Commercialisation / Council company			
Joint Review - PREVENT							Tree Strategy & Management				
Joint Review – Local Authority Trading											
Careline (16/17) Final report issued											
Hitchin Town Hall Project (16/17)											
Consultants (16/17) Final report issued											
Green Space (16/17) Cancelled											

FINANCE, AUDIT & RISK COMMITTEE 21 SEPTEMBER 2017

*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 9

TITLE OF REPORT: AUDIT RESULTS REPORT FOR NHDC FOR THE YEAR ENDED 31 MARCH 2017

REPORT FROM ERNST AND YOUNG

The above report is attached.

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**North Hertfordshire District
Council**
Audit results report

Year ended 31 March 2017



Private and Confidential

1 September 2017

Dear Finance, Audit and Risk Committee Members

We have substantially completed our audit of North Hertfordshire District Council (the Authority) for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3, before the statutory deadline of 30 September 2017. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Finance, Audit and Risk Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Suresh Patel
Executive Director

For and on behalf of Ernst & Young LLP
United Kingdom

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03 Audit Report

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature..

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



01

Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the 23 January 2017 Finance, Audit and Risk Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £1,421,500. We reassessed this using the actual year-end figures, which has increased the amount to £1,426,500. The threshold for reporting audit differences has increased marginally from £71,075 to £71,325. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits. We applied a lower threshold for errors (£10,000) and any error that would affect the banding (where applicable to the note).
- ▶ Related party transactions, the accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction we therefore considered this on a case by case basis.
- ▶ Members' allowances, we would expect an error of over £1,000 which is the rounding point used in the accounts.

Status of the audit

The Council published its unaudited accounts on 26 June, four days before the 30 June deadline. We have substantially completed our audit of North Hertfordshire District Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at section 3 of this report. However until work is complete, further amendments may arise:

- ▶ Review of the final version of the financial statements
- ▶ Completion of subsequent events review
- ▶ Receipt of the signed management representation letter.

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

We have also identified three audit differences with an aggregated impact of £2.79 million which reduce the revaluation of non current assets figure in the other comprehensive income section of the comprehensive income and expenditure statement. Due to the way that local government capital accounting transactions are processed there is no net impact on the overall general fund balance.



Executive Summary

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of North Hertfordshire District Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

Since our audit plan was issued we have decided to recognise the risk of inappropriate recognition of revenue expenditure as capital expenditure as a significant risk under the heading 'Revenue recognition' in section 2 below rather than as a sub set of the 'Management override' significant risk which is also shown in section 2 below. We ask you to review these and any other matters in this report to ensure there are no other considerations or matters that could have an impact on these issues, you agree with the resolution of the issue, and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work. We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts and anticipate making our submission on the same date that we sign our audit report. We have no other matters to report.

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Independence

Please refer to Appendix B for our update on Independence.





02 Areas of Audit Focus



Areas of Audit Focus

Audit issues and approach: Revenue Recognition

Revenue Recognition

What are our conclusions?

Our testing has not identified any material misstatements from revenue expenditure being inappropriately classified as capital expenditure.

What is the risk?

Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.



Significant Risk

What did we do?

We assessed that we were able to rebut the presumed fraud risk of revenue income/expenditure not being appropriately recognised with one exception: the risk that revenue expenditure could be charged against capital resources rather than to the general fund.

We tested a sample of asset additions to ensure that these met the definition of being capital rather than revenue expenditure.



Areas of Audit Focus

Audit issues and approach: Management override

Management override

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

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

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

What is the risk?

Risk of management override

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

 Significant Risk

What did we do?

- ▶ We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.
- ▶ We reviewed the following accounting estimates for evidence of management bias: pension valuations, property valuations, provisions and creditor accruals.
- ▶ We evaluated the business rationale for any significant unusual transactions.
- ▶ We tested a sample of accruals, prepayments and provisions to check whether they had been recorded at an appropriate value;
- ▶ We undertook cut off testing for income and expenditure to ensure that material amounts had not been omitted from the financial statements that related to 2016/17.



Areas of Audit Focus



Further details on procedures / work performed

In undertaking our work on management override of controls we have considered the balances included in the Council's financial statements that are the most susceptible to judgement or estimation techniques. The key estimates are considered to be:

- ▶ The valuation of Property, Plant and Equipment - due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below.
- ▶ Valuation of pension liabilities - due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below.

Specifically in relation to other estimates:

- ▶ The provisions balance in the financial statements is £966,000 at 31 March 2017, the largest being the business rates appeal provision at £928,000. We challenged management on the reasonableness of their approach for calculating this provision. We had no issues from our audit work on provisions;
- ▶ Creditor accruals these were £3.9 million covering both revenue and capital accruals. Our testing of accruals did not identify any significant issues.

We evaluated the remainder of the Council's estimates, including bad debt provision and depreciation, as low risk of material misstatement. We have no issues to report.



Accounting for Property, Plant and Equipment

The fair values of Property, Plant and Equipment (PPE) represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Council engages an internal expert valuer who applies a number of complex assumptions. Annually, PPE are assessed to identify whether there is any indication of impairment (i.e. a reduction in their carrying value). As the Council's asset base is significant, and the outputs from the valuer are subjective, there is a risk that the fair value of PPE may be under or overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

This risk relates to assets that are revalued, being 'Other land and Buildings' and 'Surplus assets'. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost. Our approach has focused on:

- ▶ Considering the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Reviewing and sample testing the key asset information used in the valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considering the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered how any specific changes to assets (which would impact its value) have been communicated to the valuer;
- ▶ Enquiring of the valuer the arrangements for assets not subject to valuation in 2016/17 to confirm that the remaining asset base is not materially misstated;
- ▶ Challenging management in respect of issues raised by the valuer in his report regarding specific asset valuations and assets not valued, and
- ▶ Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

We have not identified any material issues in the valuations based on our work.



Areas of Audit Focus



Pension Valuations and Disclosures

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) administered by Hertfordshire County Council.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £49.3 million (£47.8 million at 31 March 2016).

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach has focused on:

- ▶ Liaising with the auditors of Hertfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to North Hertfordshire District Council;
- ▶ Assessing the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors. Our assessment uses the work of the EY actuarial team who review the work of the PWC - Consulting Actuaries; and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We have no issues to report in completing our work. Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in Note 3 to the financial statements, and in Note 43, pension schemes.



03 Audit Report



Audit Report

Our opinion on the financial statements

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

Opinion on the Authority's financial statements

We have audited the financial statements of North Hertfordshire District Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 46 to the Authority accounts, and the Expenditure and Funding Analysis
- Collection Fund and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

Respective responsibilities of the Head of Finance, Performance and Asset Management and auditor

As explained more fully in the Statement of the Head of Finance, Performance and Asset Management's Responsibilities set out on page 1 the Head of Finance, Performance and Asset Management is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.



Audit Report

Our opinion on the financial statements

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Performance and Asset Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of North Hertfordshire District Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.



Audit Report

Our opinion on the financial statements

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

Authority's responsibilities

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

Auditor's responsibilities

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether North Hertfordshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, North Hertfordshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.



Audit Report

Our opinion on the financial statements

Certificate

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

Suresh Patel

for and on behalf of Ernst & Young LLP, Appointed Auditor

Luton

xx/xx/2017

The maintenance and integrity of the North Hertfordshire District Council web site is the responsibility of the Authority; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04

Audit Differences



Audit Differences

Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We have included all known amounts greater than £71,325 relating to North Hertfordshire District Council in our summary of misstatements table below.

We highlight the following misstatements in the financial statements or disclosures identified during the audit. These have been corrected by management. The adjustments affect the line in the comprehensive income and expenditure statement for 'Surplus on revaluation of non-current assets' which is in the 'Other comprehensive income and expenditure' section of the statement. All have the effect of reducing the £8.6 million shown on this line in the draft statement of accounts however due to the nature of local government capital accounting none affect the Council's closing general fund balance:

- ▶ £115,000 impairment which was netted off the revaluation gains figure shown in the other comprehensive income section in the comprehensive income and expenditure statement, which should have been charged in the cost of services section instead;
- ▶ £883,000 reduction in asset value and revaluation gain in order to recognise the impact of a ransom strip;
- ▶ £1,807,000 adjustment for item acquired for £1 from North Hertfordshire Homes, which was valued at £1.8 million. This was taken to the revaluation reserve and shown as part of the revaluation gain of £8.6 million in the other comprehensive income section, we considered that it was more in the nature of a donated asset and should have been shown in the taxation and non-specific grant income and expenditure, as part of the calculation of the deficit on provision of services.

There were no uncorrected misstatements. A number of amendments to disclosures were identified during the audit which were amended by officers.

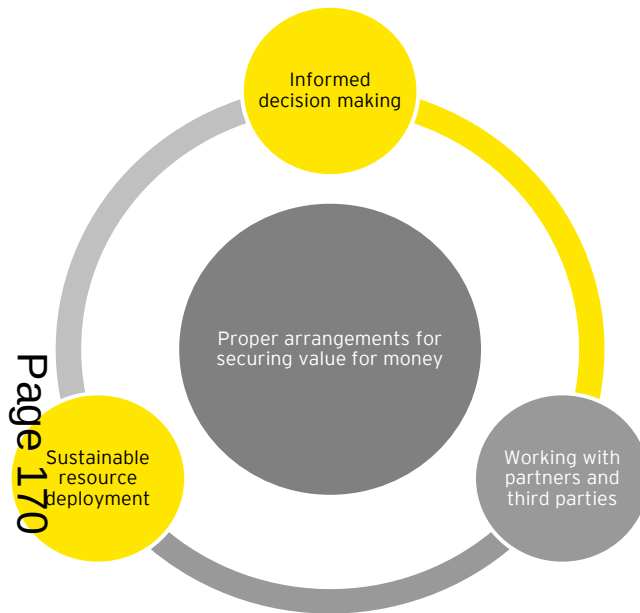


05

Value for Money



Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

In our audit plan we recognised a significant risk in respect of the value for money conclusion due to the Authority's need to make significant savings of £2.75 million over the life of its medium term financial strategy from 2017 to 2022. We have concluded the work set out in our audit plan and we anticipate issuing an unqualified conclusion in respect of your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money

VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Plan.

What is the significant VFM risk?	What did we say we would do?	What are our findings?
The need to find significant savings of £2.75 million over the life of the medium term financial strategy 2017 to 2022 is considered to be a significant risk. The Council has built in funding from the New Homes Bonus of between £1.1m and £1.9m over the years 2017/18 to 2020/21 into its budget. The details of this scheme are subject to changes that could adversely affect the Council's planning. This risk is primarily focused on the arrangements for deploying resources in a sustainable manner	Review the adequacy of the Council's budget monitoring process, comparing budget to outturn.	There are established processes for reporting to Cabinet on both revenue and capital spend in year. The Council has a track record of achieving its budget and in 2016/17 was able to add £1.1 million to its general fund balance. The paper to the Cabinet meeting held on 13 June 2017 showed that the underspend was spread across numerous budgets and that one of the most significant contributors to the underspend was the number of posts being held vacant as managers consider the possibility of alternative service provision.
	Review the robustness of any assumptions used in medium term financial planning.	We reviewed the various assumptions made at the time of the 2017/18 budget setting. Obviously there is a risk that further changes will be made to revenue streams e.g. New Homes Bonus (NHB), however the Council has included assumptions about the duration of the grant and likely number of new homes in line with information available to it. There could be a risk to the Council's financial planning if the rules around NHB change and this needs to be kept under review. Payroll costs represent a significant proportion of the Council's costs and provision is made for increments and for a 1% pay award which is in line with current expectations. Non pay inflation is allowed for in line with contractual terms. We conclude that the assumptions being used are appropriate.



Value for Money

What is the significant VFM risk?	What did we say we would do?	What are our findings?
	Review the Council's approach to prioritising resources whilst maintaining services.	The Council took up the offer of a 4 year settlement and in response has published its sustainability plan. This recognises the need to deliver services that residents need on a 'business as usual' basis despite the reduction in available funding, by ongoing review of how services are provided for example waste/cleansing service, use of assets e.g. letting space in newly refurbished assets, and review of parking to ensure in line with corporate objectives.
Page 172	Review the September 2016 MTFS and select a small sample of savings and efficiency targets and seek to understand how the Council is planning to meet these targets, and challenge the realism of assumptions and planned actions.	We reviewed three projects: 1) Hitchin Town Hall café income generation 2) Review of parking strategy and 3) Waste, recycling and street cleansing. Only the first project, showed evidence of clearly not being deliverable to the extent originally planned however the efficiencies planned across other projects should enable the Council to achieve the total spend in the MTFS. There is clear monitoring and reporting of progress on each projects. There is evidence of involvement of third parties in providing relevant information to inform assumptions, in addition the Finance team have been involved in developing the financial scale of efficiencies. We conclude that the arrangements are adequate overall.



06 Other reporting issues



Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/17 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2016/17 including the Narrative Statement that is published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements.

We have no other matters to report.

Whole of Government Accounts

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

We have no issues to raise.

Other powers and duties

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

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



Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of North Hertfordshire District Council's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and

We have no significant matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Assessment of control environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



08 Appendices



Appendix A

Required communications with the Finance, Audit and Risk Committee

There are certain communications that we must provide to the Finance, Audit and Risk Committees of UK clients. We have done this by:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Finance, Audit and Risk Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	23 January 2017 Audit Plan
Significant findings from the audit	▶ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Any significant difficulties encountered during the audit ▶ Any significant matters arising from the audit that were discussed with management ▶ Written representations we have requested ▶ Expected modifications to the audit report ▶ Any other matters significant to overseeing the financial reporting process	September 2017 Audit Results Report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about North Hertfordshire District Council's ability to continue for the 12 months from the date of our report
Misstatements	▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing	September 2017 Audit Results Report



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	▶ Asking the Finance, Audit and Risk Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Finance, Audit and Risk Committee responsibility.	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, where applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity	We have no matters to report
Subsequent events	▶ Where appropriate, asking the Finance, Audit and Risk Committee whether any subsequent events have occurred that might affect the financial statements.	We have asked management and those charged with governance. We have no matters to report at this time.
Other information	▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.	We have no matters to report
External confirmations	▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures.	We expect to have received all requested confirmations
Consideration of laws and/or regulations	▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▶ Asking the Finance, Audit and Risk Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Finance, Audit and Risk Committee.	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	Significant deficiencies in internal controls identified during the audit.	September 2017 Audit Results Report
Independence	Communication of all significant facts and matters that have a bearing on EY's objectivity and independence. Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as: - The principal threats - Safeguards adopted and their effectiveness - An overall assessment of threats and safeguards - Information on the firm's general policies and processes for maintaining objectivity and independence Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,	23 January 2017 Audit Plan September 2017 Audit Results Report
Fee Reporting	Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work	23 January 2017 Audit Plan September 2017 Audit Results Report
Certification work	Summary of certification work	Certification Report



Appendix B

Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 23 January 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and the Finance, Audit and Risk Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Finance, Audit and Risk Committee on 21 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

Description	Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
Total Audit Fee - code work	£52,037	£52,037	£52,037	£52,037
Grant certification fee	TBC	£5,648	£5,648	£7,524

Our grant certification work is in progress we will report the outturn fee in our certification report



Appendix C

Accounting and regulatory update

Accounting update

Since the date of our last report to the Finance, Audit and Risk Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on North Hertfordshire District Council 
<i>IFRS 15 Revenue from Contracts with Customers</i> Page 183	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: ▸ Leases; ▸ Financial instruments; ▸ Insurance contracts; and ▸ for local authorities; Council Tax and NDR income. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. ▸ There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.	Some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to: ▸ Disaggregate revenue into appropriate categories ▸ Identify relevant performance obligations and allocate income to each ▸ Summarise significant judgements
<i>IFRS 16 Leases</i>	IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.



Appendix C

Accounting and regulatory update (continued)

Progress report on implementation of new standards and regulations

In previous reports to the Finance, Audit and Risk Committee, we highlighted the issue of new accounting standards and regulatory developments. The following table summarises progress on implementation:

Name	Summary of key measures	Impact on North Hertfordshire District Council  
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	▶ The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	These changes provide challenges for both the preparers and the auditors of the financial statements, as the Council will need to bring forward its timetable for the delivery of the statement of accounts. The draft statement was available to us for audit slightly ahead of the end of June this year but officers will need to advance this further for 2017/18. We recognise that the working papers prepared for the audit are of a good standard although we will have some suggestions for how they could be further improved for next year. We received prompt response to our audit queries for this year's audit. Given the pressure on auditors to complete audits within a more compressed timescale the co-operation from authorities in preparing clear working papers and prompt responses to queries will be vital. As auditors, nationally we have: ▶ Issued a thought piece on early closedown ▶ As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales ▶ Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 Locally we have: ▶ Agreed areas for early testing with the Council. ▶ Set up a forum in October for chief accountants to meet with us to share ideas on how procedures can be streamlined. We look forward to continuing this productive working relation in 2017/18.



Appendix D

Management representation letter

Management Rep Letter

Ernst & Young
400 Capability Green
Luton
LU1 3LU

Dear Sirs

This letter of representations is provided in connection with your audit of the financial statements of North Hertfordshire District Council ("the Council") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of North Hertfordshire District Council as of 31 March 2017 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

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

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



Appendix D

A. Financial Statements and Financial Records

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

1. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We have approved the financial statements.
2. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
3. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, that are free from material misstatement, whether due to fraud or error.
4. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.



Appendix D

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date:
 - a. Council 31 August 2017
 - b. Cabinet 25 July 2017
 - c. Finance, Audit and Risk 12 June 2017
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.



Appendix D

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 20 to the financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. Other than as described in Note 7 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

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

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment, Investment Properties, and Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Property Valuation and Business Rates Appeals Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the valuation of Property estimate appropriately reflects our intent and ability to utilize these assets on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.



Appendix D

J. Retirement benefits

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

K. Expenditure Funding Analysis

1. We have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.
2. We confirm that the financial statements reflect the operating segments reported internally to the Council.

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Yours faithfully,

Head of Finance, Performance and Asset Management

Chairman of the Finance, Audit and Risk Committee

About EY

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

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ED None

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FINANCE, AUDIT & RISK COMMITTEE 21 SEPTEMBER 2017

*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 10

TITLE OF REPORT: ANNUAL GOVERNANCE STATEMENT 2016/17

REPORT OF: SENIOR LAWYER

EXECUTIVE MEMBER: [NON-EXECUTIVE FUNCTION]

COUNCIL OBJECTIVE: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1. For the Finance, Audit & Risk Committee to approve the Annual Governance Statement (AGS) for the 2016/17 year. This Statement reviews the Council's governance arrangements for the 2016/17 period. It also proposes an Action Plan to update/ improve those arrangements. This report also provides an update on the proposed Actions since the draft AGS was reported to Committee in June 2017.

2. RECOMMENDATIONS

That the Committee:

- 2.1. approves the AGS/ Action Plan (Appendix A);
- 2.2. notes the progress to date against the Action Plan (Appendix B).

3. REASONS FOR RECOMMENDATIONS

- 3.1 The AGS must be considered by Members of the Committee and approved under Regulation 6(4)(a) of the Accounts and Audit Regulations ('AAR') 2015/234, before the Statement of Accounts.
- 3.2 The Committee is the legal body with responsibility for approval of the AGS.
- 3.3 Reviewing the AGS Action Plan during 2017/18 will provide the Committee with assurances that NHDC is examining and where necessary improving its governance arrangements.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 There are no alternative options to be considered.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. As reported to the Committee on 12 June 2017 [[Draft Annual Governance Statement \(AGS\) 2016/17 report](#)] the governance review and AGS format is based on a (new) 2016 CIPFA/ SOLACE Framework.
- 5.2. There has been direct liaison with a CIPFA Governance Advisor on how to approach the new assessment and format of the AGS.

- 5.3. Prior to the draft AGS being presented, the Senior Lawyer also liaised with the Council's External Auditors (Ernst & Young) on the approach that the Senior Management Team ('SMT') intended to adopt for the AGS self-assessment and scoring of the Council's arrangements under the new Framework. The Shared Internal Audit Service ('SIAS'), Shared Anti-Fraud Service (SAFS) Manager and Ernst & Young were sent the SMT AGS self-assessment document. The Leader also received a copy.
- 5.4. At the Committee on 12 June, Members were asked to provide feedback on the draft AGS by 31 July. The Head of Finance, Performance and Asset Management, sent a link to the draft AGS on 15 June to Committee Members. A further email was sent on 17 July 2017. A further version was sent to SIAS and the external auditors Ernst & Young on 14 June.
- 5.5. Any comments, or queries (or updated documents) have been included or links provided following this consultation as appropriate. The AGS appended at A is therefore the final version following consultation.

6. FORWARD PLAN

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

7. BACKGROUND

- 7.1 Reference is made to the report of 12 June 2017, which sets out the legal requirements for preparation, review and approval of the AGS, together the matters included/ and parties involved in that process. As indicated this must be considered by Members of the Committee and the AGS approved under Regulation 6(4)(a) AAR 2015 *before* the relevant authority approves the Statement of Accounts (Regulation 9(2)(b)) at this Committee meeting. The AGS reviews the systems in place and identifies any actions to be undertaken in the forthcoming year.
- 7.2 The review was undertaken against the relevant CIPFA/ SOLACE Framework, which for this year onwards is the *Delivering good governance in Local Government Framework 2016 Edition* and any CIPFA/ SOLACE guidance¹. The AGS was prepared following an in-depth review/ input and scoring of arrangements by SMT against the Framework 2016 Principles (in accordance with the guidance²). The detailed self-assessment document has not been appended. It was however, loaded on the Council's Corporate Governance internet page prior to the draft AGS being reported to the Committee in June and will remain on the site until the next review is undertaken [[SMT AGS self-assessment document](#)].
- 7.3 The format of the AGS conforms to recommended practice, as per the advice provided by CIPFA: a '*meaningful but brief communication*'; there is no requirement to repeat all the arrangements that have been comprehensively assessed. Nevertheless, the AGS highlights some key areas under the Principles, overall conclusion on the arrangements and appends the Action Plan.
- ## **8. RELEVANT CONSIDERATIONS**
- 8.1. The preparation of the AGS provides the Council with an opportunity to consider the robustness of its governance and internal control arrangements. It highlights areas where governance can be further improved or further reinforced.
- 8.2. The AGS for 2016/17 is attached as Appendix A for approval.

¹ CIPFA/SOLACE Delivering good governance in Local Government Guidance Notes for English Authorities 2016 Edition.

² As above (*ibid*)

- 8.3. The Council will include the approved 2016/17 AGS as an Appendix to the Statement of Accounts as it has in previous years.
- 8.4. Updates on the AGS Action Plan are set out in Appendix B and will be reported to this Committee again in or around March 2018.

ACTION PLAN UPDATE (FROM DRAFT AGS 2016/17)

- 8.5. See Appendix B. All are ongoing.

9. LEGAL IMPLICATIONS

- 9.1 Under the Local Audit and Accountability Act ('LAAA') 2014/ AAR 2015 Regulations the 2016/17 AGS must be approved by this Committee by 30 September 2017. This changes to *31 July* for financial year 2017/18 onwards. Otherwise the legal implications are set out above.
- 9.2 The Terms of Reference of this Committee under 10.1.5(h) are: *"To ensure that an annual review of the effectiveness of internal controls (accounting records, supporting records and financial) systems is undertaken and this review considered before approving the Annual Governance Statement."* Review and approval of the AGS is a non-executive function and falls within the Committee's remit.

10. FINANCIAL IMPLICATIONS

- 10.1 The final AGS is to be approved and accompany the Statement of Accounts. Other than this there are no direct financial implications arising from this report.

11. RISK IMPLICATIONS

- 11.1 The process of assessing the Council's governance arrangement enables any areas of weakness to be identified and an Action Plan to improve governance identified and monitored.

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 equality implications of this report or the AGS. Where relevant the Council's arrangements have been assessed against the 2016 Framework Principles. In respect of those arrangements, the SMT AGS self-assessment identifies the procedures in place and any outcomes. Council reports include any equality implications and are assessed by the Policy Officer. Where appropriate an impact assessment will be undertaken and mitigation measures identified. The Policy Officer undertakes an Annual Cumulative Equality Impact Assessment of these and publishes it on the Council's website³.

13. SOCIAL VALUE IMPLICATIONS

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

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource implications relating to this matter.

³ <https://www.north-herts.gov.uk/home/council-performance-and-data/policies/equality-and-diversity>

15. APPENDICES

- 15.1 Appendix A – AGS and Action Plan for 2016/17;
- 15.2 Appendix B – AGS Action Plan update.

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17. BACKGROUND PAPERS

- 17.1. The Finance, Audit & Risk Report and Appendix A (12 June 2017 linked above).
- 17.2. The SMT AGS self-assessment is on the Corporate Governance Page:
<https://www.north-herts.gov.uk/home/council-performance-and-data/corporate-governance>. This contains links to further relevant background documents, reports, Policies and Guidance. The AGS also refers to documents and where possible, links have been provided to relevant pages and or documents.

NHDC ANNUAL GOVERNANCE STATEMENT 2016-2017

Introduction:

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

NHDC also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, NHDC should have proper arrangements for the governance of its affairs in place. It is legally required¹ to review arrangements and prepare an Annual Governance Statement ('AGS'). It should prepare this Statement in accordance with proper practices set out in the CIPFA/ SOLACE Delivering Good Governance in Local Government: Framework 2016. This AGS explains how NHDC has complied with these requirements. The Finance, Audit & Risk (FAR) Committee Members have been informed of progress on producing this AGS and will review it and evaluate the robustness of the underlying assurance statements and evidence. FAR Committee approves the final AGS and monitors the actions identified.

Delivering good governance in Local Government:

The Governance Framework comprises of systems, processes, culture and values, by which the authority is directed and controlled. It enables NHDC to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The new Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) applies to AGS' prepared for the 2016/17 financial year onwards. The Principles are further supported by examples of what good governance looks like in practice. The Principles are set out in the diagram below:

Key Elements of the NHDC Governance Framework:

- ❖ Council, Cabinet and Strong Leader model that provides leadership, develops and sets policy.
- ❖ A decision making process that is open to the public and decisions are recorded / available on the NHDC website.
- ❖ An established Shared Internal Audit Service (SIAS) that undertakes detailed reviews.
- ❖ Risk Management and performance procedures that enable risks to be identified and these to be monitored by Senior Management Team (SMT) and Members on a quarterly basis.
- ❖ Overview & Scrutiny (O&S) Committee reviewing performance and policies.
- ❖ An effective FAR Committee as the Council's Audit Committee that reviews governance and financial arrangements.
- ❖ A SMT, which includes the statutory officers and provides effective corporate management.

How NHDC complies with the 2016 Governance Framework:

NHDC has approved and adopted:

- ❖ a [Local Code of Corporate Governance](#) in March 2016 which incorporate the Framework 2016 Principles.
- ❖ a number of specific strategies and processes for strengthening corporate governance (and an action plan).

Set out below is a summary of some of the central ways that NHDC complies with the 2016 Framework Principles.

The detailed arrangements, policies, meetings, information and examples are described / links provided in the SMT AGS self assessment document on the Corporate Governance page: <https://www.north-herts.gov.uk/home/council-performance-and-data/corporate-governance> or can be obtained from, NHDC, Town Lodge, Gernon Road, Letchworth Garden City SG6 3HN.

¹ Local Audit and Accountability Act 2014 and The Accounts and Audit Regulations 2015.

CIPFA/ SOLACE Principles 2016:

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

What NHDC has or does:

❖ Operates Codes of Conduct for Members and Employees, maintaining arrangements for sign off of those, awareness of key policies and reporting / investigating any allegations of breaching those Codes.

❖ Complaints concerning employees are dealt with according to the Managing Misconduct Policy, and/ or Employment Procedure rules for officer (for relevant officers will also potentially involve the Independent Person/ Reserve Independent Person (IPs), Employment Committee and Full Council).

❖ A Standards Committee which oversees and promotes high standards of Member conduct. It is composed of 12 Councillors and 2 non-voting co-opted Parish Councillors. The IPs are invited to attend the meetings of the Standards Committee. The Committee oversees the Complaints Handling Procedure and Final Determination Hearings through a Sub-Committee. The Chairman of Standards Committee provides an annual report to Full Council in May. This is designed to promote shared values with Members, employees, the community and partners.

❖ The Head of Paid Service function is provided by the Council's Chief Executive. The Council's Constitution includes a scheme of delegation, which makes it clear what matters are delegated to the role, to other officers and terms of reference for each of the Council's Committees and decision making practices are outlined. The Chief Executive is supported by the other statutory officers (MO and CFO) and meets regularly with them and the overall Senior Management team. The Council's Constitution is reviewed annually.

❖ The Council's Anti-Fraud and Corruption Policy, which includes the Anti-Money Laundering Policy, Anti-Bribery, Employee Personal Conflicts of Interest, Benefits Anti-Fraud, and Whistleblowing

Policies and Fraud Plans, have been reviewed and are available on the internet.² Contract Procedure Rules in Section 20 of the Constitution underpin the Council's approach to Procurement. Standard Contracts include an obligation to adhere to the requirements of the Bribery Act 2010 and the Councils' requirements as set out in the Councils' Anti-Bribery Policy.

❖ The Council also has Policies and procedures for Members and Employees to declare interests, including Organisational ones. Members are obliged to comply with such arrangements under their Code of Conduct and employees sign an Annual Declaration Letter to ensure that they are aware of and will comply with key governance policies.

❖ The Council has a Monitoring Officer (MO) whose role is to ensure that decisions are taken lawfully, in a fair manner and procedures followed. After consulting the Chief Executive and Chief Finance Officer (CFO) the MO has a statutory duty/powers to report any proposal, decision or omission that he/she considers would give rise to unlawfulness or any decision or omission that has given rise to maladministration ("Section 5 report"). The MO is responsible for providing advice on ethics and governance to the Standards Committee and to the Members of this Council. A Legal advisor attends Full Council, Cabinet and regulatory Committees – such as Planning, Licensing and Standards to be on hand to provide advice. A Finance Officer attends Full Council, Cabinet and FAR Committee. Legal services maintain records of advice provided.

❖ The Council's CFO (s151 Officer) has a duty to the Council's taxpayers to ensure that public money is being appropriately spent and managed, and reports directly to the Chief Executive. The CFO ensures that appropriate advice is given on all financial matters, is responsible for keeping proper financial records and accounts and for maintaining an effective system of internal control.

² <http://www.north-herts.gov.uk/home/council-performance-and-data/policies/anti-fraud-and-corruption-policy>

❖ All Committee reports and delegated decision templates have required areas for legal advice (as well as Finance, Social Value Act 2012 and equality requirement); part 1 reports are published and available for inspection as per the statutory requirements. Committee and Member Services provide support to the Council, Councillors and the democratic processes of the Council. The team organise the civic calendar of Committee meetings dates, the Forward Plan of Executive Decisions, prepare and despatch agendas and reports in advance of the meetings and take and despatch minutes and decision sheets minutes after the meetings. Delegated decisions are retained by them and they provide support for Councillor Surgeries.

❖ SIAS reviewed the Council's Ethical Policies in 2016 and confirmed an overall Substantial level of assurance that effective controls are in operation.

Principle B: Ensuring openness and comprehensive stakeholder engagement.

What NHDC has or does:

❖ The Council's vision is one created by all partners of the North Herts Partnership and this and relevant documents are made available on the Council's website with Service Plans that show how the Objectives will be delivered in practical terms [[Corporate Objectives page](#)].

❖ Open Data is published on the NHDC website, and is available to re-use through the terms of the Open Government Licence [[Open Data page](#)]. Data Sets on NNDR (Full list and monthly credit balances) are also available [[Published Data Sets](#)].

❖ An Annual Monitoring Report is produced containing indicators and targets across the District to aid with future planning decisions and identification of local priorities [[Annual Monitoring Report 2015-2016](#)].

❖ There is an effective Committee administration process in place so that all Council

meeting agendas, reports, minutes are available for inspection, and these, together with public meeting recordings, are available on line [[Council meetings page](#)].

❖ There is a presumption of openness and transparency, with reports (or confidential parts of reports) only being exempt so long as statutory exemption requirements³ apply. Report authors consider such matters with the designated Constitutional “Proper officer”. Meetings are open to the press and public (unless an exemption applies).

❖ There is a Council and Democracy page on the NHDC website, that links to information about the Council, Councillors, MPs, Council meetings, Council departments, Forward Plan of Key Decisions, Petitions, Notices of Part 2 (exempt) decisions that the Council intends to take in the near future, delegated decisions, recordings/ the right to record Council meetings, Notices of Urgent Decisions [[Council and Democracy](#)]. Public Registers and Delegated Decisions are available on the NHDC website for [Environmental Health](#), [Licensing](#) [[Public Registers and Delegated Decisions](#)] and Planning applications/ decisions [[New Planning Applications](#)]. Delegated Executive and Non-Executive decisions⁴ are on the Council's website [[Delegated Decisions](#)].

❖ The Constitution also sets out what information is available to the public and how to engage with the Council [[Section 3](#)].

❖ The Council has a 5 year Consultation Strategy for 2016-2020 [[Consultation Strategy 2016-2020](#)] that sets out the methods that will be used to consult and practical considerations for doing so. This entails various approaches to consultation. A Statement of Community Involvement sets out how the Council will involve the community in preparing the Local Plan and in considering planning applications [[Statement of](#)

[Community Involvement - Adopted September 2015](#).

❖ The Council conducts a District Wide Survey every two years [[2015 District Wide Survey - Key Findings Report](#)]. Residents who take part in the District Wide Survey are invited to join the Council's Citizens Panel, which is used for consultation.

❖ The Council also has an internal Staff Consultation Forum, a Joint Staff Consultative Committee (JSCC) and a Staff Consultation Policy [[Staff Consultation Policy](#)].

❖ The Council's Customer Service Strategy aims to put people first [[Customer Service Strategy page](#)]. The Communications Strategy and action plan [[Communications Strategy page](#)] set out the approach to communicating with residents, partners and the media. The Council has a multi-media approach to contact – on line, in person, by phone, by post, with self service and social media sites (on Facebook, Twitter and Flickr). The use of social media sites and text alerts is geared towards engagement with IT adept and/ or younger residents.

❖ The Council is also part of the [Hertfordshire Local Enterprise Partnership](#) which aims to ensure a prosperous economy for the District's residents and businesses. It is also part of the [Greater Cambridge, Greater Peterborough LEP](#) and works with Town Centres in Partnership to co-ordinate and progress the work in the town, tackle growth and development challenges.

Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

What NHDC has or does:

❖ The Council has a Corporate Objectives and Plan approval / review process and its vision is based on partnership aspirations. The Objectives provide the foundations for the Service planning process. Delivery is monitored through detailed

Senior Management, Committee and Executive Member / Member procedures.

❖ The Corporate Equality Strategy contains equality objectives and contributes towards the Council's vision of equality and diversity [[Corporate Equality page](#)]. These issues are monitored through the report / decision making process and Annual [Cumulative Equality Impact Assessment 2016-17](#).

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

What NHDC has or does:

❖ Decision making is effectively delegated through the Constitution (to Council, Committees, Cabinet, Executive Members and Officers). The Council has a set report / delegated decision template and guidance on how to complete these, which include standard areas such as an ‘options’ appraisal called “Alternative options considered” and risk analysis assists with optimising outcomes.

❖ The Corporate business planning programme is used to assess projects against criteria including the Council's agreed Policy, its priorities, the outcomes of public consultation, demonstration of continuous improvement and changing legislative need.

❖ The Council has a Project Management Framework, and Service Managers have to identify threats to service delivery/performance in their own areas, when undertaking projects, letting contracts, formulating or introducing new policies and engaging in partnership working. This is part of the [Risk & Opportunities Management Strategy 2016-19](#). These are recorded on the Risk Register, and monitored through the Council's Covalent performance/ risk management software monitoring system. Project management lessons are logged and detailed in Corporate Lessons Learnt Log.

❖ The Council's Financial Regulations [[Constitution PART B Section 19 Financial Regulations](#)] are an essential part of risk

³ Under the Local Government Act 1972 Schedule 12A, and/ or Local Government Act 2000/ The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012/2089

⁴ Made under The Openness of Local Government Bodies Regulations 2014/2095

management / resource control for delivery of services (whether internally, externally or in partnership). The Medium Term Financial Strategy (MTFS) is reviewed annually to set an indicative 5 year financial plan for the longer term strategic vision as well as a detailed one year budget. The MTFS and annual budget are prepared in line with the agreed Objectives and Corporate Plan/ business planning process. Budget workshops are provided to Political groups prior to budget setting/ budget approval and these help to optimise achievements.

Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

What NHDC has or does:

- ❖ The Council recognises the importance of employees, planning recruitment and development. The People Strategy incorporates the Workforce Development Plan [People Strategy 2015-2020](#) and was developed with the Corporate Objectives (priorities as was), Corporate Projects and workforce demands anticipated. A vacancy management process provides a corporate overview of vacancy management and to ensure compliance with proper recruitment practices. The Council promotes ILM Leadership & Management qualifications and has Investors in People status.
- ❖ Members and employees engage in various groups and benchmarking initiatives. These assist the Council in analysing/ improving its capability, such as the County Benchmarking LG Futures, HR Salary benchmarking, Sport England's National Benchmarking service and Customer Services.
- ❖ Service area employees attend / are part of groups – such as Legal PLP and Herts First where good practice can be shared.
- ❖ The Council also considers and participates in Shared Service/ commercial ventures to develop services and resilience, such as the CCTV Partnership, the Local-Authority Building Control Company, Broste Rivers LA7 Limited and has been

a Lead authority developing the Herts Home Improvement Agency.

- ❖ The Leader is part of Herts Leaders Group and East of England Leaders Group, has weekly Chief Executive/ Leader Briefings. Political Liaison Board (PLB) meetings are held and opposition Member/ shadow Member briefings provided by the Chief Executive/ other senior officers.
- ❖ Bi-monthly SMT meetings are held where Policy, Projects, Performance and Risk are (amongst other things) monitored and the Council encourages close working liaison between Senior Officers and Executive Members.

Principle F: Managing risks and performance through robust internal control and strong public financial management

What NHDC has or does:

- ❖ The Council has extensive mechanisms in place to manage risk and performance, through the Risk Management Team/ Group/ Member champion/ Risk & Opportunities Management Strategy 2016-19 and [Risk & Opportunities Management Policy Statement 2016](#). The Covalent system supports the logging/ monitoring process by identifying individual risks and 'ownership'. These are reported to SMT/ FAR, O&S Committees and Cabinet for transparency and in Cabinet's case, overall management purposes. The Risk Management framework is embedded across all service areas and helps to inform decision making.
- ❖ SIAS' reviews of Risk Management and Financial systems during 2016/17 provided an overall Substantial assurance.

Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

What NHDC has or does:

- ❖ The Council's 'Outlook' Magazine is provided to all households in the District and is available on the Council's website. It contains

information about the Council's services and events. The Autumn Outlook– Annual Residents Report contains a review of the previous financial year and summarises key achievements against priorities / expenditure and is a useful accountability mechanism.

- ❖ SIAS undertake numerous planned audits/ (additional on request) and present progress reports against these, an Annual Assurance Statement Internal audit/ opinion report of the Head of Internal Audit on the work undertaken which demonstrate compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2010). On an annual basis SIAS is required to evidence its conformance with the requirements of the Public Sector Internal Audit Standards (PSIAS). An external review is required at least once every five years and this was last carried out in January 2016. In SIAS' Opinion report for 2016/17: 'The Head of Assurance has concluded, therefore, that SIAS 'generally conforms' to the PSIAS, including the Definitions of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. 'Generally conforms' is the highest rating and means that SIAS has a charter, policies and processes assessed as conformant to the Standards and is consequently effective and has the processes in place to deliver robust assurance work.

❖ The CFO follows: the CIPFA Code of practice on local authority accounting in the United Kingdom 2016/17 and the CIPFA Statement on the role of the Chief Financial Officer in Local Government 2016 by ensuring that the financial statements are prepared on a timely basis, meet legislative requirements, financial reporting standards and professional standards as reflected in CIPFA's Code of Practice.

- ❖ External Auditors provide key timetabling/ stage of audit reports to FAR Committee (Audit Fee Letter, Audit Plan, testing routine procedures, Audit on financial statement and value for money conclusions/ Audit completion certificate and Annual Audit Letter).

Review of Effectiveness:

The Council uses a number of ways to review and assess the effectiveness of its governance arrangements. These are set out below:

Assurance from Internal and External Audit

One of the fundamental assurance statements the Council receives is the Head of Internal Audit's Annual Assurance Statement/ Report on the work undertaken [[Annual Assurance Statement and Internal Audit Report 2016/17](#)]. During 2016/17 SIAS reported on 22 areas of which 18 (82%) received a Substantial assurance including all key financial/ risk systems/ contract management reviewed. Non-domestic rates received a Full assurance. Of the remaining areas three, Data Protection/ Freedom of Information, Waste Contract – Management & Renewal, and Asset Management received Moderate assurance conclusions. One, safer staffing, received a limited assurance. Recommendations are detailed in the March 2017 SIAS report to FAR Committee [[Report on progress against the 2016/17 Audit Plan](#)] in Appendix B. Some have been implemented as detailed and outstanding ones will be taken forward and monitored through the 2017/18 reports to FAR Committee. Asset Management medium priority recommendations have all been implemented. In respect of safer staffing, the audit found that whilst internal processes are sound, there are inadequate controls in place to manage and oversee external contractors' arrangements for safeguarding. As a result, two high priority recommendations were made relating to specifying safeguarding requirements at an early stage of the procurement process making provision for the monitoring of contractors' safeguarding arrangements and specific consideration of how contractors ensure that appropriate employment checks and training are undertaken. These recommendations have been implemented.

SIAS also review the effectiveness of the FAR Committee. Their conclusions for 2016/17 were that

it was substantially compliant with the CIPFA best practice approach and consequently is an effective scrutiny body for financial, audit, risk and internal control matters [[SIAS effectiveness of FAR report 2016/17](#)].

The Council's external auditors provide assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money. The last Annual Audit Letter presented to the FAR Committee in November 2016 was very positive, with unqualified opinions on both the Council's financial statements and the value for money conclusion [[NHDC Annual Audit Letter 2015-16](#)]. The most recent External Audit Update report issued [[External Audit Update report 22 March 2017](#)] indicated that there were no changes to the risk identified / value for money risk identified in previous report from January 2017 [[External Audit Plan for the year ending 31 March 2017 \(report 23.1.17\)](#)]. These arrangements are therefore deemed to be effective.

Assurance from self assessment

The review of effectiveness is informed by the work of the Senior Managers within the authority who have responsibility for the development and maintenance of the governance environment. Each Head of Service / Corporate Manager is responsible for producing their own assurance statements and an improvement action plan to rectify any identified governance weaknesses, as part of the Service Planning process. All confirmed their overall level of assurance as effective [see Appendices B to the Plans on Corporate Objectives page⁵].

SMT is chaired by the Chief Executive, includes the MO, CFO and key Senior managers. It followed the CIPFA/ SOLACE recommended self assessment process of reviewing the Council's arrangements against the 2016 Framework Principles/ sub-

principles guidance examples. This was undertaken during March-May and SMT is satisfied that appropriate and overall Substantial 2016 Framework governance arrangements are in place. However, any improvement actions have been identified for 2017-18 in the Action Plan. The detailed AGS self-assessment is available on the Corporate Governance page⁶.

Assurance from Risk Management

The top risks for the Council (as reported to FAR Committee in June 2017⁷), are: Local Plan, North Hertfordshire Museum & Town Hall project, Managing the Council's Finances, Shared Procurement Opportunity (Waste & Street Cleansing Contract Renewal), Cyber risks, Sustainable Development of the District and Income Generation Projects. The first 3 scored 9 on the risk matrix:

- ❖ Delivery of the **Local Plan** has and remains a top risk. On 11 April 2017, Full Council approved the submission of the new Local Plan for North Hertfordshire for examination by the Secretary of State and approved the revised Local Development Scheme for North Hertfordshire⁸. This shall progress through the submission/ examination stages during 2017-18.

- ❖ **Management of the Council's Finances** is an ongoing top risk which is reported through the FAR Committee and Cabinet process. The MTFs, budgets and capital programme are, however, noted as soundly based and designed to deliver the Council's strategic Objectives.

- ❖ The **North Hertfordshire Museum & Town Hall project** has been a top risk for a number of years. Regular updates have been provided to Cabinet and Council during the year, with the main fit out works completed in 2016. Efforts to resolve the issues relating to 14/15 Brand Street continue. SIAS will undertake a review of the project (deferred

⁶ <https://www.north-herts.gov.uk/home/council-performance-and-data/corporate-governance>

⁷ [Risk Management update report 12.6.17](#)

⁸ Source: covalent

⁵ <https://www.north-herts.gov.uk/home/council-data-and-performance/corporate-objectives>

from the 2015/16 Audit Action Plan). O&S Committee has also identified a review of the project once concluded. An overall summary was provided in the Annual Risk Management Report 2016-17 to FAR Committee in June 2017 [[Annual report on Risk Management 2016/17](#)]. The Council's Risk Management arrangements were assessed by SIAS during 2016-17 and a Substantial level of assurance confirmed.

Assurance from Complaints outcomes

Local Government Ombudsman (LGO): The Council reports complaints to SMT and O&S. The summary for the period 1 April 2016 to 31 March 2017 indicated that NHDC received 190 complaints. 58 Stage 1 were found to be justified, 30 of those required further action. Learning outcomes/ improvements included advice to employees on how to send secure data; as well as 17 relating to waste complaint and a contractor's practices. Of those that progressed to Stage 2, 8 of 22 were found to be justified, with 5 requiring further action.

80 complaints were made to the LGO during 2016/17 (Hitchin Town Hall – out of jurisdiction; Waste & Recycling – see below; Planning – 2: premature and closed with no further action; Housing needs – premature; revenues – closed no further action; licensing – closed no further action; legal – in progress). The LGO found 1 relating to waste & recycling (the manner that the complaint had been handled by the contractor/ the way the person had been treated following a complaint) to be maladministration & injustice; however, in coming to this decision the LGO noted that the Council had apologised and taken appropriate action.

Standards complaints involving Councillors:

During 2016/17 six complaints were received, three relating to District Councillors and three relating to Parish Councillors. Two of these remained outstanding at year end. Of the four completed complaints, the subject matters and outcomes were:-

- ❖ A complaint about a District Councillor regarding comments made in a Committee meeting: (MO/IP) no case to answer;
- ❖ A potential complaint about District Councillors failing to respond to correspondence was not pursued by the complainant.
- ❖ A potential complaint about a Parish Councillor's behaviour was not pursued by the complainant.
- ❖ A complaint about a Parish Councillor's behaviour: (DMO/IP) no case to answer.

As a follow on action from a 2015/16 complaint, however, Full Council resolved to censure a former Councillor [[Full Council 24 November 2016](#)]. Information on the work of the Committee was also outlined to Full Council in the Chairman's Annual report [[Appendix A - Standards Committee Annual Report 2016/17 \(Full Council 18 May 2017\)](#)].

Whistleblowing

During 2016/17 the Council received two whistleblowing complaints. One in May 2016 related to a decision to allocate the Council's grants budget for 2016/17. It was referred to SIAS for investigation. The investigation concluded that there had been a lack of clarity in the Record of Decision/ and failures of procedure, although no evidence that the decision had been taken incorrectly, or grounds to other allegations made. Recommendations⁹ have been implemented. Independently of this, SIAS reviewed the Grants procedures/ Policy as part of planned work and confirmed a Substantial assurance.

The second complaint was an anonymous one received in October 2016 and concerned an external organisation. It did not, however, relate to a Council service, or Council employees, or Councillor, therefore it fell outside of the Whistleblowing procedure. As the Council was a funder of the organisation, it was agreed by the

Chief Executive, CFO and MO that a number of steps would be taken to ensure that the organisation reviewed the allegations and to establish if other bodies (Police / Charity Commission / SAFS) were looking into the matter. As a relevant, although not directly linked issue, the Council identified that its template Memoranda of Understandings with grant funded bodies needed to be reviewed to ensure compliance with current procurement requirements. This has been undertaken [[Cabinet 28.3.17 Review of NHDC Memorandum of Understandings \(Annual Grant Awards\) Appendix 4 - Template of contractual Grant Agreement](#)].

Information Commissioner's Office (ICO)

During 2016/17 the Council received 630 requests for information with 98% of these handled within the statutory deadline. No complaints were made to the ICO during this period, although one was received shortly after, (FER0667915), relating to the refusal to release commercial viability reports on a planning application. The Commissioner upheld the Council decision to withhold the reports.

In terms of other reports/ issues there have been no formal Statutory reports issued by the MO or s151 (CFO). The Council is therefore assured that effective complaint handling and response measures are in place.

Conclusion

No significant governance issues have arisen as a result of the review of effectiveness for the 2016/17 financial year. The Council is satisfied that it has appropriate arrangements in place. The Council proposes over the coming year to take the actions set out in the Action Plan below to address/ enhance its governance arrangements. Implementation will be monitored through the FAR Committee.

Cllr Lynda Needham, Leader of NHDC
David Scholes, Chief Executive of NHDC

⁹ See SMT AGS assessment pages 8-9

Action Plan 2017/18

1. Introduce new Member Induction programme from 2018. Consider including a session on media relations. Member training/ Charter to be considered by SIAS and recommendations taken forward [Democratic Services Manager]
2. Implementation of Cabinet resolutions of 28 March 2017¹⁰ on Data Protection/ Freedom of Information SIAS review recommendation. To review and potentially introduce new Member training e-learning system from June 2017 [Head of Revenues, Benefits & IT -HoRB & IT]
3. Monitor Employee Annual Declaration returns as a KPI for 2017 [Corporate Human Resources Manager -CHRM / Learning & Development Officer]
4. Executive Member for Policy, Transport and Green Issues to review Member leadership/ communicating shared values (sub-principle A1ii) as part of Corporate Plan review process [Chief Executive with Group Leaders in-put]
5. Constitutional review to change sections 12 & 14 [MO].
6. Delegated Decision Guidance under consideration in respect of delegated planning decisions [MO/ Deputy MO]. Delegated Planning Decision report template being reviewed in the light of a number of court cases [Planning Control & Conservation Manager/ Planning Lawyer]
7. Member Code of Conduct and declaration forms to be reviewed [MO]
8. Monitoring anti-bribery e-learning/ alternative uptake for Members/ Employees all to undertake [DMO/ CHRM / Learning & Development Officer & SMT].
9. SAFS to roll out an e-learning anti-fraud training package for employees during 2017 [SAFS Manager]
- 10.IIP assessment 2017 – review outcome by March 2018 [CHRM]
- 11.Contract Guides to be updated to consider reflecting appropriate ethical practices [Head of Finance, Performance & Asset Management - HoFPAM /Payment & Reconciliations Manager]
12. Corporate Equality Strategy to be uploaded on website (once approved) in 2017 [Policy Officer]
13. Job descriptions, delegations and organisational chart to be updated on website following reorganisation during 2017 [CHRM]
14. Financial Regulations to be reviewed 2017/18 following reorganisation/ Constitution redrafting [HoFP&AM]
15. To consider ways to feedback results following consultation [Communications Manager]
16. Investigate the possibility of realistic and cost effective Social Value report/ Cumulative Analysis Action for 2017/18 [SMT]
17. Review O&S Committee once Central Government's national inquiry completed [SMT].
18. Preparation for General Data Protection Regulation 'GDPR' implementation by May 2018 [HoRB &IT]. Privacy Impact Assessments (PIA) forms/ prompt be part of the NHDC Project Management Framework/ checklist by September 2017 [HoFP&AM].
19. Implementation of any outstanding SIAS recommendations [HoFP&AM].

¹⁰ <http://web.north-herts.gov.uk/aksnherts/users/public/admin/kab12.pl?cmte=CAB&meet=103&arc=71>

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Action	Officer update
1. Introduce new Member Induction programme from 2018. Consider including a session on media relations. Member training/ Charter to be considered by SIAS and recommendations taken forward [Democratic Services Manager].	No update available at this stage [ongoing].
2. Implementation of Cabinet resolutions of 28 March 2017 ¹ on Data Protection/ Freedom of Information SIAS review recommendation. To review and potentially introduce new Member training e-learning system from June 2017 [Head of Revenues, Benefits & IT -HoRB & IT]	The new E-Learning system is being implemented at this time. It is now proposed that with training required etc., it will be available from October 2017 [ongoing].
3. Monitor Employee Annual Declaration returns as a KPI for 2017 [Corporate Human Resources Manager -CHRM / Learning & Development Officer]	241/327 returned (73.7% return rate). A message will be put on the intranet, reminders to SMT, SMG, Insight staff briefing to ensure these are returned as soon as possible [ongoing].
4. Executive Member for Policy, Transport and Green Issues to review Member leadership/ communicating shared values (sub-principle A1ii) as part of Corporate Plan review process [Chief Executive with Group Leaders in-put]	No update available at this stage [ongoing].
5. Constitutional review to change sections 12 & 14 [MO].	Review to be undertaken following appointment of Deputy Chief Executive and reorganisation [ongoing].
6. Delegated Decision Guidance under consideration in respect of delegated planning decisions [MO/ Deputy MO]. Delegated Planning Decision report template being reviewed in the light of a number of court cases [Planning Control & Conservation Manager/ Planning Lawyer]	Planning decision template has been reviewed. Employees have been informed and Council is in the process of liaising with other neighbouring authorities on an agreed approach prior to Delegated Decision Guidance being updated [ongoing].
7. Member Code of Conduct and declaration forms to be reviewed [MO].	Draft prepared and circulated to Group Leaders / Independent Persons and relevant officers on 8 August 2017. To follow up consultation with any appropriate revisions/ or address issues in report. Standards Committee October and Council November 2017. Publish and come into force on dated to be provisionally agreed [ongoing].
8. Monitoring anti-bribery e-learning/ alternative uptake for Members/ Employees all to undertake [DMO/ CHRM / Learning & Development Officer & SMT].	To be confirmed [ongoing]. This matter was held over from last AGS actions following the Full Council decision of 11 April 2017 " <i>That all Members and employees undertake the Anti-Bribery e-learning module, as per the Shared Internal Auditor's (SIAS) report recommendation of November 2016.</i> " This was largely due to low Member take up. Current employees: 283 completed, 5 in progress, 47 not started. Members: 5 complete, 1 in progress and will be reviewed again in the light of responses 2 and 9.
9. SAFS to roll out an e-learning anti-fraud training package for employees during 2017 [SAFS Manager]	SAFS have a progress report to FAR Committee in September and have now developed and published an E-Learning package for employees dealing with fraud awareness, bribery and corruption and anti-money laundering. This package is currently being rolled to all SAFS Partners (through HR/Comms/IT) for local editing and then publishing to employee and Members. Anti-Bribery to be the same as the previous SAFS amended version [ongoing].

¹ <http://web.north-herts.gov.uk/aksnherts/users/public/admin/kab12.pl?cmte=CAB&meet=103&arc=71>

Appendix B Action Plan update

10.IIP assessment 2017 – review outcome by March 2018 [CHRM]	Feedback from IIP will be reported to SMT [ongoing].
11.Contract Guides to be updated to consider reflecting appropriate ethical practices [Head of Finance, Performance & Asset Management - HoFPAM /Payment & Reconciliations Manager]	Version 1 of the Contract Management guide has been finalised and placed on the intranet for use by Managers. This is now subject to an annual review in line with the review of the Contract Procurement Rules. This year's review (1718) will include references to appropriate ethical practices as recommended [ongoing].
12.Corporate Equality Strategy to be uploaded on website (once approved) in 2017 [Policy Officer]	The Policy Officer has completed the Strategy and this will be/ was presented to SMT for consideration on 12 September 2017. Once agreed the relevant website page will be updated and the Strategy uploaded [ongoing].
13.Job descriptions, delegations and organisational chart to be updated on website following reorganisation during 2017 [CHRM]	It will be completed after the Deputy Chief Executive has been recruited [ongoing].
14.Financial Regulations to be reviewed 2017/18 following reorganisation/ Constitution redrafting [HoFP&AM]	It will be completed after the Deputy Chief Executive has been recruited [ongoing].
15.To consider ways to feedback results following consultation [Communications Manager]	Awaiting outcome of O&S Task & finish group and any final recommendations [ongoing].
16.Investigate the possibility of realistic and cost effective Social Value report/ Cumulative Analysis Action for 2017/18 [SMT]	To be placed on the SMT tracker for review [ongoing].
17.Review O&S Committee once Central Government's national inquiry completed [SMT].	To be placed on the SMT tracker for review [ongoing].
18.Preparation for General Data Protection Regulation 'GDPR' implementation by May 2018 [HoRB &IT]. Privacy Impact Assessments (PIA) forms/ prompt be part of the NHDC Project Management Framework/ checklist by September 2017 [HoFP&AM].	A full review of the data retained by the Council is being carried out at the moment and is due to be completed by the end of September. After that, the retention schedules will be reviewed, implementing the necessary changes, such as changing the Privacy Statement etc. and holding training and awareness sessions with staff and Members later in 2017. After the New Year we will be ensuring that each Service area is prepared for the new regime for May 2018. Privacy Impact Assessment scoping and full assessment part of Project Management Framework – so that part completed [ongoing].
19.Implementation of any outstanding SIAS recommendations [HoFP&AM].	Outstanding SIAS recommendations (high and medium) are now reported on a quarterly basis to SMT and FAR. Each audit action is set up within Covalent, assigned to Managers and with target dates for completion. All audit actions currently showing as "green" as at 05/09/2017 [ongoing review of recommendations during 2017/18].

FINANCE, AUDIT & RISK COMMITTEE 21 SEPTEMBER 2017

PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 11

TITLE OF REPORT: STATEMENT OF ACCOUNTS 2016/17

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT
EXECUTIVE MEMBER: COUNCILLOR JULIAN CUNNINGHAM
COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to ask Finance, Audit and Risk Committee to approve the audited Statement of Accounts for 2016/17. The Annual Statement of Accounts has been subject to external audit and is enclosed with the report as Appendix A.

2. RECOMMENDATIONS

- 2.1 That the 2016/17 Annual Statement of Accounts, as set out in Appendix A, be approved and signed by the Chairman.

3. REASONS FOR RECOMMENDATIONS

- 3.1 To ensure that any queries raised are addressed before the approval of the Statement of Accounts for 2016/17.
- 3.2 To ensure that the Council abides by the Audit and Account Regulations 2015, which require the approval and publication of the Statement of Accounts by no later than the 30 September.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The Authority is required to prepare an annual Statement of Accounts and must follow accounting practices guidance issued by the Secretary of State and follow 'proper practices' governing the preparation of the annual Statement of Accounts (Section 21 of the Local Government Act 2003).

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 Consultation on the Statement of Accounts is not required. The Executive Member for Finance & IT has been kept informed of the progress of the year end accounts and the audit examination.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision, which has not been notified to the public in the Forward Plan. The public were invited to inspect the accounts in June by way of a notice published on the Council's website.

7. BACKGROUND

- 7.1 The Council is legally required to produce a statement of accounts detailing the financial activities for the year and overall financial position as at 31 March. The audited statement of accounts for the year 2016/17 is set out in appendix A.
- 7.2 The Council has a statutory responsibility to make copies of the accounts available for public inspection before the auditor gives their opinion. The Statement of Accounts document was published on the Council's website on Friday 23rd June 2017 and hard copies were made available in the Customer Service Centre from Monday 26th June. Officers did not receive any enquiries from the public during this time and we are not aware that any members of the public visited the Customer Service Centre to view the hard copies available.
- 7.3 The Council's external auditors, Ernst & Young LLP, arrived on the 24th July to start the accounts audit and their report will be presented to Members at this meeting tonight. At the time of writing this report the audit of the accounts was believed to be substantially complete, and a draft audit report has been received. It therefore remains a possibility that issues resulting from the audit may arise before the Committee meeting, if so these will be verbally reported.
- 7.4 Regulation 10 of the Accounts and Audit Regulations 2003, states the accounts should be signed and dated by the Member presiding at the meeting which formally approves the accounts. The Finance, Audit & Risk Committee is delegated to sign off the statutory annual Statement of Accounts.

8. RELEVANT CONSIDERATIONS

- 8.1 The Head of Finance, Performance and Asset Management will have signed the Statement of Responsibilities (page 1 of Appendix A) prior to the meeting. This is to certify that the statement of accounts give a true and fair view of the financial position of the Authority as at 31 March 2017 and its income and expenditure for the year then ended. Following the Committee's approval of the Statement of Accounts, the Head of Finance, Performance and Asset Management will sign the Letter of Representation on behalf of the Council. The wording of the Letter of Representation can be found in appendix D to the Audit Results Report document, which will be presented by Ernst & Young this evening.
- 8.2 As a result of discussion with Ernst & Young during the audit of the accounts, a number of amendments were required to disclosures. The more significant amendments are detailed in the 'audit differences' section of the Audit Results Report prepared by Ernst & Young. All misstatements identified during the audit have been corrected by officers.
- 8.3 The Narrative Report within the statement of accounts provides an overview of how the accounts are presented and highlights the most significant matters. Officers are not aware of any events that have occurred since the year end that provide additional evidence of conditions that existed at the 31 March 2017 or materially affect the

amounts included in the Statement of Accounts. In particular there has not been any subsequent event that would require an amendment to the contingent assets and liabilities listed in the accounts.

- 8.6 The Annual Governance Statement (AGS) will also be approved by Finance, Audit & Risk Committee at this meeting tonight. The Council has a legal duty to ensure that the publication of the Statement of Accounts is accompanied by the publication of the Annual Governance Statement.

9. LEGAL IMPLICATIONS

- 9.1 The Accounts and Audit Regulations 2015 require that the Annual Statement of Accounts be approved and published by the deadline date of 30 September 2017. Members are reminded of the duty to set a balanced budget and to maintain a prudent level of reserves.

10. FINANCIAL IMPLICATIONS

- 10.1 There are no direct financial implications arising from this report. The Revenue and Capital outturn reports were presented to Members in June. These provided the end of year position of the general fund, other reserves and capital expenditure. None of the changes to the Statement of Accounts identified from the audit have resulted in any change to the outturn position reported. The audit of the accounts was completed within budget.

11. RISK IMPLICATIONS

- 11.1 The process of compiling the Statement of Accounts is a control mechanism to help mitigate against the risk of poor financial management and is a way the Council can demonstrate to the public how it has managed its resources and acted in its responsibility as a steward of public funds.

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 The Statement of Accounts in themselves do not generate equalities implications, however, the financial activity reported in the Statement of Accounts would have required consideration of any adverse equalities implications at the time. For example, when considering specific procurements of goods and services, or works, or when considering investment proposals of £50k or more affecting more than two wards.

13. SOCIAL VALUE IMPLICATIONS

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

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource implications arising from this report.

15. APPENDICES

- 15.1 Appendix A – Audited Statement of Accounts 2016/17.

16. CONTACT OFFICERS

- 16.1 Antonio Ciampa, Accountancy Manager, Tel 474566,
email antonio.Ciampa@north-herts.gov.uk
- 16.2 Ian Couper, Head of Finance, Performance and Asset Management, Tel 474243,
email ian.Couper@north-herts.gov.uk
- 16.3 Ian Couper, Head of Finance, Performance and Asset Management, Tel 474243,
email ian.Couper@north-herts.gov.uk

17. BACKGROUND PAPERS

- 17.1 Un-audited Statement of Accounts 2016/17 – link below:

<http://www.north-herts.gov.uk/home/council-performance-and-data/budgets-and-spending/statement-accounts>
- 17.2 Annual Governance Statement 2016/17 – separate item on the same agenda.
- 17.3 Audit Results Report – separate item on the same agenda.

**Statement of Accounts
(Audited)
2016/2017**

**North
Hertfordshire
District Council**

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The Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

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

The Head of Finance, Performance and Asset Management Responsibilities

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

In preparing the statement of accounts, the Head of Finance, Performance and Asset Management has:

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

The Head of Finance, Performance and Asset Management has also:

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

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the 31 March 2017 and its income and expenditure for the year then ended.

Ian Couper

Head of Finance, Performance and Asset Management

The Chairman of the Approving Committee Responsibilities

I confirm that these accounts were approved by the Finance, Audit & Risk Committee at the meeting held on 21 September 2017. Signed on behalf of North Hertfordshire District Council:

Chairman of meeting approving the accounts:

Councillor T. Hone, Chairman of the Finance, Audit & Risk Committee

Date: 21 September 2017

Independent Auditor's Report

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

Opinion on the Authority's financial statements

We have audited the financial statements of North Hertfordshire District Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014.

The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 46 to the Authority accounts, and the Expenditure and Funding Analysis
- Collection Fund and the related notes 1 to 4.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

Respective responsibilities of the Head of Finance, Performance and Asset Management and auditor

As explained more fully in the Statement of the Head of Finance, Performance and Asset Management's Responsibilities set out on page 1, the Head of Finance, Performance and Asset Management is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Performance and Asset Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent Auditor's Report

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of North Hertfordshire District Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

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

Authority's responsibilities

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

Auditor's responsibilities

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

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

Independent Auditor's Report

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, North Hertfordshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

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

Suresh Patel
for and on behalf of Ernst & Young LLP, Appointed Auditor
Luton
22 September 2017

The maintenance and integrity of the North Hertfordshire District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Narrative Report

1 . INTRODUCTION TO THE STATEMENT OF ACCOUNTS

- 1.1 The Authority is legally required to produce a statement of accounts detailing the year's financial activities and the overall financial position at the 31 March. This narrative report provides an overview of the accounts, with a focus on financial performance. This includes how the Authority has delivered economy, efficiency and effectiveness in its use of resources over the year
- 1.2 The Statement of Accounts for the year ending 31 March 2017 are set out in this document and consist of a number of statements. Much of the information in the document is of a technical nature and has been completed to be compliant with the 2016/17 Local Authority Accounting Code of Practice and Service Reporting Code of Practice. The Statement of Accounting Policies explains the policies adopted by the Council to compile these accounts.
- 1.3 The Comprehensive Income and Expenditure Account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. In 2016/17 this was a net deficit of £2.5million. The statement is compiled in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- 1.4 The Movement in Reserves Statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' and other 'unusable' reserves. The starting point for the movement is the Surplus or (Deficit) on the Provision of Services line from the Comprehensive Income and Expenditure Account. There are then a series of statutory adjustments that are required before you get to the amount that is charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council. The General Fund Balance at the start of the year was £7.1million. This statutory General Fund Balance at the end of the year (before any transfers to earmarked reserves) is £8.2million. It was expected that the General Fund balance would reduce over the year to support service delivery whilst savings were identified. However underspends during the year and increased Business Rates income have resulted in the increase in the General Fund Balance.
- 1.5 In future years it is still expected that General Fund Reserves will need to be used to support service delivery whilst ways to reduce expenditure or increase income are identified. Reserve levels have been purposely built up in recent years to support this. The current estimate of the minimum level of General Fund reserves is £1.7m.
- 1.6 Usable reserves are those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve, that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.
- 1.7 The Expenditure and Funding analysis is a new statement. It provides more information on how the Comprehensive Income and Expenditure Account and the Movement in Reserves Statement relate to each other.

Narrative Report

- 1.8 The Balance Sheet shows the value as at the 31 March of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. The total value of net assets of the Authority at 31 March 2017 is £81.9million.
- 1.9 The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the year. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.
- 1.10 The Notes relating to the statements are detailed after the statements and provide further detail to the numbers contained within the statements.
- 1.11 The Authority is a billing authority for the collection of Council Tax and National Non-Domestic Rates (NNDR) for the District. The Collection Fund Account is a notional account to show all the income collected and how it is distributed. Because the Authority is acting as an agent, only the Authority's share of the Collection Fund balance is reflected in the rest of the Authority's accounts and the other statements.

2. MEDIUM TERM PLANNING AND OVERALL FUNDING

- 2.1 The Authority has a cyclical process to determine its priorities and align both resources and finances to achieve those priorities. The high level priorities for 2016/17 were as follows:
- To work with our partners to provide an attractive and safe environment for our residents, where diversity is welcomed and the disadvantaged are supported
 - To promote sustainable growth within our district to ensure economic and social opportunities exist for our communities, whilst remaining mindful of our cultural and physical heritage
 - To ensure that the Council delivers cost effective and necessary services to our residents that are responsive to developing need and financial constraints
- 2.2 The funding announcement from Central Government in December 2016 was that the New Homes Bonus funding would reduce by much more than expected. A reduction in the time period that it is paid for and a baseline level has been introduced. This means that the Bonus will only be received for 5 years in 2017/18 (4 years from 2018/19), and will only be paid on housing growth that is more than 0.4% of the current base level. This was in addition to the reductions in Revenue Support Grant announced in December 2015.
- 2.3 As a result of these funding reductions the Authority anticipates that it will need to deliver around £3.4million of budget reductions over the next 4 years. £3.4m is around 20% of current net expenditure. As part of the MTFS process for 2017/18 onwards, £0.9million of budget reductions have been identified to be delivered during the year.
- 2.4 The Authority achieved budget reductions of £0.40million in 2016/17 (an over achievement of the budgeted level of £0.36million).
- 2.5 The net worth of the Authority is £81.9million. This represents the theoretical net value of all the Authority's assets and liabilities. Of this value £64.9million is contained within un-usable reserves. For example, a significant proportion of the Authority's value is contained within its property portfolio. The Authority does, however, have a total of £17.0million (£18.1million at 31 March 2016) of usable reserves at 31 March 2017, which can be used to fund revenue and capital expenditure. In addition to this, the Capital Adjustment Account contains

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£16.6million of receipts from the transfer of our housing stock in 2003. Whilst this is an unusable reserve, that specific amount can be used to fund capital projects. The Authority seeks to manage the amount of available reserves in a prudent way to ensure there are adequate resources for unknown financial risks and plans for ongoing capital investment. Even though the Authority plans to use its general fund reserves over the next few years to soften the impact of reductions in Government funding, it will ensure that the remaining balance remains above the recommended minimum balance. This minimum balance of £1.7million for 2016/17 was approved by Members of the Council in February 2016.

- 2.6 The Authority participates in the Local Government Pension Scheme. The scheme is administered by Hertfordshire County Council. The net position of the pension fund has a significant impact on the Authority's accounts because of the estimated size of future liabilities. The Authority has been notified by the fund actuary that the net liability has increased by £1.5million during 2016/17 to £49.3million. Whilst the funds investments have continued to generate good returns (18.1% in 2016/17), future assumptions have resulted in the increased liability. Actuarial valuations are always an estimate based on a number of different scenarios, and the latest valuation has tried to increase the probability that the scheme will be fully funded within 20 years. Overall the funding position has improved since the last valuation in 2013.

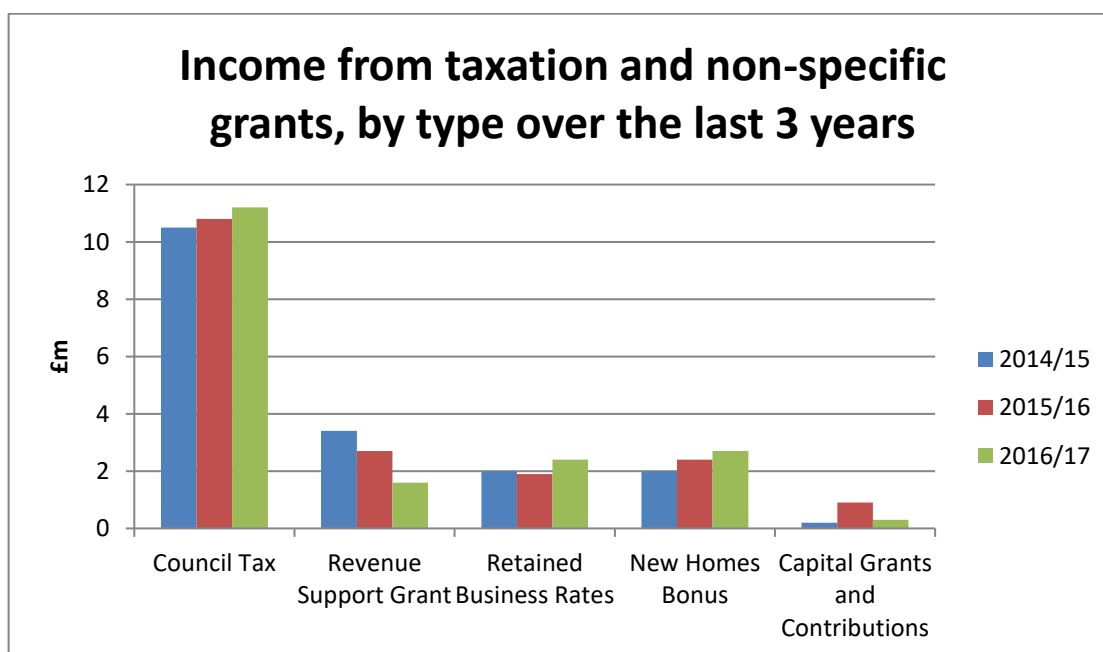
3. INCOME AND EXPENDITURE

- 3.1 There was a net deficit on the provision of services of £2.5million in 2016/17 (£2.1million in 2015/16). While this is an accounting reflection of the financial performance of the Authority there are £3.6million of "book entries" included in order to be compliant with the Code of Practice that are not costs to be met by the General Fund or funded by Council Tax. In particular, the capital charges for depreciation and impairment of assets and the impact of future retirement benefits. These adjustments are listed in note 11 to the accounts. Once these are removed, there is a net surplus that increases the General Fund by £1.1million.
- 3.2 The Authority provides regular reports to its Cabinet on forecasts of revenue spend. This is to allow the Cabinet to undertake its role in monitoring the Authority's income and expenditure. The end of year report was presented to Cabinet on 13 June 2017. When expenditure forecasts are presented to Cabinet they reflect the way that the Authority has structured itself i.e. Chief Executive; Customer Services; Finance, Policy and Governance; and Planning, Housing and Enterprise. Further details of what makes up these areas can be found on the Authority's website: <http://www.north-herts.gov.uk/home/council-and-democracy/council-departments>.
- 3.3 The end of year revenue monitor report also includes:
- Explanations for variances from the working budget (latest planned spend), including the impact on future year budgets. Whilst there were a number of variances, there were not any individual significant ongoing impacts reported.
 - The level of reserves and balances.
- 3.4 The Council's Key corporate financial health indicators are monitored throughout the year. These are areas that could have a significant impact on the Authority's budget, and are generally subject to external influences. Of the 4 measures, all performed better than budgeted.
- 3.5 Although not reported in either the revenue monitor report or the Statement of Accounts, it can be helpful to think about income in terms of where its source and expenditure in terms of what it has been spent on. The next two paragraphs provide this analysis.

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3.6 The Authority receives three main types of income:

- Service specific income, which includes specific Government grants and the fees and charges paid by those who use Council services. There is also some income received that relates to contributions and reimbursements. The main specific grant is for Housing Benefit subsidy, which was £35.7million in 2016/17 (£38.3million in 2015/16). The income from fees and charges was £8.3million (£8.2million in 2015/16). On the Comprehensive Income and Expenditure Statement these income sources are shown against the services that they relate to. Overall they total £48.0million, which is 70% of total income.
- Amounts received from investing cash balances and rent received from renting out investment properties. These were £0.5million and £1.3million respectively (they were £0.5million and £1.0million in 2015/16). This is 3% of total income.
- Income from taxation and non-specific grants. This includes Council Tax, the retained share of Business Rates (NNDR), Revenue Support Grant, New Homes Bonus and Capital Grants. These are detailed in note 14, and total £18.2million (27% of total income)*. As shown in the chart below, over recent years the balance of funding has started to shift from central grant funding to Council Tax. The Revenue Support Grant funding will disappear from 2017/18. The Authority has seen an increase in the amount of New Homes Bonus funding awarded over the last few years, although changes to the way it is awarded means that it will reduce again in future years.

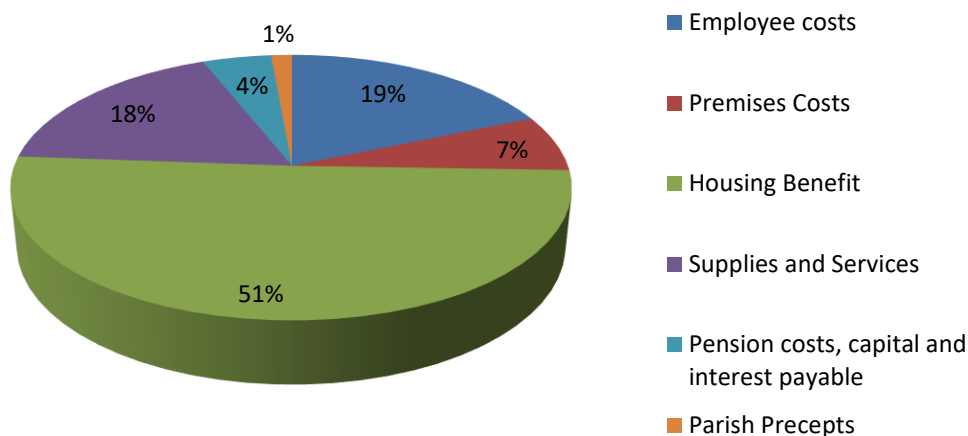


** In 2016/17, the total Income from taxation and non-specific grants amount published in the CIES also includes the gain on receipt of a donated asset. For the purpose of comparison between years, this amount is not included in the chart above.*

- 3.7 The 2016/17 gross expenditure for the Authority was £71.3million (£72.4m in 2015/16). This reflects the Authority's expenditure in the 'Surplus or Deficit on Provision of Services' line in the Comprehensive Income and Expenditure Statement. The largest single item of expenditure was housing benefit payments of £36.1 million, which account for 51% of all expenditure. Employee costs (including associated costs such as training and recruitment costs) account for 19% of costs. Supplies and services, such as operating vehicles and purchase of goods and services represent 18% of the total expenditure. Premises costs (including rents, rates, utilities and repairs and maintenance) made up 7% of costs and the Parish Precept payments to the Parish and Town Councils in the District accounted for 1%.

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Expenditure by type (£m)



4. CAPITAL AND BORROWING

- 4.1 The capital budget for 2016/17 for 2016/17 agreed in February 2016 was £8.6million, with a further £11.1million in future years (2017/18 to 2019/20). This budget was increased to £21.1million during the first quarter to reflect 2015/16 projects that had not been completed by the end of that year and additional funding approved by Full Council. The actual spend on capital schemes during the year was £5.7million, of which £2.2million was not funded in the accounts but paid for by drawing down cash investments and increasing the capital financing requirement. The remaining £3.5million was funded from capital receipts, government grants and third party contributions.
- 4.2 During 2016/17 there has been significant work on the North Herts Leisure Centre in Letchworth. The works commenced in May 2016 and are due to be completed by the end of summer 2017. The works include a new teaching pool, a new cafeteria, a multi-functional room and refurbishment of the sports hall, changing areas and car park. The value of the works completed in 2016/17 was £1.5million, of a total forecast cost of £3.6million. The development will create additional facilities and capacity that will generate additional income (from the contractor) of £216k per year.
- 4.3 A contract for works on the District Council Offices was signed in February 2017. This will ensure that the building is compliant with current regulations, replaces the ageing façade to make it weather tight, reduces the running costs of the building and improve the use of space to allow co-location with other organisations. The majority of the works will take place during 2017/18, and therefore most of the costs will be incurred during next year.
- 4.4 There were significant asset disposals during 2015/16 of £5.5million. There have not been any asset disposals during 2016/17, and therefore the capital receipts reserve balance has reduced from £5.5million down to £3.2million. The Authority still has surplus assets that it will dispose of over time, which will provide further contributions towards capital investment. There can be a significant amount of time between identifying a disposal and actually receiving the money, as most sales are contingent on the purchaser obtaining planning permission. The Authority is looking at ways it can generate the receipts more quickly by obtaining outline planning permission in advance of the sale.
- 4.5 The Authority continues to be in the position of a negative capital financing requirement (CFR). This means the Authority does not have a debt liability and has not needed to make a minimum revenue provision towards the cost of capital in 2015/16. As at the end of 2016/17 the CFR value was negative £16.6million. This means that the Authority could invest this amount in capital projects without needing to make a Minimum Revenue

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Provision (MRP). MRP is a charge to the General Fund (and therefore Council Tax) so when required it increases the cost of capital investment. Whilst there is not a need for a MRP, the only revenue cost of capital spend is the lost income on investment balances. Interest on cash investments is at an historic low. As a result, the Authority will continue to invest to capital schemes, but will focus on those schemes that generate income or reduce ongoing running costs. This will therefore help to balance the revenue budget as funding levels reduce.

- 4.6 In previous years the Authority has funded part of the capital programme from loans. The value of long term loans owed to external parties for capital spending amount to £0.5million as at 31 March 2017. The redemption fees for paying off these loans early means that it is not worth doing so, even though the Authority has the short-term investments and cash (£24.2million and £8.2million at 31 March 2017) to be able to do so. The remaining loans will be repaid in small amounts over the next 25 years. This borrowing should be viewed in relation to the value of the long term assets, which are valued by a combination of replacement cost and historic cost, and have a net book value of £105.4million.
- 4.7 For 2017/18 - 2020/21 the Authority has an approved capital programme of £16.1million. This was approved by Council on 9 February 2017 and further details can be found on the Authority's website, including the full list of projects and amount of investment. This was budgeted to be funded by:

£000	2017/18	2018/19	2019/20	2020/21	Total
Capital Receipts	1,291	2,521	1,089	122	5,023
Government Grants and Other Contributions	1,901	654	654	941	4,150
Revenue Contributions	0	0	0	0	0
Unfunded- drawdown on investments (CFR impact)	5,273	1,363	0	331	6,967
Total	8,465	4,538	1,743	1,394	16,140

The use of capital receipts funding assumes that around £5.7million of additional receipts would be generated from the sale of surplus assets during 2017/18 and 2020/21.

- 4.8 The actual spend in 2017/18 will now be around £20.6million, which reflects that a number of schemes were not completed during 2016/17 and therefore have been reprogrammed in to 2017/18. This is also reflected in the capital receipts balance and negative CFR value being higher than what was budgeted. The Authority will still try and secure grant funding and other contributions, before making use of other funding sources.

5. PERFORMANCE

- 5.1 A performance report is presented to Overview and Scrutiny Committee on a quarterly basis, with an end of year report presented in June. The year end report for 2016/17 was presented to the Committee on 6 June 2017 and is available on the Authority's website. The end of year report highlights performance for the 26 performance indicators. For each indicator the current performance is shown, alongside previous performance, direction of travel and target level (where applicable).

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- 5.2 There were three indicators classified as amber. This is where performance is below the target level but is still within agreed tolerances. These related to:
- Percentage of invoices paid on time, 99.4% against a target of 99.6%
 - Working days lost due to short-term sickness absence per FTE employee, 3.6 days against a target of 3.5
 - Percentage of household waste sent for reuse, recycling and composting, 59% against a target of 60%
- 5.3 The drop in performance of invoices paid on time is mainly due to staff not approving invoices for payment on time, especially around times when they are not in the office. A reminder has been sent to all staff to remind them of the importance of doing this, and also to arrange cover when they know that they will be away. The new version of our accounting system will be implemented during 2017/18 and this will enable the approval workflow to be managed electronically.
- 5.4 Working days lost due to short-term sickness absence per FTE employee are above target, and higher than they have been in recent years. There are robust procedures in place and managers receive training on how to manage absence. The impact is mainly down to one month (October). The level set is a challenging target, and equates to high performance when compared with other Authorities.
- 5.5 The household waste data was just short of the challenging target set, and shows an improvement on the previous quarter. When benchmarked against other Local Authorities, the Council is 6th best out of 51 participants (LG Inform Benchmarking data).

6. ECONOMIC CLIMATE AND FUTURE PLANNING

- 6.1 The Authority continues to plan its budget over a number of years by setting a medium term financial strategy (MTFS). The overall strategy was developed at the start of the period of national economic austerity and uncertainty, which has played a significant part in generating the financial pressures the Authority has experienced. This is because the Central Government is seeking to reduce the financial support that it provides to Local Authorities. There is also significant demographic pressure on Social Care authorities, which means that Central Government is looking to transfer funding away from lower tier Authorities, like North Hertfordshire. The Authority plans for the future based on the best available information on future funding, but are also mindful that there could be even further reductions in funding for the foreseeable future. For example, there could be further changes to the baseline for New Homes Bonus. It is also expected that austerity will continue beyond the current parliament and therefore the Authority should expect further reductions in funding alongside the introduction of 100% business rate retention. The introduction of 100% business rate retention is now not expected to happen until at least 2020/21.
- 6.2 The impact of the United Kingdom leaving the European Union (EU) is still highly uncertain, which means that the Authority does not consider it worthwhile to undertake detailed planning. The Authority does not have (or forecast to have) any significant income either directly or indirectly from EU funding sources, such as EU grants or Local Enterprise Partnership (LEP) funding.
- 6.3 Whilst the Authority is currently planning to use significant General Fund reserves over the next few years, the forecast balance at the end of £3.2million at the end of 2020/21 is still above the expected minimum balance of around £1.6million. This therefore gives the Authority some further protection to deal with any future funding changes or spending pressures. The decision by Council to increase Council Tax by £5 reflects the pressures that the Authority is facing and therefore the need to maximise income.
- 6.4 The Authority is looking at ways that it can operate more commercially to provide income to support its General Fund activity. This includes making use of the general power of competence that was introduced in the Localism Act of 2011. The Authority is progressing towards setting up a property company that would enable it to generate income from letting

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market housing. Alongside an existing property, there is £3million allocated in the capital programme for purchasing or building property. The Authority will consider the economic climate before investing in the company. It is likely that demand for housing in the District will remain very high and there will continue to be a need for rental properties, and rental yields should reflect this. The investment will target ongoing rental income and therefore will not be susceptible to fluctuations in the capital value of housing.

- 6.5 The current economic climate means that interest rates continue to be at a historically low level. There are emerging signs that there will be an increase in the Bank of England base rate. Whilst the Authority does have some borrowing this is at historic fixed rates and therefore is not affected by interest rate changes. The Authority currently has significant cash investments, mainly from capital reserves and General Fund balance. Our current forecasts do not assume any increase in the return received on these investments. The most significant reduction in our cash balances will be from capital investment (e.g. works to the District Council Offices). The capital programme is kept under regular review and there are formal review points built in to the MTFS policy. Any future significant capital investment will need to be assessed on the basis that it may need to be funded from borrowing, and therefore any business case will need to reflect the costs of doing this.
- 6.6 Most of the Authority's commercial assets are ground leases and therefore not susceptible to fluctuations in property values. These leases generally have at least 50 years remaining and therefore provide an ongoing income stream.

7. SERVICE DELIVERY AND EMPLOYEES

- 7.1. The Authority has a statutory duty to deliver a number of services, as well as currently choosing to deliver some services that it is not required to do so. For some of these services it is able to recover from the recipient some or all of the cost of providing that service. Other services have to be provided free at the point of use, it would be impractical to charge those that used them or a policy decision is made that they will not be charged for.
- 7.2. Some of the Authority's services are contracted out, such as waste collection and grounds maintenance. Whilst the contractor takes on the day-to-day delivery of the service, there is still a need for the Authority to monitor performance, and act on any under-delivery.
- 7.3. The Authority has 324 people that are directly employed (as at 31st March 2017). Of this total 9 are in Senior Management Positions. The table below shows a breakdown of these totals by gender.

	All Employees		Senior Management	
	Number	Full Time Equivalent	Number	Full Time Equivalent
Male	107	102.26	7	7.00
Female	217	182.63	2	1.86
Other	0	0.00	0	0.00
Total	324	284.89	9	8.86

8. INTERESTS IN COMPANIES AND OTHER ENTITIES

- 8.1 Local Authorities have to consider all their interests, subsidiaries, associates and joint ventures and where material include the value of the interest in Group Accounts.

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8.2 The Authority is engaged in a jointly controlled operation for the provision and management of CCTV in the Hertfordshire and Bedfordshire area. This arrangement is with Stevenage Borough Council, North Hertfordshire Council, East Hertfordshire Council and Hertsmeire Borough Council. Each member of the arrangement accounts for their share of the assets, liabilities and cash flows of the CCTV in their accounts. In 2013/14 all partner authorities agreed to incorporate a new company to conduct the commercial trading affairs of the CCTV partnership. This new company, Hertfordshire CCTV Partnership Ltd, started trading on the 1 April 2015. The Authority's interest in this company is not considered to be material, and therefore it is not included within the Statement of Accounts.

8.3 The Authority has set up a joint Building Control Company with six other Hertfordshire Authorities. The company began trading in August 2016. The company will deliver statutory building control services on behalf of the Authority, as well being able to access further areas of work to help spread the cost of the service. The Authority's interest in this company is not considered to be material, and therefore it is not included within the Statement of Accounts.

9. POST BALANCE SHEET EVENT

9.1 Events may occur between the balance sheet date and the date the accounts are signed by the Head of Finance, Performance and Asset Management which may have a bearing on the financial results of the year. Under IAS 10 (Events after the reporting period) there is a requirement to disclose the date after which events will not have been recognised in the Statement of Accounts. This date is 21st September 2017; this being the date the audited Statement of Accounts was authorised for issue by the Head of Finance, Performance and Asset Management.

10. FURTHER INFORMATION

10.1 Where references are made to reports that are presented to Council, Cabinet and Overview and Scrutiny, these reports can be found on the Authority's website. They can be found by selecting the link to 'view meetings, agendas, minutes and reports' on this page: <http://www.north-herts.gov.uk/home/council-and-democracy/council-and-committee-meetings>.

8.2 Further information about the accounts can be obtained by contacting the Head of Finance, Performance and Asset Management at Town Lodge, Gernon Road, Letchworth Garden City, Hertfordshire, SG6 3HN

Statement of Accounting Policies

1. GENERAL

- 1.1. The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and the position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. Those Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.
- 1.2. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. All disclosures are subject to materiality as the intention of the statement of accounts is to present a 'true and fair' view of financial position, financial performance and cashflows.

2. ACCRUALS OF INCOME AND EXPENDITURE

- 2.1. Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:
 - Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards or ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
 - Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
 - Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
 - Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
 - Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
 - Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
 - Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

3. COUNCIL TAX AND NON-DOMESTIC RATES

- 3.1 Billing authorities act as agents, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting

Statement of Accounting Policies

Council Tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

- 3.2 The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.
- 3.3 The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

4. BUSINESS IMPROVEMENT DISTRICTS

- 4.1 Business Improvement District (BID) schemes apply in Hitchin, Royston and Letchworth. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority acts as an agent only under the scheme and so income is not shown in the Comprehensive Income and Expenditure Statement since the BID levies are collected on behalf of the relevant BID body.

5. CASH AND CASH EQUIVALENTS

- 5.1 Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

6. EMPLOYEE BENEFITS

Benefits Payable During Employment

- 6.1. Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as salaries, paid annual leave, paid sick leave, and banked hours in the flexi scheme for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

- 6.2. Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis in the Comprehensive Income and Expenditure Statement and recognised at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring that involves the payment of termination benefits.

Statement of Accounting Policies

- 6.3. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

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

The Local Government Pension Scheme

- 6.6. The Local Government Pension Scheme is accounted for as a defined benefits scheme:
- The liabilities of the Hertfordshire Local Government Pension Scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.
 - Liabilities are discounted to their value at current prices, using a discount rate based on the indicative current rate of return on high quality corporate bonds of equivalent currency and term as the liabilities (rated at the level of AA or equivalent).
 - The assets of the Hertfordshire Local Government Pension Scheme attributable to the Authority are included in the balance sheet at their fair value:

quoted securities	– bid price
unquoted securities	– professional estimate
unitised securities	– average of the bid and offer rates
property	– market value

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

Service cost comprising:

Current service cost – the increase in liabilities as a result of years of service earned in the financial year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

Statement of Accounting Policies

Net Interest on the net defined benefit liability (asset) – i.e. the net interest expense for the authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any charges in the net defined benefit liability during the period as a result of contribution and benefit payments.

Re-measurements comprising:

The return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Hertfordshire Pension Scheme – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

- 6.8. In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

7. EVENTS AFTER THE REPORTING PERIOD

- 7.1. Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:
- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
 - Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.
- 7.2. Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Statement of Accounting Policies

8. EXCEPTIONAL ITEMS

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

9. FINANCIAL INSTRUMENTS

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

Financial Liabilities

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

FINANCIAL ASSETS

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

Statement of Accounting Policies

Loans and Receivables

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

10. GOVERNMENT GRANTS AND CONTRIBUTIONS

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

Statement of Accounting Policies

11. HERITAGE ASSETS

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

- 11.1 Heritage assets have historical, artistic, scientific, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture. The Authority's Heritage Assets consist of collections of assets or artefacts either exhibited or stored in the Authority's Museums (North Hertfordshire, Letchworth and Hitchin Museums) or the Museum Resource Centre, and items of public Sculpture and Artwork.
- 11.2 Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as the majority of them do not have a material monetary value and are therefore not recognised on the Balance Sheet.
- Where the Museums' Manager determines that an asset has a monetary value then they will undertake an annual programme of valuations by reviewing the archives of auctions houses to identify similar paintings by the same artist which have sold in the recent past.
 - Purchased acquisitions are initially recognised at cost.
 - For any donated acquisitions the Museums' Manager will determine whether they are likely to have a monetary value. If they do then they will either provide a valuation or obtain an external valuation (as per above). Otherwise they will not be recognised on the Balance Sheet.
- 11.3 The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see section 18.13 in this summary of significant accounting policies.
- 11.4 The Authority has a policy for the acquisition and disposal of Museum collections. The policy states there is a strong presumption against the disposal of any items in the museum's collection and decisions to dispose of items will not be made with the principal aim of generating funds. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment.

12. INTANGIBLE ASSETS

- 12.1. Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.
- 12.2. Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).
- 12.3. Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Statement of Accounting Policies

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

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

13. INVENTORIES AND LONG TERM CONTRACTS

13.1. Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Work in Progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

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

14. INVESTMENT PROPERTY

14.1. Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

14.2. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged in an orderly transaction between participants at the measurement date, and assuming that highest and best use is made of that asset. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

14.3. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

15. JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS

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

Statement of Accounting Policies

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

16. LEASES

- 16.1. Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.
- 16.2. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

- 16.3. Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.
- 16.4. Lease payments are apportioned between:
- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
 - A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).
- 16.5. Property, plant and equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).
- 16.6. The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

- 16.7. Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Statement of Accounting Policies

The Authority as Lessor

Finance leases

- 16.8. Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain and loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.
- 16.9. Lease rentals receivable are apportioned between:
- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
 - Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).
- 16.10. The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.
- 16.11. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

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

17. OVERHEADS AND SUPPORT SERVICES

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

18. PROPERTY, PLANT AND EQUIPMENT

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

Statement of Accounting Policies

Recognition

- 18.2. Expenditure, above the de-minimis level, on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) or is below the de-minimis level, is charged as an expense when it is incurred.
- 18.3. The Authority's de-minimis level is £20,000 for property and £10,000 for vehicles, plant and equipment.

Measurement

- 18.4. Assets, other than surplus assets (see below), are initially measured at cost, comprising:
- The purchase price.
 - Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
 - The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Surplus assets are measured at fair value, based on the highest and best use of that asset.

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

Statement of Accounting Policies

- 18.11. Where decreases in value are identified, they are accounted for by:
- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
 - Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.
- 18.12. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

- 18.13. Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.
- 18.14. Where impairment losses are identified, they are accounted for by:
- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
 - Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.
- 18.15. Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

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

Fixed Asset	Life
Operational Buildings	Up to 50 years
Vehicles & Plant	5 to 10 years
Community Assets	Up to 50 years
Infrastructure	Up to 40 years

- 18.18. Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Statement of Accounting Policies

18.19. An individual item of property, plant or equipment is componentised and each resultant significant component is recognised and depreciated separately subject to the following principles:

- Individual assets with a carrying value less than £500k are disregarded for componentisation (subject to an assessment of the materiality of any group of assets that have been disregarded).
- A component is judged to be significant and hence recognised and depreciated separately if the cost of the component is at least 20% of the overall cost of the asset and the components useful life and required method of depreciation is different to the overall asset.
- The significance of a component relative to the overall asset is determined when an asset is enhanced, acquired or revalued (e.g. as part of the five-year rolling programme).
- The cost of a component is based on best estimates where historical cost of assets and components is not available.

18.20. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

18.21. When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

18.22. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

18.23. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

18.25. Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

Statement of Accounting Policies

- 18.26. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

19. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

- 19.1. Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.
- 19.2. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. When a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.
- 19.3. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

20. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

- 20.1. Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.
- 20.2. Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.
- 20.3. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.
- 20.4. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

Contingent Liabilities

- 20.5. A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will not be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Statement of Accounting Policies

Contingent Assets

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

21. RESERVES

- 21.1. The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.
- 21.2. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

22. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

- 22.1. Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a long term asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.
- 22.2. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.
- 22.3. While the Authority has a de-minimis level for capitalising expenditure on its own assets there is no de-minimis level for revenue expenditure funded from capital under statute.

23. TRUST FUNDS AND THIRD PARTY ASSETS

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

24. VAT

- 24.1. Value Added Tax (VAT) payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES).

The Expenditure and Funding Analysis is a note to the financial statements however it is positioned here as it provides a link between the figures in the narrative statement and the CIES.

2015/16**2016/17**

Directorate						
£'000	£'000	£'000		£'000	£'000	£'000
3,563	(503)	3,060	Chief Executive	3,775	(340)	3,435
6,340	2,456	8,796	Customer Services	6,599	2,319	8,918
2,836	1,082	3,918	Finance, Policy and Governance	2,465	1,717	4,182
3,935	760	4,695	Planning, Housing and Enterprise	4,666	258	4,924
16,674	3,795	20,469	Net Cost of Services	17,505	3,954	21,459
961	(159)	802	Other Operating Expenditure	1,005	9	1,014
(1,265)	866	(399)	Financing and Investment Income and Expenditure	(1,544)	1,510	(34)
(17,100)	(1,690)	(18,790)	Taxation and Non-Specific Grant Income and Expenditure	(18,120)	(1,863)	(19,983)
(730)	2,812	2,082	(Surplus) or Deficit on Provision of Services	(1,154)	3,610	2,456
(6,022)			Opening General Fund Balance	(7,085)		
(730)			Surplus or (Deficit) on General Fund Balance in year	(1,154)		
(333)			Transfers to / (from) Earmarked Reserves	4		
(7,085)			Closing General Fund Balance at 31 st March	(8,235)		

Comprehensive Income and Expenditure Statement

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

Restated 2015/16			Note	2016/17		
£'000	£'000	£'000		£'000	£'000	£'000
3,254	(194)	3,060	Chief Executive	3,775	(340)	3,435
14,778	(5,982)	8,796	Customer Services	15,050	(6,132)	8,918
44,061	(40,143)	3,918	Finance, Policy & Governance	42,650	(38,468)	4,182
8,016	(3,321)	4,695	Planning, Housing & Environment	8,901	(3,977)	4,924
70,109	(49,640)	20,469	Cost of Services	70,376	(48,917)	21,459
	802	Other Operating Expenditure	12			1,014
	(399)	Financing and Investment Income & Expenditure	13			(34)
	(18,790)	Taxation and Non-Specific Grant Income & Expenditure	14			(19,983)
	2,082	(Surplus) or Deficit on Provision of Services				2,456
	(1,026)	(Surplus) or Deficit on Revaluation of non-current assets				(6,096)
	(2,500)	(Surplus) or Deficit on revaluation of available for sale assets				0
	(10,013)	Re-measurements of the net defined benefit liability	43			(585)
	(13,539)	Other Comprehensive Income and Expenditure				(6,681)
	(11,457)	Total Comprehensive Income and Expenditure				(4,225)

Service Reporting Code of Practice:

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

Movement in Reserves Statement

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

	General Fund Balance £'000	Earmarked Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
Balance at 31 March 2015	6,022	4,938	850	980	12,790	53,430	66,220
Movement in Reserves during 2015/16:							
Surplus or (deficit) on provision of services	(2,082)	0	0	0	(2,082)	0	(2,082)
Other Comprehensive Expenditure and Income	0	0	0	0	0	13,538	13,538
Total Comprehensive Expenditure and Income	(2,082)	0	0	0	(2,082)	13,538	(11,456)
Adjustments between accounting basis & funding basis under regulations (Note 11)	2,812	0	4,603	(16)	7,399	(7,399)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	730	0	4,603	(16)	5,317	6,139	(11,456)
Transfers to/from Earmarked Reserves (Note 29)	333	(333)	0	0	0	0	0
Increase / (Decrease) in Year	1,063	(333)	4,603	(16)	5,317	6,139	(11,456)
Balance at 31 March 2016	7,085	4,605	5,453	964	18,107	59,569	77,676
Movement in Reserve during 2016/17							
Surplus or (deficit) on provision of services	(2,456)	0	0	0	(2,456)	0	(2,456)
Other Comprehensive Expenditure and Income	0	0	0	0	0	6,681	6,681
Total Comprehensive Expenditure and Income	(2,272)	0	0	0	(2,272)	6,497	4,225
Adjustments between accounting basis & funding basis under regulations (Note 11)	3,610	0	(2,230)	(10)	1,370	(1,370)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	1,154	0	(2,230)	(10)	(1,086)	5,311	4,225
Transfers to/from Earmarked Reserves (Note 29)	(4)	4	0	0	0	0	0
Increase / (Decrease) in Year	1,150	4	(2,230)	(10)	(1,086)	5,311	4,225
Balance at 31 March 2017	8,235	4,609	3,223	954	17,021	64,880	81,901

Balance Sheet as at 31 March 2017

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

31 March 2016 £'000		Note	31 March 2017 £'000
72,511	Property, Plant and Equipment	15	81,542
670	Heritage Assets	16	670
14,794	Investment Property	17	14,914
135	Intangible Assets	18	320
7,750	Long Term Investments (non-property)	20	7,000
4	Mortgages	20	1
16	Loans	20	16
2,000	Other Long Term Debtors	20	107
97,880	Long Term Assets		104,570
138	Inventories	21	149
4,745	Short Term Debtors	24	6,428
21,997	Short Term Non Property Investments	20	24,220
0	Assets Held for Sale	26	0
12,614	Cash & Cash Equivalents	25	8,206
39,494	Current Assets		39,003
(1,043)	Short Term Borrowing	20	(33)
(3,243)	Short Term Creditors	27	(5,929)
(4,764)	Receipts in Advance	27	(4,685)
(9,050)	Current Liabilities		(10,647)
(480)	Long Term Borrowing	20	(456)
(1,136)	Long Term Creditors	42	(133)
(955)	Provisions (> 1 year)	28	(966)
(47,836)	Liability related to Pension Scheme	43	(49,323)
49	Deferred Credits		49
(290)	Capital Grants Receipt in Advance	39	(196)
(50,648)	Long Term Liabilities		(51,025)
77,676	Net Assets		81,901
18,107	Usable Reserves	29	17,021
59,569	Unusable Reserves	30	64,880
77,676	Total Reserves		81,901

The un-audited accounts were issued on 23rd June 2017. The audited accounts were authorised for issue on the 21st September 2017.

Cash Flow Statement

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

2015/16 £'000	2016/17 £'000
(2,082) Net surplus or (deficit) on the provision of services	(2,456)
10,103 Adjustments for non-cash movements (Note 32)	3,920
(3,031) Adjustments for items that are investing and financing activities (Note 32)	(4,331)
4,990 Net cash flows from operating activities	(2,867)
4,146 Investing Activities (Note 32)	(1,080)
1,448 Financing Activities (Note 32)	(461)
10,584 Net Increase or (decrease) in cash and cash equivalents	(4,408)
2,030 Cash and Cash Equivalents at the beginning of the year	12,614
12,614 Cash and Cash Equivalents at the end of the year	8,206

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INTRODUCTION

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016 (the Code) and the accounting policies set out prior to the financial statements. The notes that follow (1 to 46) set out supplementary information to assist readers of the accounts.

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

The Code requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. The standards adopted in the 2017/18 (from 1 April 2017) will need to be applied from 1 April 2017. The changes are:

- Amendments to the reporting of pension fund scheme transaction costs
- Amendment to the reporting of investment concentration

These changes relate to reporting by pension funds and therefore do not affect North Hertfordshire District Council. Therefore no disclosure is required.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication of the degree to which the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Authority has determined that the lease of Letchworth multi-storey car park from Letchworth Garden City Heritage Foundation is a finance lease and has recognised the property as an asset on the balance sheet with a carrying value at the 31 March 2017 of £248,000. A liability for the lease repayments has also been recognised. This judgement has been made due to; the length of the lease being most of the useful life of the building, the significant capital investment by the Authority in the building and the materiality of the income earned from operating the property.
- The majority of the Authority's investment properties are industrial sites which attract rental income at the market rate. As such, the properties clearly meet the definition for classification as investment. The Authority has determined that the ownership of the Churchgate site in Hitchin is also an investment property (carrying value of £1.5million) as there is no alternative policy for ownership other than for rental income or capital appreciation.
- Hertfordshire Building Control Limited started trading on the 15th August 2016. This is a collaborative arrangement between North Herts and 6 other local authorities and consists of a wholly owned local authority company to deliver the statutory building control function and another company to deliver other related functions. A holding company sits above these two companies. A loan was made to the company in 2016/17 for £107k. The loan has been treated as a long term debtor.

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

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

The items in the Authority's Balance Sheet at 31 March 2017 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over estimated useful lives. If for any reason an individual asset should deteriorate at a quicker rate than expected then this could bring into doubt the useful lives assigned to individual assets. This could happen, for example, if the current period of austerity meant the necessary programme of repairs and maintenance was delayed.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £205,000 for every year that useful lives had to be reduced.
Investment Properties	Investment Properties are not depreciated but are revalued annually according to market conditions. In the current economic climate it is uncertain if there will be a significant change in property prices over the next 12 months. However, the majority of the Authority's investment properties are ground leases which are considered to be relatively secure investments and less liable to large swings in value.	A yield of 7.5% has been used in the calculation of the value of investment properties. A 0.5% reduction in the yield would reduce the carrying value of investment property by approximately £1million (this is a simple estimation for illustration only and does not consider the complexities and circumstances of individual assets).
Debtors	At 31 March 2017 the Authority had a balance of short term debtors of £8.2million. A review of the trend in collection rates and the age profile of the outstanding debt suggested an impairment of £1.8million was appropriate. However, in the current economic climate it is not certain if such an allowance is sufficient.	If collection rates were to deteriorate, a doubling of the amount of impairment of the doubtful debt would require an additional £1.8million to be set aside.
National Non Domestic Rates – Provision for Appeals	The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013. The Authority, acting as an agent on behalf of the major preceptors, central government and itself (as principal) is required to make provisions in accordance with the requirements of the Code and legislation for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This includes amounts relating to non-domestic rates charged to businesses in 2012-13 and earlier financial years.	A provision of £928,000 has been made, as at 31 March 2017, for the Authority's share of refunding outstanding appeals that are successful. This amount is based on the amount of outstanding appeals with the Valuation Office Agency, as at 31 March 2017, after applying a success factor of 25% and likely reduction in RV of 16%. An increase of 1% in the success factor would increase the amount of provision required by £265,000.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The assumptions interact in complex ways. During 2016/17, the Authority's actuaries advised that the net pensions liability had increased by £1.5million. This is due to the discount rate reducing from 3.4% to 2.5%.

4. MATERIAL ITEMS OF INCOME AND EXPENSE

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

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

Category	Description of Material Item	Comment
Finance, Policy & Governance	Housing and Council Tax Benefits	The Authority paid a total of £36.1million of Housing Benefit payments in 2016/17 (£37.8million in 2015/16). This was funded by a grant subsidy from the Department for Work and Pensions of £35.7million (£37.5million in 2015/16).
Customer Services	Off Street Car Parking Income	Off Street Car Parking income received by the authority totalled £1.6million in 2016/17 (£1.5million in 2015/16).
Customer Services	Waste and Recycling Contract	The Veolia Waste and Recycling Contract payments totalled £5.1million in 2016/17 (£5.1million in 2015/16).

5. EVENTS AFTER THE REPORTING PERIOD

There were no events that occurred after the reporting period that need disclosing in 2016/17

6. PRIOR PERIOD ADJUSTMENTS

There were no prior period adjustments that needed disclosing in 2016/17.

7. ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired or discontinued operations during 2016/17 or 2015/16. These would normally arise following boundary changes or from legislation, neither of which affected North Hertfordshire District Council during 2016/17. All operations are therefore classified as '*continuing operations*'.

8. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis presents the total adjustments required to the amounts chargeable to the General Fund in order to arrive at the Net Expenditure in the Comprehensive Income and Expenditure Statement. The main adjustments required are detailed and explained below.

2015/16					2016/17				
Adjustments for Capital Purposes (Note 1)	Net Change for the Pension Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments	Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1)	Net Change for the Pension Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments	
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
0	(509)	6	(503)	Chief Executive	0	(368)	28	(340)	
2,216	240	0	2,456	Customer Services	1,950	369	0	2,319	
644	438	0	1,082	Finance, Policy and Governance	1,466	251	0	1,717	
443	317	0	760	Planning Housing and Enterprise	68	190	0	258	
3,303	486	6	3,795	Net Cost of Services	3,484	442	28	3,954	
(159)	0	0	(159)	Other Operating Expenditure	9	0	0	9	
(865)	1,731	0	866	Financing and Investment Income and Expenditure	(120)	1,630	0	1,510	
(942)	0	(748)	(1,690)	Taxation and Non-Specific Grant Income and Expenditure	(2,088)	0	225	(1,863)	
(1,966)	1,731	(748)	(983)	Other Income and Expenditure from the Expenditure and Funding Analysis	(2,199)	1,630	225	(344)	
1,337	2,217	(742)	2,812	Difference between the General Fund Surplus or Deficit and the CIES surplus or deficit on the provision of services	1,285	2,072	253	3,610	

1) Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the Services lines, and for the following items in Other Income and Expenditure:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year. The gain to the authority on receipt of a donated asset is also credited to this line.

2) Net Change for the Pensions Adjustments

This column reflects the removal of pension contributions and the addition of IA S 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure — the net interest on the defined benefit liability is charged to the CIES.

3) Other Differences

This includes those other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council Tax and NNDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

9. SEGMENTAL INCOME

Income received on a segmental basis is analysed below.

	2015/16	2016/17
Directorate	£'000	£'000
Chief Executive	(1,613)	(1,088)
Finance, Policy & Governance	(41,243)	(39,690)
Customer Services	(5,984)	(6,133)
Planning, Housing & Enterprise	(3,605)	(4,005)
Total Directorate Income	(52,445)	(50,916)
Other Income Received		
Non-Ringfenced Government Grants	(5,142)	(4,285)
Income from Council Tax and Business Rates	(12,706)	(13,610)
Total Income within Surplus or Deficit on the Provision of Services	(70,293)	(68,811)

10. EXPENDITURE AND INCOME ANALYSED BY NATURE

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

	2015/16	2016/17
	£000	£000
Employee costs	12,770	13,313
Other Service Expenditure	17,121	17,606
Housing Benefit Payments	37,811	36,114
Interest Payments	164	119
Net Pension Costs	1,731	1,630
Capital Charges (Depreciation, amortisation, impairment)	2,831	3,396
Payments to Housing Capital Receipts Pool	2	2
(Increase) / Decrease in Fair Value of Investment Properties	(855)	(117)
(Gain) / Loss on the disposal of assets	(166)	8
Gain on receipt of donated asset	0	(1,809)
Parish Council Precepts	966	1,005
Total Expenditure	72,375	71,267
Fees and Charges	(8,222)	(8,328)
Interest and Rental Income	(1,539)	(1,749)
Housing Benefit Subsidy	(37,518)	(35,754)
Grants and Contributions	(10,308)	(9,370)
Income from Council Tax and Business Rates	(12,706)	(13,610)
Total Income	(70,293)	(68,811)
(Surplus) or Deficit on the Provision of Services	2,082	2,456

11. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

The first table shows the adjustments made in the comparative year 2015/16:

2015/16	Usable Reserves			Movement in Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments Primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the comprehensive Income and Expenditure Statement.				
Charges for depreciation and impairment of non-current assets	(2,772)	0	0	2,772
Movements in the market value of Investment Properties	855	0	0	(855)
Amortisation of Intangible Assets	(59)	0	0	59
Capital Grants and contributions applied	1,278	0	16	(1,294)
Revenue Expenditure funded from capital under statute	(808)	0	0	808
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal	(5,317)	0	0	5,317
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory Provision for the financing of capital investment	10	0	0	(10)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account.	5,488	(5,488)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	877	0	(877)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(10)	10	0	0
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	(2)	2	0	0
Transfer from deferred capital receipts reserve upon receipt of cash	0	(4)	0	4
Adjustments primarily involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(4,035)	0	0	4,035
Employers pensions contributions and direct payments to pensioners payable in year	1,818	0	0	(1,818)
Adjustments primarily involving the Collection Fund Account:				
Movement in the Authority's share of the Collection Fund surplus / deficit	748	0	0	(748)
Adjustments primarily involving the Accumulated Absences Account:				
Accrued employee absence adjustment	(6)	0	0	6
Total Adjustments	(2,812)	(4,603)	16	7,399

The following table shows the adjustments made in 2016/17:

2016/17	Usable Reserves			Movement in Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments Primarily involving the Capital Adjustment Account: Reversal of items debited or credited to the comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(3,239)	0	0	3,239
Movements in the market value of Investment Properties	117	0	0	(117)
Amortisation of Intangible Assets	(157)	0	0	157
Capital Grants and contributions applied	1,163	0	10	(1,173)
Income in relation to donated assets	1,809			(1,809)
Revenue Expenditure funded from capital under statute	(971)	0	0	971
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory Provision for the financing of capital investment	3	0	0	(3)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account.	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	2,328	0	(2,328)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(8)	8	0	0
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	(2)	2	0	0
Transfer from deferred capital receipts reserve upon receipt of cash	0	(108)	0	108
Adjustments primarily involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(3,907)	0	0	3,907
Employers pensions contributions and direct payments to pensioners payable in year	1,835	0	0	(1,835)
Adjustments primarily involving the Collection Fund Account:				
Movement in the Authority's share of the Collection Fund surplus / deficit	(225)	0	0	225
Adjustments primarily involving the Accumulated Absences Account:				
Accrued employee absence adjustment	(28)	0	0	28
Total Adjustments	(3,610)	2,230	10	1,370

12. OTHER OPERATING EXPENDITURE

2015/16		2016/17
£000		£000
966	Parish council precepts	1,005
2	Payments to the Government Housing Capital Receipts Pool	2
(166)	(Gains)/losses on the disposal of non-current assets	7
802	Total	1,014

13. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2015/16		2016/17
£000		£000
164	Interest payable and similar charges	119
1,731	Pensions interest cost and expected return on pensions assets	1,630
(485)	Interest receivable and similar income	(471)
(855)	Change in Fair Value of Investment Properties	(117)
(954)	Income and expenditure in relation to investment properties	(1,195)
(399)	Total	(34)

14. TAXATION & NON-SPECIFIC GRANT INCOME AND EXPENDITURE

2015/16		2016/17	2016/17
£000		£000	£000
(10,802)	Council Tax Income		(11,219)
(2,742)	Revenue Support Grant		(1,562)
0	Gain on receipt of donated asset		(1,809)
	National Non-Domestic Business Rates (NNDR)		
(15,232)	Share of total collectible	(16,145)	
12,792	Less NNDR Tariff	12,934	
536	Less NNDR Collection Fund Deficit	820	
(1,904)	Net Recognised NNDR		(2,391)
(2,401)	New Homes Bonus		(2,724)
(941)	Capital Grants and Contributions (see below)		(278)
(18,790)			(19,983)
2015/16	Capital Grants and Contributions		2016/17
£'000			£'000
402	S106 Developer Contributions		103
0	Performance Reward Grant		(10)
534	Museum Lottery Funding		185
5	Westmill Community Centre		0
941	Total		278

In 2013/14 there was a change to the method for distributing and accounting for national non-domestic business rates (NNDR) income. Prior to 1 April 2013 NNDR were collected by the Council and paid over to the Government, who then redistributed these sums across the country in the form of the Non-Domestic rates grant. The Business Rates Retention Scheme came into effect on 1 April 2013 and from this date 50% of the business rates collected for the area is retained locally (North Hertfordshire Council (40%), Hertfordshire County Council (10%)). The remaining 50% is paid to central government. In addition the government has set a base level of business rates for each Council and either a top-up grant is received (if business rates collected are below this base level) or a tariff is paid to central government (if business rates collected are above this base level). North Hertfordshire District Council is a tariff Authority and paid £12.850million in 2016/17.

If a local authority increases its business rates income it is allowed to retain a proportion of this increased income, whilst paying 50% across to central government. This payment is known as a levy payment. The Government has also stated that no local authority will suffer a reduction in business rate income of more than 7.5% of its Business Rates funding baseline. If business rates income falls below this 7.5% level then the Government will make a safety net payment. In 2016/17 NHDC were required to make a levy payment of £85k.

15. PROPERTY, PLANT AND EQUIPMENT

The movement on property, plant and equipment balances during the year and in the 2015/16 comparable year is detailed in the following tables.

Within each classification heading are the following types of assets:

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

REVALUATIONS

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

Revaluations have been undertaken in 2016/17 in line with the 5 year rolling programme. These have resulted in a net increase to the carrying value of property, plant and equipment of just over £7.373million.

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

2013/14	2014/15	2015/16	2016/17
Industrial Properties	Industrial Properties	Industrial Properties	Industrial Properties
Investment Properties	Investment Properties	Investment Properties	Investment Properties
Agriculture	Access Licence	Amenity Land	Amenity Land
Allotments	Depot/Storage	Garden Licence	Allotments
Amenity Land	Garden Licence	Play Areas	Community Centres
Bridges	Minor Letting	Land in advance of need	Depot/Storage
Markets	Ransom Strip	Recreation Grounds	Museum
Play Areas	Sub Stations	Storage	Offices
Public Open Spaces	Wayleaves		Public Halls
Recreation Grounds			Scouts & Guides
			Storage
			Trust Property

The Authority measures some of its non-financial assets, such as surplus assets and investment properties, at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The Authority uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. The three widely used valuation techniques are:

- the market approach - uses prices and other relevant data generated by market transactions involving identical or comparable (i.e. similar) assets or group of assets.
- the cost approach - reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
- the income approach - converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

The market approach and the cost approach were both employed for the valuation of all surplus assets. The use of more than one valuation technique in the measurement of an asset is to ensure as far as possible that the valuation is most representative of fair value in the circumstances.

The market approach was employed for the valuation of all investment properties. For certain investment properties, where sufficient data was available, the income approach was also employed for valuation corroboration purposes, in accordance with valuation good practice.

The fair value measurements take into account the three levels of categories for inputs to valuations for fair value assets:

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

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

Level 3 Unobservable

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

An impairment review was completed as at 31 March 2017 to ascertain if the carrying value of the assets had decreased materially since the last revaluation. The value of the Westmill Community Centre, Hitchin was impaired by £534,209, and Bancroft Hall, Hitchin were impaired by £96,140.

DISPOSALS

No assets were disposed of during 2016/17.

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

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

MOVEMENT ON BALANCES OF PROPERTY, PLANT AND EQUIPMENT IN 2016/17

	Land & Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost of Valuation							
At 1 April 2016	65,533	9,673	93	6,189	3,876	5,807	91,171
Additions	1,203	201	0	0	0	2,970	4,374
Disposals	0	0	0	0	0	0	0
Reclassifications	1,141	180	0	0	(569)	(752)	0
Write Off to Revenue	0	0	0	0	0	(5)	(5)
Upward and Downward Revaluations taken to Revaluation Reserve	2,111	0	0	0	3,443	0	5,554
Upward Revaluations recognized in the Surplus/Deficit on Provision of Services	1,810	0	0	0	0	0	1,810
Impairments / Downward Revaluations recognized in the Surplus/Deficit on the Provision of Services	(873)	0	0	0	0	0	(873)
At 31 March 2017	70,925	10,054	93	6,189	6,750	8,020	102,031
At 1 April 2016	(10,320)	(7,297)	(33)	(992)	(19)	0	(18,661)
Depreciation Charge for 2016/17	(1,701)	(525)	(2)	(141)	(1)	0	(2,370)
Disposals	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0
Depreciation written out to the Revaluation Reserve	542	0	0	0	0	0	542
At 31 March 2017	(11,479)	(7,822)	(35)	(1,133)	(20)	0	(20,489)
Balance Sheet amount at 31 March 2017	59,446	2,232	58	5,056	6,730	8,020	81,542
Balance Sheet amount at 1 April 2016	55,213	2,376	61	5,197	3,857	5,807	72,511

Included in the Land and Buildings total is a donated asset with a carrying value of £1.8 million.

16. HERITAGE ASSETS

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

	Museum Collections	Public Sculpture / Artwork	Total Heritage Assets
	£'000	£'000	£'000
1 April 2015	540	46	586
In year Movements	84	0	84
31 March 2016	624	46	670
1 April 2016	624	46	670
Additions	0	0	0
Revaluations	0	0	0
31 March 2017	624	46	670

Museum Collections

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

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

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

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

The Authority's Museums Manager carried out a full valuation of the collections as at 31 March 2012 and reviewed these valuations as at 31 March 2017. The valuations were based on commercial markets, including transaction information from auctions where similar paintings are regularly being purchased.

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

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

The majority of the collections are not recognised in the Authority's Balance Sheet since there is no readily available information on the cost or market value of such items and to obtain such information would involve a disproportionate cost in comparison to the benefits to the users of the Authority's financial statements. The unvalued collections are insured for £2million as at 31 March 2017.

Notes to the Core Financial Statements

Public Sculpture / Artwork

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

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

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

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

Heritage Asset Transactions

A summary of the transactions relating to Heritage Assets over the period 1 April 2016 to 31 March 2017 is as follows:

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

Pedestal bowl made by Abdo Nagi, late 1990s, given by Vicky Daybell of Cambridge.
Three etchings of Hitchin by F L Griggs, early 20th century, given by Angela Dilley, Biggleswade

Drawing by William Ratcliffe, early 20th century, given by Tony Carter, Letchworth
Roman coin of Allectus, given by Malcolm Payne, Pirton

The Museum Service purchased the following item: William Ratcliffe watercolour, 'Street in Dieppe', purchased for £1900 (grant of £900 received from Hertfordshire Heritage Fund)

There were also a number of other low value donations received.

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

Notes to the Core Financial Statements

17. INVESTMENT PROPERTIES

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

	2015/16 £'000	2016/17 £'000
Rental Income from Investment Property	(995)	(1,215)
Deminimis land sales	0	0
Direct Operating Expenses arising from Investment Property	41	25
Net Gain / (Loss)	(954)	(1,190)

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

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

	2015/16 £'000	2016/17 £'000
Not later than one year	(993)	(1,145)
Later than one year and not later than five years	(3,973)	(4,588)
Later than five years	(60,189)	(66,126)

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

	2015/16 £'000	2016/17 £'000
Balance at Start of the Year	14,530	14,797
Net Gains / (Losses) from Fair Value adjustments	866	117
Disposal	(690)	0
Transfers to/from Property, Plant and Equipment	91	0
Balance at End of Year	14,797	14,914

18. INTANGIBLE ASSETS

	Purchased Software Licences £'000
Original Cost	1,586
Amortisations to 1 April 2016	(1,451)
Balance at 1 April 2016	135
Expenditure in Year	342
Written off to Revenue in Year	(157)
Balance at 1 April 2017	320

19. CONTRIBUTION TO HOUSING POOLED CAPITAL RECEIPTS

The Council transferred its housing stock in March 2003. However, capital receipts of £2,271 relating to the remaining outstanding right to buy mortgages were received in 2016/17. The payment to the pool of £1,703 is shown in the Comprehensive Income and Expenditure Account under Other Operating Expenditure (see Note 12).

Notes to the Core Financial Statements

20. FINANCIAL INSTRUMENTS

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

	Long-term		Current	
	31 March 2016 £'000	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000
Financial Liabilities at amortised cost:				
Creditors payable in one year	0	0	1,967	5,191
Borrowing	480	456	1,043	33
Total Financial Liabilities:	480	456	3,010	5,224
Financial Assets (loans and receivables):				
Debtors	2,020	124	3,529	5,376
Investments	7,750	7,000	21,997	24,220
Cash & Cash Equivalents	0	0	12,614	8,206
Total Financial Assets:	9,770	7,124	38,140	37,802

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

	Financial Liabilities At amortised cost £'000		Financial Assets Loans & Receivables £'000		Total £'000	
	2016	2017	2016	2017	2016	2017
Interest Expense	(164)	(119)	0	0	(164)	(119)
Interest Payable & Similar Charges	(164)	(119)	0	0	(164)	(119)
Interest Income	0	0	485	471	485	471
Interest & investment income	0	0	485	471	485	471
Net gain/(loss) for year	(164)	(119)	485	471	321	352

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

- A 'premature repayment' set of rates, supplied by the Council's financial advisors, in force on the 31 March 2017 has been used to supply the fair value for loans
- Transaction costs on all financial liabilities and financial assets are immaterial (transaction costs do not include internal administrative costs)
- Interest payable and receivable reflects market rates
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

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

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

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

Level 3 Unobservable

Notes to the Core Financial Statements

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

The fair values are calculated as follows:

	31 March 2016		31 March 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Financial Liabilities	3,490	4,159	5,680	6,173

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

	31 March 2016		31 March 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans & Receivables	47,910	48,243	44,820	45,135

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

Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit Risk

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

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, the Treasury Management Strategy ensured that its counterparty lists and limits reflected a prudent attitude towards organisations with whom funds were deposited, and limited its investment activities to the instruments, methods and techniques referred to in the Treasury Management Practices adopted by the Authority. It also maintains a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements. There were no defaults on investments in 2016/17 or 2015/16. The table below details the investment limits for 2016/17.

Notes to the Core Financial Statements

	Maximum Amount of Investment Allowable	Amount Invested as at 31 March 2017* £'000
UK Clearing Banks	10% of Investments	10,500
UK Clearing Banks (Wholly owned Subsidiaries)	10% of Investments	0
Building Societies (Assets £4.5bn)	10% of Investments	7,000
Building Societies (Assets £2.5bn - £4.5bn)	10% of Investments	2,000
Building Societies (Assets £1bn to £2.5bn)	10% of Investments	6,500
Building Societies (Assets £0.3bn to £1bn)	10% of Investments	5,000
Money Market Funds	10% of Investments	5,000
Other Local Authorities	10% of Investments	0
Total Invested		36,000

* This column shows the total invested in all counterparties in the group (for example, there was £7.0million invested in three separate building societies, assets £4.5bn and above, as at 31 March 2017).

The analysis of the £36.0million of investments by credit rating at year end is as follows:

	AAA or equivalent £'000	AA / AA-or equivalent £'000	A / A- or equivalent £'000	BBB+/BBB or equivalent £'000	AAAmoney market fund £'000	Not rated* £'000
Investments	0	0	9,500	8,000	5,000	13,500

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

The Authority does not allow credit facilities for customers with relation to payments for the provision of services, such that £0.694M of the total £1.507M sundry debtor balance at 31 March 2017 has passed its due date for payment. The risk of default is accounted for through the corresponding bad debt provision, which is determined primarily by the age of the sundry debtor outstanding. The sundry debtor balance and corresponding provision is presented in the table below.

Age of Debt	Sundry Debtors £'000	Provision Percentage	Provision Required £'000	Net Sundry Debtors £'000
Within payment terms	813	0%	0	813
1-3 months over term	413	0%	0	413
3-12 months overdue	71	25%	(18)	53
12-24 months overdue	22	75%	(17)	5
More than 24 months overdue	188	100%	(188)	0
Total at 31 March 2017	1,507		(223)	1,284

Notes to the Core Financial Statements

The equivalent position at the end of 2015/16 is shown in the table below:

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

Liquidity Risk

As the Authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority reviews its borrowing requirements as part of its annual Treasury Management Strategy and the standard policy has been to limit the amount of borrowing and reduce the exposure to liquidity risk. The strategy during 2016/17 was to utilize capital receipts set aside reserves and no new long term borrowing was taken out.

The total financial liability is made up as follows:

	31 March 2016 £'000	31 March 2017 £'000
Public Works Loan Board	515	480
Banks and Other Monetary Sectors	1,000	0
Total Borrowing	1,515	480
Less: Debt Maturing in 12 Months	1,035	24
Total Long Term Borrowing	480	456

At 31 March 2017 the average rates of interest on the different varieties of loans were as follows:

	%
Other Loans	na
Public Works Loan Board	9.43

The consolidated rate of interest, the rate used for internal transactions, was 10.67%.

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

	P.W.L.B. £'000	Banks etc. £'000	Other £'000	Total £'000
Maturing in more than 1 and less than 2 years	16	0	0	16
Maturing in more than 2 and less than 5 years	53	0	0	53
Maturing in more than 5 and less than 10 years	97	0	0	97
Maturing in more than 10 years	290	0	0	290
Total	456	0	0	456

Notes to the Core Financial Statements

Market Risk

Interest rate risk

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

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

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

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

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

According to this assessment strategy, at 31 March 2017 if interest rates had been 1% higher with all other variables held constant, the effects seen in the Income and Expenditure Statement would have been an increase of £19k in interest receivable from cash investments. The fair value of the loans outstanding would have been £10k higher (cost of repayment would have increased). This is shown below:

	£'000
Increase in interest receivable on variable rate investments	(19)
Impact on Income and Expenditure Account	(19)
Decrease in fair value of fixed rate loans	10

Price risk

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

Foreign exchange risk

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

Notes to the Core Financial Statements

21. INVENTORIES

	31 March 2016 £'000	31 March 2017 £'000
Inventory:		
Paper and Stationery	8	7
Postage	2	1
Waste & Recycling equipment	13	16
Museum merchandise	14	14
Careline Telecare equipment	93	101
Hitchin Town Hall beverages	0	2
Electrical equipment	7	7
Other	1	1
Total	138	149

22. CONSTRUCTION CONTRACTS

As at the 31 March 2017 the Council had committed to £2,640,000 of capital expenditure for a number of capital schemes within the capital programme (see the Narrative Report, page 10). These are as follows:

Capital Scheme	Commitment £'000
Area Visioning	30
Bancroft Gardens Play Area	72
Bancroft Recreation Ground, Multi Use Games Area (MUGA)	170
DCO Refurbishment	66
Mandatory Disabled Facility Grants	243
Museum & Community Facility	66
North Herts Leisure Centre Development	1,633
Norton Common Wheeled Sports	158
Off Street Car Parks	29
Premises Enhancement Programme	60
Hitchin Outdoor Pool.	29
Hitchin Swim Centre	51
Serby Avenue Play Area	33
Total Commitments	2,640

Notes to the Core Financial Statements

23. UNDISCHARGED OBLIGATIONS ARISING FROM LONG TERM CONTRACTS

The Authority is committed to making payments estimated at £14.8 million in 2017/18. The estimated liability of the contracts from 1st April 2017 to contract expiry is £29.0 million. Those contracts with an annual value of over £25,000 and with more than one year left to run are shown below.

Contractor	Service	Payment 17/18 £'000	Contract expiry date
Northgate Public Services (UK) Ltd	Revenues	48	30 November 2020
Veolia	Waste Management	6,356	08 May 2018
Danfo	Public Conveniences	49	31 March 2019
Tynetec	Careline	100	24 November 2020
Parkeon Limited	Car Parking	27	15 March 2021
Britannic Technologies	Customer Services	55	09 November 2018
Steve Dear Tree Services Ltd	Parks and Open Spaces	150	31 March 2021
John O'Connor	Grounds Maintenance	1,766	31 March 2027
Tascomi Limited	Housing & Public Protection	25	28 February 2022
Total		8,576	
Other Contract Payments in 17/18		6,128	
Total Contract Payments		14,705	

24. DEBTORS

	31 March 2016 £'000	31 March 2017 £'000
Central Government Bodies	106	199
Impairment	0	0
Net Total Central Government Bodies	106	199
Other Local Authorities	1,001	734
Impairment	0	0
Net Total Other Local Authorities	1,001	734
Ratepayers/Council Tax payers	1,929	1,668
Impairment	(818)	(816)
Net Total Ratepayers / Council Tax payers	1,111	852
Housing Benefit Overpayments	1,669	1,562
Impairment	(604)	(646)
Net Total Housing Benefit Overpayments	1,065	916
Other Entities and Individuals	1,770	4,027
Impairment	(308)	(300)
Net Total Other Entities and Individuals	1,462	3,727
Total Net Debtors	4,745	6,428

25. CASH AND CASH EQUIVALENTS

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

31 March 2016 £000		31 March 2017 £000
4	Cash held by the Authority	16
4,085	Bank current accounts	3,190
3,000	Short-term Deposits with Banks/Building Societies	0
5,000	Short-term Deposits with other Local Authorities	0
525	Short-term Deposits with Money Markets Funds	5,000
12,614	Total	8,206

Notes to the Core Financial Statements

26. ASSETS HELD FOR SALE (Non-Current)

	2015/16 £'000	2016/17 £'000
Balance at Start of the Year	2,000	0
Assets sold	(2,000)	0
Balance Outstanding at End of Year	0	0

27. SHORT TERM CREDITORS AND RECEIPTS IN ADVANCE

Short Term Creditors	31 March 2016 £000	31 March 2017 £000
Central government bodies	1,157	590
Other local authorities	451	491
NHS bodies	1	1
Other entities and individuals*	1,634	4,847
Total	3,243	5,929

* As at 31 March 2017 there were £206k of prepayments received in the last couple of days of the year (£93k as at 31 March 2016).

Receipts in Advance	31 March 2016 £000	31 March 2017 £000
Central government bodies	58	223
Other local authorities	114	238
Other entities and individuals	4,592	4,224
Total	4,764	4,685

28. PROVISIONS

Provisions (> 1year)

	Insurance Fund £'000	NNDR Appeals £'000	Baldock Road Pavillion £'000	Total £'000
Balance at 1 April 2016	(28)	(910)	(17)	(955)
Additional provisions made in 2016/17	(50)	0	0	(50)
Amounts used in 2016/17	40	(18)	17	39
Balance at 31 March 2017	(38)	(928)	0	(966)

Insurance Provision

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

NNDR Appeals Provision

From 1 April 2013 the Authority is required to recognise a provision for NNDR appeals liabilities. The total appeals figure for 2016/17 was £2.321million (£2.275million in 2015/16) and, as this is shared between North Herts, Herts County Council and Central Government, the North Herts proportion reflected in the balance sheet was £928k (£910k in 2015/16).

Notes to the Core Financial Statements

Baldock Road Pavilion

The original pavilion at Baldock Road was destroyed by a fire and the insurance funds were placed in a provision to cover the cost of replacing the pavilion. The main use of the pavilion was by football clubs as a changing room and an alternative facility has been found. Therefore the provision is no longer needed.

29. USABLE RESERVES

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

	Balance at 1 April 2016 £'000	Net Movement in Year £'000	Balance at 31 March 2017 £'000
Usable Capital Receipts	5,453	(2,230)	3,223
Earmarked Reserves	4,605	4	4,609
Capital Grants Unapplied	964	(10)	954
General Fund Reserve	7,085	1,150	8,235
Total Usable Reserves	18,107	(1,086)	17,021

	2015/16 £'000	2016/17 £'000
Usable Capital Receipts		
Amounts receivable	5,491	108
Amounts applied to finance new capital investment	(877)	(2,328)
Contribution towards administrative costs of non current-asset disposals	(9)	(8)
Payments to Capital Receipts Pool	(2)	(2)
Total increase in realised capital resources	4,603	(2,230)
Balance brought forward at 1 April	850	5,453
Balance carried forward at 31 March	5,453	3,223

Earmarked Reserves

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

Notes to the Core Financial Statements

	Balance as at 1 April 2015	Transfers out 2015/16	Transfers In 2015/16	Balance at 31 March 2016	Transfers out 2016/17	Transfers in 2016/17	Balance at 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Special Reserve	1,720	0	0	1,720	0	0	1,720
Housing & Planning Delivery	259	(7)	118	370	(83)	81	368
Information Technology Reserve	152	(70)	0	82	0	0	82
Environmental Warranty Reserve	209	0	0	209	0	0	209
Insurance Reserve	38	(4)	2	36	(4)	0	32
Cemetery Mausoleum Reserve	103	0	15	118	0	11	129
S106 Monitoring Reserve	95	(15)	4	84	(16)	0	68
Museum Exhibits Reserve	13	0	0	13	0	0	13
Property Maintenance Reserve	58	(10)	10	58	0	10	68
Hitchin Museum Donations	0	0	0	0	0	0	0
Leisure Management Maintenance	69	0	20	89	0	0	89
Performance Reward Grant	50	(50)	0	0	0	0	0
DWP Additional Grants Reserve	43	(84)	54	13	(116)	107	4
Homelessness Reserve	22	(22)	33	33	0	9	42
Climate Change Grant Reserve	49	(19)	0	30	0	0	30
Children's Services Reserve	12	(9)	6	9	(8)	6	7
Paintings Conservation Reserve	14	(2)	0	12	(2)	0	10
Community Right to Challenge	44	0	0	44	0	0	44
Traffic Regulation Orders	169	0	53	222	0	0	222
Town Centre Maintenance	38	(11)	8	35	(3)	8	40
Street Furniture	3	(1)	4	6	0	4	10
Office Move IT Works	7	0	0	7	0	0	7
LAMS Interest Reserve	56	0	25	81	0	25	106
DCLG Grants Reserve	1,045	(1,493)	997	549	(803)	743	489
Growth Area Fund Reserve	53	0	0	53	0	0	53
Community Development Reserve	1	0	0	1	0	0	1
Land Charges Reserve	186	(142)	137	181	(71)	53	163
Street Name Plates	0	0	8	8	0	30	38
Syrian Refugee Project	0	0	0	0	(10)	29	19
Taxi Reserve	3	0	4	7	0	6	13
Waste Reserve	387	0	93	480	0	32	512
Neighbourhood Plan Reserve	40	(10)	25	55	(40)	6	21
Total Earmarked Reserves	4,938	(1,949)	1,616	4,605	(1,156)	1,160	4,609

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

Notes to the Core Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Traffic Regulation Orders. An audit was done to identify TRO work to be carried out in the district. However due to other priorities this work was delayed and the budget has been transferred to a reserve, to be drawn down as and when the work is done.

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

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

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

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

Notes to the Core Financial Statements

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

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

Community Development Reserve – various grants for Community Development.

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

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

Syrian Refugee Project - The council has agreed to house 50 Syrian Refugees over five years under the government's resettlement scheme. The scheme is fully funded by the government and the reserve enables the multiple year funding for each household to be maintained for future expenditure associated with their placement in the district, such as housing and support costs.

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

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

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

30. UNUSABLE RESERVES

	Balance at 1 April 2016 £'000	Net Movement in Year £'000	Balance at 31 March 2017 £'000
Revaluation Reserve (note 30A)	28,999	5,399	34,398
Capital Adjustment Account (note 30B)	78,999	1,654	80,653
Deferred Capital Receipts (note 30C)	5	(2)	3
Pensions Reserve (note 30D)	(47,836)	(1,487)	(49,323)
Short Term Accumulating Compensated Absences Account	(119)	(28)	(147)
Collection Fund Adjustment Account (note 30E)	(479)	(225)	(704)
Total Unusable Reserves	59,569	5,311	64,880

Note 30A – Revaluation Reserve

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

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

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

	2015/16 £'000	2016/17 £'000
Balance at 1 April	26,295	28,999
Upward revaluation of assets	3,654	6,983
Downward revaluation of assets and Impairment losses not charged to the surplus/deficit on the Provision of Services.	(128)	(887)
Difference between fair value depreciation and historical cost depreciation.	(572)	(697)
Accumulated gains on assets sold or scrapped.	(250)	0
Balance at 31 March	28,999	34,398

Notes to the Core Financial Statements

Note 30B – Capital Adjustment Account

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

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

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

Note 11 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2015/16 £'000	2016/17 £'000
Balance at 1 April	84,099	78,999
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Depreciation and impairment of non-current assets	(2,744)	(1,426)
Amortisation of Intangible assets	(59)	(157)
Revenue expenditure funded from capital under statute	(808)	(971)
General Fund expenditure previously recognised as capital expenditure	0	0
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive Income & Expenditure Statement.	(5,067)	0
Sub-Total	(8,678)	(2,554)
Adjusting amounts written out of the Revaluation Reserve.	544	692
Capital Financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	877	2,328
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	1,293	1,163
Application of grants to capital financing from the Capital Grants Unapplied Account	1	10
Statutory provision for the financing of capital investment charged against the General Fund	8	(103)
Capital expenditure charged against the General Fund	0	0
Sub-Total	2,179	3,398
Movements in the market value of investment properties	855	118
Balance carried forward at 31 March	78,999	80,653

Notes to the Core Financial Statements

Note 30C – Deferred Capital Receipts Reserve

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

	2015/16 £'000	2016/17 £'000
Balance at 1st April	7	5
Transfer to the Capital Receipts Reserve upon receipt of cash	(2)	(2)
Balance at 31st March	<u>5</u>	<u>3</u>

Note 30D – Pension Reserve

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

	2015/16 £'000	2016/17 £'000
Balance at 1st April	(55,632)	(47,836)
Actuarial gains or losses on pension assets and liabilities	10,013	585
Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(4,035)	(3,907)
Employer's pensions contributions and direct payments to pensioners payable in the year.	1,818	1,835
Capitalisation of Pension Costs	0	0
Balance at 31st March	<u>(47,836)</u>	<u>(49,323)</u>

Note 30E – Collection Fund Adjustment Account

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

	2015/16 £'000	2016/17 £'000
Balance at 1 April	(1,227)	(479)
Movement in the Authority's share of the Collection Fund surplus / deficit	748	(225)
Balance at 31 March	<u>(479)</u>	<u>(704)</u>

Notes to the Core Financial Statements

Note 30F Accumulated Absences Account

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

	2015/16 £'000	2016/17 £'000
Balance at 1 April	(113)	(119)
Amounts accrued at the end of the current year	(6)	(28)
Balance at 31 March	(119)	(147)

31. INSURANCE

The Council maintains and reviews an insurance reserve which at 31 March 2017 had a balance of £31,929, a decrease of £4,384 from the balance at 31 March 2016. The reserve is in place to cover the self-insurance of a number of items for which there is no external insurance cover.

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

The Council has decided to self-insure some assets such as Town Centre CCTV equipment (£232,200), damage to car park machines (£232,696 total value at risk) and Document Centre equipment (£136,768), vehicle electric charging points (£13,720), and other miscellaneous items totalling £98,909.

32. NOTES RELATING TO THE CASH FLOW STATEMENT

Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2015/16 £'000		2016/17 £'000
467	Interest Received	278
(165)	Interest Paid	(120)
302	Net cash flows from operating activities	158

The adjustments for non-cash movements are as follows:

2015/16 £'000		2016/17 £'000
2,297	Depreciation	2,362
476	Impairments and downward revaluations	873
59	Amortisation of intangible assets	157
(110)	Movement in Creditors	1,119
1,149	Movement in Debtors	(2,462)
(68)	Movement in Inventories	(11)
2,217	Pension Liability	2,072
5,067	Carrying amount of non-current assets sold	0
(984)	Movement in other provisions	(190)
10,103	Net Adjustment for non-cash movements	3,920

Notes to the Core Financial Statements

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

2015/16 £'000		2016/17 £'000
(1,278)	Grants applied to the financing of capital expenditure	(2,972)
(1,753)	Proceeds from the sale of non-current assets	(1,359)
(3,031)	Net Adjustment for investing or financing activities	(4,331)

Cash Flow Statement - Investing Activities

2015/16 £'000		2016/17 £'000
(2,760)	Purchase of property, plant and equipment, investment property and intangible assets	(4,250)
(70,071)	Purchase of short-term and long-term investments	(89,532)
0	Other payments for investing activities	(107)
5,491	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	108
70,071	Proceeds from short-term and long-term Investments	89,532
1,415	Other receipts from investing activities	3,169
4,146	Net cash flows from investing activities	(1,080)

Cash Flow Statement - Financing Activities

2015/16 £'000		2016/17 £'000
0	Cash receipts of short and long-term borrowing	0
1,515	Council Tax and NNDR adjustments	576
(10)	Cash payments for the reduction of finance leases liabilities	(2)
(57)	Repayments of short and long-term borrowing	(1,035)
1,448	Net Cash flows from financing activities	(461)

33. TRADING OPERATIONS

The Council has no trading operations.

Notes to the Core Financial Statements

34. AGENCY SERVICES

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

	2015/16 £'000	2016/17 £'000
Expenditure incurred in providing highway verge and grounds maintenance services at Letchworth Library to Hertfordshire County Council	332	349
Management fee payable by the County Council	(269)	(276)
Net deficit arising on the agency agreement	63	73
Expenditure incurred in providing a grounds and building maintenance service to Royston Town Council	5	4
Management fee payable by the Town Council	(2)	(3)
Net deficit arising on the agency agreement	3	1

35. MEMBERS' ALLOWANCES

The following table shows the amount of Members' allowances paid in 2016/17 compared to the previous financial year:

	2015/16 £'000	2016/17 £'000
Allowances	320	318
Expenses	12	12
Total	332	330

Notes to the Core Financial Statements

36. EMPLOYEES REMUNERATION

Senior Employee Remuneration in 2016/17

The Authority is required to disclose individual remuneration details for senior employees. The first table that follows details the individual remuneration for senior employees in 2016/17. The second table details the equivalent information for the comparative year, 2015/16. The Authority is voluntarily opting to disclose the name of the Chief Executive and Strategic Directors. For senior employees, compensation for loss of office comprises the employer pension contribution amount calculated as part of the redundancy or termination package, as well as any other payments receivable on termination of employment (e.g. redundancy payments and payment in lieu of notice).

Post Title	Note	Salary (including fees & allowances) £	Expense Allowances £	Compensation for loss of office £	Total Remuneration (excluding pension contributions) £	Pension Contributions £	Total Remuneration (including pension contributions 2016/17) £
David Scholes Chief Executive	1	118,339	0	0	118,339	17,723	136,062
Norma Atlay Strategic Director of Finance Policy and Governance		90,712	0	0	90,712	13,440	104,152
John Robinson Strategic Director of Customer Services	2	45,879	0	185,660	231,539	6,720	238,259
Head of Development and Building Control		73,508	0	0	73,508	10,851	84,359
Head of Housing and Public Protection Service		70,795	0	0	70,795	10,364	81,159
Head of Finance Performance and Asset Management	3	54,717	0	0	54,717	7,975	62,692
Head of Policy Partnership and Community Development	4	36,112	0	123,023	159,135	4,694	163,829
Head of Revenues and Benefits		74,658	0	0	74,658	11,030	85,688
Head of Leisure and Environmental Services		69,191	0	0	69,191	10,193	79,384
Corporate Human Resources Manager		57,406	0	0	57,406	8,429	65,835
Corporate Legal Manager		64,256	120	0	64,376	9,410	73,786

- 1 The Chief Executive also held the position of Returning Officer for the Council and received £7,596 of expense allowances for this role in 2016/17
- 2 The Strategic Director of Customer Services left the Council on 30/09/2016; the annualised salary excluding fees and allowances, was equal to £86,712.
- 3 The Head of Finance Performance and Asset Management joined the Council on 25/04/2016; the annualised salary for this post in 2016/17, excluding fees and allowances, was equal to £55,125
- 4 The Head of Policy Partnership and Community Development left the Council on 30/09/2016; the annualised salary excluding fees and allowances was £60,573

Notes to the Core Financial Statements

Senior Employee Remuneration in 2015/16

Post Title	Note	Salary (including fees & allowances) £	Expense Allowances £	Compensation for loss of office £	Total Remuneration (excluding pension contributions) £	Pension Contributions £	Total Remuneration (including pension contributions 2015/16) £
David Scholes Chief Executive	1	117,205	0	0	117,205	17,547	134,752
Norma Atlay Strategic Director of Finance Policy and Governance		90,066	0	0	90,066	13,340	103,406
John Robinson Strategic Director of Customer Services		90,066	0	0	90,066	13,340	103,406
Head of Development and Building Control		72,986	0	0	72,986	10,794	83,780
Head of Housing and Public Protection Service		70,429	0	0	70,429	10,287	80,716
Head of Policy Partnership and Community Development		63,621	0	0	63,621	9,319	72,940
Head of Finance Performance and Asset Management	2	50,744	0	0	50,744	0	50,744
Head of Revenues and Benefits		63,621	0	0	63,621	9,319	72,940
Head of Leisure and Environmental Services		72,529	0	0	72,529	10,686	83,215
Corporate Human Resources Manager		55,026	0	0	55,026	8,086	63,112
Corporate Legal Manager		60,115	85	0	60,200	8,775	68,975

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

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

Notes to the Core Financial Statements

The Authority is also required to disclose the authority's other employees that received more than £50,000 remuneration for the year. For this purpose, remuneration comprises all amounts paid to or receivable by an employee, other than employers pension contributions, and includes sums due by way of taxable expenses, the estimated monetary value of any benefit, and compensation for loss of office. The remuneration is shown in each bracket of a scale in multiples of £5,000.

Remuneration Band	2015/16 Employees	2016/17 Employees
£50,000-£54,999	5	6
£55,000-£59,999	4	1
£60,000-£64,999	0	0
£65,000-£69,999	1	2
Total	10	9

37. TERMINATION BENEFITS AND EXIT PACKAGES

The Authority terminated the contracts of nine employees in 2016/17, incurring liabilities of £429,020 (£2,562 in 2015/16) that have been charged to the Comprehensive Income and Expenditure Statement in the current year.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below. The amounts disclosed in the table include redundancy costs, early retirement pension costs and pay in lieu of notice.

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other agreed departures		(d) Total number of exit packages by cost band		(e) Total cost of exit packages in each band	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
							£	£
£0 - £49,999	1	1	3	5	4	6	2,562	58,523
£50,000 - £99,999	0	1	0	0	0	1	-	61,814
£100,000 - £149,999	0	0	0	1	0	1	-	123,023
£150,000 - £199,999	0	0	0	1	0	1	-	185,660
Total Cost included in bandings and in CIES							2,562	429,020

Notes to the Core Financial Statements

38. FEES PAYABLE TO THE AUTHORITY'S APPOINTED EXTERNAL AUDITORS

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and for non-audit services provided by the Authority's external auditors. The 2016/17 audit fees have been estimated for the element of grant based audit work in conjunction with the Council's external auditors.

	2015/16 £'000	2016/17 £'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	52	52
Fees payable for the certification of grant claims and returns for the year	8	6
Total	60	58

39. GRANT INCOME RECOGNISED IN THE COST OF SERVICES

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

	2015/16 £'000	2016/17 £'000
Disabled Facilities Grant	361	520
Developer Contribution	82	354
Performance Reward Grant	0	10
S106 Refund for Housing Association Grant	(106)	0
Total	337	884

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

	2015/16 £'000	2016/17 £'000
Benefits Administration and Fraud Initiative Grants	888	891
Housing and Council Tax Benefit Subsidy	37,518	35,754
Waste minimisation – Herts County Council contribution	469	336
Waste Service Transport Subsidy	24	21
National Non-Domestic Rates Administration Grant	181	180
Refugees Syrian Project	0	63
Homelessness Prevention Grant	3	6
Community Safety Grants	25	24
Individual Electronic Registration Grant	40	22
Council Tax Reduction Scheme – New Burdens Grant	28	0
DCLG Neighbourhood Plans	15	0
Public Health Grant	120	31
Local Plan -DCLG	0	35
Inspire Grant – Defra	5	0
Get Active Grant	20	31
Air Monitoring, HCC	20	0
Local Land Charges	119	8
DCLG Waste Grants for Flats Recycling	78	94
Hertfordshire Museums – Lottery Fund	3	2
Satellite Clubs	3	0
Total	39,559	37,498

Notes to the Core Financial Statements

Capital Grants Received In Advance

The Authority received a grant in 2012/13 from the DCLG for the Weekly Collection Support Scheme. This grant is recognised as income in the Comprehensive Income and Expenditure Statement over the life of the scheme as there are conditions attached that may require the monies to be returned if the criteria of the grant are not met. The balance at the 31 March 2017 is £195,834.

40. RELATED PARTY TRANSACTIONS

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

Central Government

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

Members

Members have direct control over the Authority's financial and operating policies. During 2016/17, works and services to the value of £12,232 were commissioned from three companies in which a Member had an interest. No additional grants were paid to voluntary organisations in which Members had an interest. Details of all of these transactions are recorded in the Register of Members' Interest and Disclosure of Personal Interest at Meetings. Both these documents are available for public inspection at Council Offices, Gernon Road, Letchworth Garden City, Hertfordshire.

Two Council Members have a place on the board of North Hertfordshire Homes Limited (NHH). On 18th August 2016, NHDC acquired ownership of the new Westmill Community Centre from NHH. Half of the building was erected on freehold land owned by North Hertfordshire District Council and the other half on land owned by North Hertfordshire Homes. Upon completion of construction, the latter parcel of land and building was transferred to the District Council for the nominal sum of £1. The Community Centre has been recognised as a donated asset accordingly and is included in the balance sheet at 31 March 2017 at its assessed fair value of £1.8m. Income recorded from Service Level Agreements (SLA's) between the Authority and North Hertfordshire Homes totalled £330,848 (2015/16: £321,196), with an outstanding debtor balance at 31st March 2017 of £104,155 (2015/16: £4,235). £52,515 (2015/16: £99,086) was paid to NHH under reciprocal SLA's. In addition, an NHDC invoice for £30,204 was raised to NHH in March 2016 in relation to Section 106 obligations. This was recorded as a debtor balance at 31 March 2016.

Officers

Key management personnel also have significant influence over the operations of the authority. Key management personnel are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities. No Officers of the Council with influence over key procurement decisions, nor their spouses or partners, have declared any interests with NHDC related parties.

Hertfordshire Building Control Limited

The Council partnered with six local authorities across Hertfordshire to create a new fully integrated building control service, which was launched in August 2016. The Council holds 14% of the share capital (£7) and is represented on the board. The company aims to provide a more flexible and efficient response to building control issues across the county. Control is shared equally among the seven partners. In 2016/17 the Council's share of the losses for the year amounted to £15.7k (2015/16: £0k). In August 2016 the council made a loan to the company of £107k, which is held in Long Term Debtors (other loans) on the balance sheet.

Notes to the Core Financial Statements

Hertfordshire CCTV Partnership

The Authority is engaged in a jointly controlled operation for the provision and management of CCTV in the Hertfordshire area. This arrangement is with Stevenage Borough Council, North Hertfordshire Council, East Hertfordshire Council and Hertsmer Borough Council. Each member of the partnership arrangement accounts for their share of the assets, liabilities and cash flows of the CCTV in their accounts. In 2016/17 total payments to the Partnership of £69,091 (£63,325 2015/16) were charged to the Council's Comprehensive Income and Expenditure Statement. The Authority also purchased in 2016/17 new cameras and CCTV equipment through the Partnership at a total cost of £37,713.

Hertfordshire CCTV Partnership Limited

In 2013/14 all partner authorities within the Hertfordshire CCTV Partnership agreed to incorporate a new company to conduct the commercial trading affairs of the CCTV partnership. The new limited company, Hertfordshire CCTV Partnership Ltd, started trading on the 1 April 2015. The Council holds 28% of the share capital (£28) and is represented on the board. For the year ended 31 March 2017 the company produced a profit after tax of £34,609. NHDC's share of the profit is £9,533 with the remainder belonging to the partner councils. In 2016/17 £55,618 (£38,660 2015/16) was paid by the Council for services provided by Hertfordshire CCTV Partnership Limited and charged to the CIES. In addition, in 2016/17 the Authority also purchased new cameras and equipment from the company at a total cost of £31,771.

41. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Of the total expenditure of £5.686million, only £3.5million has been financed immediately, resulting in an increase of £2.19million in the Capital Financing Requirement (CFR). This is a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR remains negative (£16.64million at 31 March 2017) because the Authority has set aside capital receipts which exceed the amount of outstanding loans and borrowings.

	2015/16 £'000	2016/17 £'000
Capital Investment:		
Operational Assets		
Land & Buildings	251	1,203
Vehicles, Plant & Equipment	513	201
Community Assets	0	0
Investment Properties	1	0
Non-Operational Assets		
Assets Under Construction	1,959	2,969
Intangible Assets - Software	7	342
Revenue Expenditure Funded from Capital under Statute	793	971
Total Capital Investment	3,524	5,686
Sources of Finance:		
Capital Receipts	877	2,328
Government Grants and Other Contributions	1,279	1,173
Sums set aside from Revenue	0	0
Total Finance Sources	2,156	3,501
Increase / (Decrease) in CFR	1,368	2,185

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

Notes to the Core Financial Statements

42. ASSETS HELD UNDER LEASE AND FOR LEASE

Operating Leases

Vehicles, Plant and Equipment

The Authority uses service vans and I.T. equipment financed under terms of an operating lease. The amount paid under these arrangements in 2016/17 was £53,906 (2015/16 at £55,270).

Property

The Authority paid £56,313 in rent / leasing charges for properties in 2016/17. The most significant amount of £24,000 was paid for the King James Way Car Park. This agreement is due to expire in January 2024.

Commitments under operating leases

The Authority was committed at 31 March 2017 to making payments of £1.425 million under operating leases over the following periods:

	31 March 2016 £'000	31 March 2017 £'000
Not later than one year	70	120
Later than one year and not later then five years	194	253
Later than five years	1,079	1,052
	1,343	1,425

Authority as Lessor

The Authority has granted various leases to commercial and industrial organisations under terms of an operating lease. The amount received under these arrangements in 2016/17 was £1,219,673 (2015/16 £996,220). The gross value of assets held for these leases is £14.914 million and the minimum lease payments (rental income) expected from the contractual obligations are broken down over future periods in Note 17, Investment Properties.

Finance leases

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

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

	31 March 2016 £'000	31 March 2017 £'000
Other Land and Buildings	145	132
Vehicles, Plant & Equipment	0	0
	145	132

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

	31 March 2016 £'000	31 March 2017 £'000
Finance Lease-Liabilities	139	136
Finance costs in future years	164	152
Minimum Lease Payments	303	288

Notes to the Core Financial Statements

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2016	31 March 2017	31 March 2016	31 March 2017
	£'000	£'000	£'000	£'000
Not later than one year	14	14	3	3
Later than one year and not later than five years	58	58	13	14
Later than five years	231	216	123	119
	303	288	139	136

43. PENSION SCHEMES

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

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

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

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

Local Government Pension Scheme	2015/16	2016/17
Comprehensive Income and Expenditure Account:	£'000	£'000
Cost of Services:		
Service cost comprising:		
Current Service Cost *	2,304	2,123
Past Service Costs	0	154
Financing and Investment Income and Expenditure:		
Net Interest Expense	1,731	1,630
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	4,035	3,907
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
Re-measurement of the net defined liability comprising:		
Return on Plan Assets	1,661	(9,880)
Actuarial (gains) and losses arising on changes in demographic assumptions	0	(1,742)
Actuarial (gains) and losses arising on changes in financial assumptions	(9,676)	25,326
Other	(1,993)	(14,129)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(5,973)	3,482

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

Notes to the Core Financial Statements

Movement in Reserves Statement:

	2015/16 £'000	2016/17 £'000
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(4,035)	(3,907)

Actual Amount charged against the General Fund balance for pensions in the year:

• Employers' contributions payable to the scheme **	1,823	1,995
Net chargeable amount against the General Fund balance	1,823	1,995

** The figure of £1.995million for employers contributions to the scheme in 2016/17 was an estimate for the year, used by the Actuary, based on the first nine months contributions. The actual amount paid in the general fund in 2016/17 was £1.835million (£160k less than shown). There is a corresponding adjustment in the actuarial gain recognised in the Income and Expenditure Statement.

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

Local Government Pension Scheme	2015/16 £'000	2016/17 £'000
Present value of the defined benefit obligation	(152,804)	(165,071)
Fair Value of plan assets	104,968	115,748
Sub-total	(47,836)	(49,323)
Other movements in the liability (asset)	0	0
Net liability arising from defined benefit obligation	(47,836)	(49,323)

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

Local Government Pension Scheme	2015/16 £'000	2016/17 £'000
Opening fair value of scheme assets	105,790	104,968
Interest Income	3,243	3,522
Re-measurement gain / (loss):		
The return on plan assets, excluding the amount included in the net interest expense	(1,661)	9,880
Other		
The effect of changes in foreign exchange rates		
Contributions from employer	1,823	1,995
Contributions from employees into the scheme	574	587
Benefits paid	(4,801)	(5,204)
Closing fair value of scheme assets	104,968	115,748

Notes to the Core Financial Statements

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

Local Government Pension Scheme	2015/16	2016/17
	£'000	£'000
Opening balance at 1 April	161,422	152,804
Current service cost	2,304	2,123
Interest cost	4,974	5,152
Contributions from scheme participants	574	587
Re-measurement (gains) and losses:		
Actuarial (gains) / losses arising from changes in demographic assumptions	0	(1,742)
Actuarial (gains) / losses arising from changes in financial assumptions	(9,676)	25,326
Other	(1,993)	(14,129)
Past Service Cost	0	154
Benefits paid	(4,801)	(5,204)
Closing balance at 31 March	152,804	165,071

Local Government Pension Scheme assets comprised:

	Fair Value of scheme assets (Quoted Prices)					
	31 March 2016			31 March 2017		
	Active Markets £'000	Not in Active Markets £000	% of total assets	Active Markets £'000	Not in Active Markets £000	% of total assets
Cash and cash equivalents	3,336	0	3%	3,820	0	3%
Equity instruments:						
Consumer	8,527	0	8%	9,025	0	8%
Manufacturing	7,780	0	7%	8,661	0	7%
Energy and utilities	1,824	0	2%	2,086	0	2%
Financial Institutions	7,977	0	8%	7,751	0	7%
Health and care	1,390	0	1%	1,567	0	1%
Information technology	4,964	0	5%	6,311	0	5%
Other	242	0	0%	390	0	0%
Sub-total equity	32,704	0	31%	35,791	0	30%
Bonds:	0	0	0%	0	0	0%
Private equity:						
All	0	4,506	4%	0	5,344	5%
Real Estate:						
UK Property	0	4,688	4%	0	3,745	3%
Overseas Property	0	2,740	3%	0	4,338	4%
Sub-total real estate	0	7,428	7%	0	8,083	7%
Investment funds and Unit Trusts:						
Equities	21,308	0	20%	24,253	0	21%
Bonds	28,742	0	27%	31,884	0	28%
Commodities	496	0	0%	0	0	0%
Infrastructure	0	135	0%	0	263	0%
Other	428	6,271	6%	447	6,093	6%
Sub-total other investment funds	50,974	6,406	53%	56,584	6,356	55%
Derivatives:						
Forward foreign exchange contracts	0	(386)	0%	0	(230)	0%
Total assets	87,014	17,954		96,195	19,553	

Notes to the Core Financial Statements

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

The scheme history is as follows:

	31 March 2013 £'000	31 March 2014 £'000	31 March 2015 £'000	31 March 2016 £'000	31 March 2017 £'000
Present Value of Liabilities	(148,476)	(141,453)	(161,422)	(152,804)	(165,071)
Fair Value of Assets	96,018	95,081	105,790	104,968	115,748
Deficit in the scheme	(52,458)	(46,372)	(55,632)	(47,836)	(49,323)

The liabilities show the underlying commitments that the Authority has in the long run to pay for post employment (retirement) benefits. The total liability of £165,071million has a substantial impact on the net worth of the Authority, as recorded in the Balance Sheet, resulting in a negative overall balance of £49,323million. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

The contributions paid by the Authority are set by the Fund Actuary at each triennial actuarial valuation (the most recent being as at 31 March 2016), or at any other time as instructed to do so by the Administering Authority. The contributions payable over the period to 31 March 2020 are set out in the Rate and Adjustments certificate. Further details on the approach adopted to set contribution rates for the Authority are available in the 2016 actuarial valuation report.

The total contributions expected to be made to the Local Government Pension scheme by the Authority in the year to 31 March 2018 is £2,536,000.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The pension fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates being based on the latest formal valuation of the Fund as at 31 March 2017. The significant assumptions used in their calculations are:

	31 March 2016 %	31 March 2017 %
Mortality Assumptions:		
Longevity at 65 for current pensioners*:		
Men	22.3	22.5
Women	24.5	24.9
Longevity at 65 for future pensioners**		
Men	24.3	24.1
Women	26.7	26.7
Rate of increase in salaries	3.6	2.5
Rate of increase in pensions	2.1	2.4
Rate for discounting scheme liabilities	3.4	2.5
Proportion of Employees opting to take a commuted sum		
- pre April 2008 service	50.0	50.0
- post April 2008 service	75.0	75.0

* Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2013 model assuming current rates of improvement have peaked and will converge to a long term rate 1.25% p.a. Based on these assumptions the average future life expectancies at age 65 are as shown.

** Figures assume members aged 45 as at the last formal valuation date.

Notes to the Core Financial Statements

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, is on an actuarial basis using the projected unit credit method.

	Impact on the Defined Benefit Obligation in the scheme	
	% Increase to Liability	Monetary amount
	£'000	£'000
Real Discount Rate (decrease by 0.5%)	9%	14,806
Rate of increase in salaries (increase by 0.5%)	1%	2,084
Rate of increase in pensions (increase by 0.5%)	8%	12,514

The table below shows the maturity profile of the defined benefit obligation. The figures below are for the funded obligations only and do not include any unfunded pensioner liabilities. The durations are as they stood at the date of the most recent actuarial valuation.

	Liability split £(000) as at 31 March 2017	Liability split (%) as at 31 March 2017	Weighted Average Duration
Active members	53,716	32.5%	22.4
Deferred members	39,421	23.9%	20.1
Pensioner members	71,934	43.6%	10.0
Total	165,071	100.0%	15.4

44. CONTINGENT ASSETS

There are no contingent assets for 2016/17.

45. CONTINGENT LIABILITIES

Contractor Pension Fund Contributions

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

Municipal Mutual Insurance Ltd Scheme of Arrangement

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

Notes to the Core Financial Statements

46. TRUST FUNDS AND THIRD PARTY FUNDS

Trust Funds

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

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

Without the annual contribution from the Council, the Trusts would not have had adequate resources to manage the facilities during the year. The Trust's accounts reflect the fixed assets and the in year expenditure and income incurred in running the facilities. The net balance of these transactions, as at the 31 March 2017, is included in the Authority's accounts. A summary of the value of assets held by the trusts and the amounts administered by the authority is provided in the table below;

	Fixed Assets Closing Net Book Value	Directly Attributable Expenditure	Externally Generated Income
	£'000	£'000	£'000
Hitchin Town Hall Gymnasium and Workman's Hall Trust	1,897	15	-
King George V Playing Fields Trust	222	30	-
Smithson Recreation Ground Trust	26	4	-

Third Party Funds

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

The total value of all S106 contributions as at the 31 March 2017, available to fund capital and revenue activities is £2,761,036. (2015/16 £3,339,974)

The accounts have been prepared on an accruals basis.

Council Tax £'000	2015/16 Business Rates £'000	Total £'000	Note	Council Tax £'000	2016/17 Business Rates £'000	Total £'000
Income						
(72,611)		(72,611)	Council Tax Receivable	2	(76,069)	(76,069)
			Council Tax Benefit			
	(37,713)	(37,713)	Business Rates Receivable	1	(38,888)	(38,888)
	0	0	Transitional Protection Payments Receivable		0	0
Contribution towards previous year deficit:						
0	(334)	(334)	Hertfordshire County Council	3	0	(52)
0		0	Hertfordshire Police Authority	3	0	0
	(1,668)	(1,668)	DCLG	3	(257)	(257)
0	(1,334)	(1,334)	North Hertfordshire District Council	3	0	(205)
(72,611)	(41,049)	(113,660)	Total Income	(76,069)	(39,402)	(115,471)
Expenditure						
Precepts, Demands and Shares						
54,055	3,816	57,871	Hertfordshire County Council	4	56,945	60,875
7,002		7,002	Hertfordshire Police Authority		7,055	7,055
9,854	15,264	25,118	North Hertfordshire District Council		10,172	25,893
966		966	Parishes, Town & Community Councils		1,005	1,005
	19,079	19,079	Central Government		19,650	19,650
Distribution of previous years Surplus						
169		169	Hertfordshire County Council		218	218
24		24	Hertfordshire Police Authority		28	28
Charges to Collection Fund						
0	1	1	Interest on Accruals		0	0
0	181	181	Cost of Collection Allowance	1	0	181
	570	570	Transitional relief Payable		48	48
	37	37	Energy Payments		54	54
260	376	636	Write off uncollectible amounts	1/2	284	744
	(103)	(103)	Increase / (decrease) in provision for appeals	1	45	45
114	7	121	Increase / (decrease) in bad debt provision	1/2	70	0
72,444	39,228	111,672	Total Expenditure	75,777	40,019	115,796
(167)	(1821)	(1988)	Movement on Fund Balance	(292)	617	325
(218)	3254	3036	Balance at beginning of year	(385)	1,433	1,048
(385)	1,433	1,048	Balance at end of year	(677)	2,050	1,373

Collection Fund Accounts

Share of Balance

(227)	143	(84) Hertfordshire County Council	(417)	205	(212)
(29)		(29) Hertfordshire Police Authority	(51)		(51)
(129)	573	444 North Hertfordshire District Council	(209)	820	611
	717	717 Central Government		1,025	1,025
(385)	1,433	1,048	(677)	2,050	1,373

1. INCOME FROM BUSINESS RATES

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

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

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

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

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

The business rates shares payable for 2016/17 were estimated before the start of the financial year as £19.650 million to Central Government, £3.930 million to Hertfordshire County Council and £15.720 million to North Hertfordshire District Council. These sums have been paid in 2016/17 and charged to the collection fund.

When the scheme was introduced, Central Government set a baseline level for each Authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive the set baseline amount. North Hertfordshire paid a tariff of £12.850 million to Central Government from the General Fund in 2016/17.

The total net amount of NNDR income collectable in 2016/17, after all reliefs and deductions, was £38.888million. An increase of £389k has been made for the provision of outstanding amounts that are not subsequently paid (bad debts) bringing the total provision to £576k as at 31 March 2017. A total of £459k of outstanding business rates were written off during 2016/17.

In addition to the tariff arrangement the Council must pay a levy of 50% to Central Government for income received above the baseline. If income from business rates should fall to 92.5% of the set baseline then the safety net will ensure the Council is reimbursed. In 2016/17 the authority was a part of the Hertfordshire Business Rates Pool, which reduces the levy payment. The levy that would have been owed to the DCLG is £239k if North Herts had not been in the pool, this reduces to £85k by the pooling gain that Hertfordshire County Council has calculated as pool lead.

Collection Fund Accounts

The retained business rates scheme has also meant responsibility for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list has transferred to the Authority, as the agent. As such it is necessary for the Authority to make provision for future successful appeals on behalf of itself the major preceptor and Central Government. An increase of £45k has been made for the provision of outstanding appeals bringing the total provision to £2.32 million. This amount is based on the amount of outstanding appeals with the Valuation Office Agency, as at 31 March 2017, after applying an estimated overall success factor of 25%.

The total non-domestic rateable value for North Hertfordshire District Council is £97.3 million, (£97.0 million 2015/2016). The NNDR multiplier is 49.7p in the pound (49.3p in the pound in 2015/2016). The small business non domestic rating multiplier is 48.4p in the pound (48.0p in the pound in 2015/2016).

2. COUNCIL TAX

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

	2015/16		2016/17	
	£'000	£'000	£'000	£'000
Original Debt	86,567		89,962	
Additional Debt	9,833		9,507	
		96,400		99,469
Less:				
Council Tax Reductions		6,698		6,618
Transitional Relief		(1)		(1)
Discounts		6,606		6,849
Amounts Written-off, Exemptions & Allowances		10,486		9,934
		72,611		76,069

Council tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Hertfordshire County Council, The Police and Crime Commissioner and the Council for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts). This basic amount of council tax for a Band D property, £1,545.58, (£1,496.92, 2015/2016) is multiplied by the proportion specified for a particular band to give an individual amount due.

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

Proportion of Band D charge

Band	Property Numbers	Proportion	Basic Amount £
A	3,342	0.67	1,030.39
B	8,829	0.78	1,202.12
C	19,729	0.89	1,373.85
D	9,979	1.00	1,545.58
E	7,109	1.22	1,889.04
F	4,513	1.44	2,232.50
G	3,271	1.67	2,575.97
H	340	2.00	3,091.16
Total	57,112		

An increase of £354k has been made for the provision of outstanding amounts that are not subsequently paid (bad debts) bringing the total provision to £1.86million as at 31 March 2017. A total of £284k of outstanding council tax was written off during 2016/2017.

Collection Fund Accounts

3. PAYMENT OF SURPLUS/ DEFICITS FROM THE COLLECTION FUND

The element of the surplus/ deficit on the Collection Fund at 31 March 2017 will be distributed in subsequent financial years to Hertfordshire County Council, The Police and Crime Commissioner and the Council in proportion to the value of the respective precept demand made by the three Authorities on the Collection Fund. The apportioned (surplus)/deficit is shown at the bottom of the Income and Expenditure Statement.

4. PRECEPTS

	2015/16	2016/17
	£'000	£'000
Hertfordshire County Council	54,055	56,946
Hertfordshire Police	7,002	7,054
North Hertfordshire District Council and Local Town and Parish Councils	10,820	11,177
	71,877	75,177

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

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FINANCE, AUDIT & RISK COMMITTEE

21 SEPTEMBER 2017

***PART 1 – PUBLIC DOCUMENT**

AGENDA ITEM No.

12

The following is the report to be considered by Cabinet at its meeting to be held on 26 September 2017. The Committee is invited to comment on the report.

TITLE OF REPORT: FIRST QUARTER REVENUE MONITORING 2017/18

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT
EXECUTIVE MEMBER: COUNCILLOR JULIAN CUNNINGHAM
COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

1.1 The purpose of this report is to inform Cabinet of the summary position on revenue income and expenditure forecasts for 2017/18, as at the end of the first quarter (30 June 2017). The forecast variance is an increase of **£208k** on the net working budget of **£17.022m** for 2017/18, with an ongoing impact in future years of **£158k**. There are a number of significant variances within these totals, which are detailed and explained in table 2. The report also provides an update on;

- the progress with the planned delivery of efficiencies (paragraph 8.3)
- the use of budget approved to be carried forward from 2016/17 (paragraph 8.4)
- performance against the four key corporate 'financial health' indicators (para 8.5)
- the overall forecast funding position for the Council and factors that may affect this (paras 8.6 – 8.13)

2. RECOMMENDATIONS

- 2.1 That Cabinet note this report.
- 2.2 That Cabinet approves the changes to the 2017/18 General Fund budget, as identified in table 2 and paragraph 8.2, a £208k increase in net expenditure.
- 2.3 That Cabinet notes the changes to the 2018/19 General Fund budget, as identified in table 2 and paragraph 8.2, a £158k increase in net expenditure. These will be incorporated in to the draft revenue budget for 2018/19.

3. REASONS FOR RECOMMENDATIONS

- 3.1 Members are able to monitor 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 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 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 27th June 2017.

7. BACKGROUND

- 7.1 Council approved the revenue budget in February 2017 of £16.545 million. As at quarter 1 the working budget has increased to £17.022 million. Table 1 below details the approved changes to this budget to get to the current working budget:

Table 1 - Current Working Budget

	£k
Original approved budget for 2017/18	16,545
Proposed Crematorium at Wilbury Hills Cemetery - Interim Report On Business Case – approved by Cabinet 28 th March 2017	50
Quarter 3 2016/17 Revenue Monitoring report - 2017/18 budget changes approved by Cabinet (March 2017)	199
2016/17 Revenue Outturn Report - 2017/18 budget changes approved by Cabinet (June 2017)	228
Current Working Budget	17,022

8. RELEVANT CONSIDERATIONS

REVENUE INCOME AND EXPENDITURE FORECASTS

- 8.1 Service Managers are responsible for monitoring their expenditure and income against their working budget. Table 2 below highlights those areas where there are forecast to be differences. An explanation is provided for each of the most significant variances, which are generally more than £25k. The final column details if there is expected to be an impact on next year's (2018/19) budget:

Table 2 - Summary of forecast variances

Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Estimated Impact on 2017/18 £k
Employer Pension Contribution	+2,379	+2,513	+134	Forecast variance follows the publication of the 2017 Pension Scheme revaluation. The Scheme's Actuary has advised that over the next three years NHDC make a minimum contribution to the pension scheme of an annual lump sum payment of £1.006m plus a contribution equivalent to 18.6% of pensionable pay. The original budget estimates for 2017/18 were based on an estimated increase in the lump sum of £558k (to £1.123m) and a contribution percentage of 15.5%. A further £100k pension cost provision was included in the budget estimates from 2018/19, which therefore reduces the ongoing impact in comparison to the original published estimates.	+34
Investment Interest Income	-267	-327	-60	Increase in income is due to both higher than planned cash balances available for investment at the start of the year, while longer-term investment deposits have been placed at an average annual interest rate of 1.0%, which is greater than the 0.7% estimated rate of interest on which the budget was calculated.	0
Telephones – Line Rental Costs	+41	+29	-12	Following the installation of the new telephony system, there were some lines that were still under old contracts. The majority of these have now come to an end and moved on to the new system. This results in an estimated annual saving of £12k. This saving is additional to the permanent £24k annual saving on call charges reported last year.	-12
Stationery Purchases	+28	+15	-13	The centralisation of the stationery budget has helped to highlight the likely underspend on this provision, while improved stock management has kept expenditure on new stationery to a minimum.	-13
Parking - Penalty Charge Notice Income	-410	-531	-121	Annual income recorded from PCNs issued in recent years has been consistently higher than the expectation within the base budget. The variance reported and the estimated ongoing impact is therefore to align budget estimates with the current level of activity.	-121
Pest Control Service	+27	+8	-19	The full commercialisation of the pest control service from April 2017 was agreed as part of the contract renewal.	-27

Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Estimated Impact on 2017/18 £k
Hitchin Town Hall Community Facility Income	-287	-245	+42	The delayed opening of the Café and Museum has reduced the income expectation from the facility in this year. The opening of the museum and café was expected to increase the footfall around the facility and so help in raising awareness of what services and activities are available. Lower than expected income from the facility was identified as a financial risk.	0
Trade Refuse – Tipping Charges	+332	+303	-29	Reduction in estimated tipping charge costs follows the trend of declining trade residual waste tonnages taken to landfill in recent years.	-29
Commercial Recycling – Customer Income	-41	-83	-42	Growth in projected income is due to a combination of the increase in prices charged for the service, and that the 17/18 forecast is inclusive of a full year of income from schools. Invoicing schools in receipt of the service commenced in October 2016.	-42
Paper Recycling Income				The volume of paper collected for recycling continues to decline. The use of electronic devices, such as tablets and smart phones, has impacted on the sales of print media and this would appear to be a long term trend.	
Sale of materials collected	-435	-404	+31		+31
HCC Recycling Credit	-161	-151	+10		+10
TOTAL	-596	-555	+41		+41
Community Development Grants for Building and Playground Refurbishment	+33	0	-33	These grants have been replaced by the Community Facilities Capital Project Fund.	-33
Housing Benefit – Contribution to bad debt provision in respect of benefit overpayments income	+100	+316	+216	The total value of debt outstanding in relation to benefit overpayments has increased year on year. Where benefit overpayments have been identified in previous years it is often difficult to recover the amounts owed. In a number of cases repayment plans are put in place. This means that some of the remaining amounts owed are quite old. It is prudent to make a bad debt provision to reflect that these amounts may not be received. The forecast variance and ongoing impact is based on the experience of the last two years, where the level of movement in the bad debt provision and the level of income raised from benefit overpayments have remained consistent.	+216

Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Estimated Impact on 2017/18 £k
Planning Fees Income	-683	-775	-92	Planning application and pre-application fees received in quarter one are significantly above the budgeted expectation. Further growth in this income stream, based on the successful adoption of the Local Plan, was included as an additional income generation proposal in the 2017/18 Corporate Business Planning process and is already incorporated in the budget estimates for future years.	0
Careline Net Direct Trading Expenditure	-392	-182	+210	Careline continues to make progress with the reform of its operating model. However, the 2017/18 outturn position is likely to show a reduced surplus as the costs of a new website, increased infrastructure costs, and the loss of corporate customers (which was identified as a financial risk).	+175
Total of explained variances	+264	+486	+222		+189
Other minor balances	16,758	16,744	-14		-31
Overall Total	17,022	17,230	+208		+158

8.2 Cabinet are asked to approve the differences highlighted in the table above (a £208k increase in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to note the estimated impact on the 2018/19 budget (a £158k increase in budget) which will be incorporated in to the 2018/19 budget setting process (recommendation 2.3).

8.3 The original approved budget for 2017/18 (and therefore working budget) included efficiencies totalling £929k, which were agreed by Council in February 2017. Any under or over delivery of efficiencies will be picked up by any budget variances (table 2 above). However there can be off-setting variances which mean that is unclear whether the efficiency has been delivered. Where this is the case, this will be highlighted. The current forecast is a net overachievement of £50k. This relates to:

- Planning income; -£92k, as detailed in table 2 above.
- Hitchin Town Hall income; +£42k, as detailed in table 2 above.

8.4 The working budget for 2017/18 includes budgets totalling £642k 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 2016/17 but was delayed into 2017/18. At quarter one, it is forecast that one carry forward will not be spent. This relates to the carry forward of £20k for the migration of the NHDC building control service onto the single IT platform of the Hertfordshire Building Control trading company. Hertsmere Borough Council were able to fund this through their existing budgets, so NHDC have not been asked to contribute to the cost of this work and the carry forward budget is not required. The impact of this on the General Fund forecast for 2017/18 is included within the 'other minor balances' total in table 2 above. All other carry forward budgets are expected to be spent in 2017/18.

- 8.5 There are 4 key corporate 'financial health' indicators identified in relation to key sources of income for the Council. Table 3 below shows the income to date and forecasts 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 they are forecast to match or exceed the budgeted level of income. An amber indicator means that there is a risk that they will not meet the budgeted level of income. A red indicator means that they will not meet the budgeted level of income. Currently all the indicators are green.

Table 3- Corporate financial health indicators

Indicator	Status	Original Budget £k	Actual income to date £k	Forecast income for the year £k	Projected Variance £k
Planning Application Fees (including fees for pre-application advice)	Green	(683)	(358)	(775)	(92)
Land Charges	Green	(174)	(40)	(174)	0
Car Parking Fees	Green	(1,813)	(427)	(1,813)	0
Parking Penalty Charge Notices	Green	(410)	(156)	(532)	(121)

FUNDING, RISK AND GENERAL FUND BALANCE

- 8.6 The Council's revenue budget is funded from the following main sources; Council Tax, New Homes Bonus, Retained Business Rates and Revenue Support Grant. The Council was notified by Central Government in February of the respective amounts of New Homes Bonus and Revenue Support Grant funding it can expect to receive in 2017/18 and has planned accordingly.
- 8.7 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 others (e.g. County Council). Each organisation has a share of the balance on the Collection Fund account. Both are affected by collection rates, which is the proportion of what is billed that is actually received. Business Rates are heavily affected by appeals and reliefs. Business rates are based on a rateable value that is calculated by the Valuation Office Agency and some businesses have been able to show that this value is incorrect and appeal against it. The amount that is refunded as a result of a successful appeal can go back a number of years. Central Government have implemented a number of reliefs to reduce the burden of business rates and therefore promote business growth. The Council receives compensation for these reliefs in the form of a grant, which goes in to our funds rather than the Collection Fund. We are holding this amount in a reserve.
- 8.8 The actual deficit incurred on the Business Rates Collection Fund for 2016/17 was £820k. The required contribution to the Collection Fund from the General Fund in 2017/18 is however based on the estimated deficit for 2016/17 of £741k calculated as at January 2017 and declared in the Business Rates return to Central Government. This contribution is funded from the grant held in reserve. The £79k difference between the actual deficit and the January estimate is included in the calculation of the estimated surplus/deficit for the current year 2017/18. The corresponding additional contribution required to the Collection Fund from the General Fund will therefore be made in 2018/19.
- 8.9 In 2016/17 grant was transferred from the reserve to the General Fund equivalent to the actual deficit incurred for 2015/16 (rather than the estimate submitted in January 2016). This transfer was £368k greater than the contribution required to be made from the General Fund to the Collection Fund. This amount will therefore be deducted from the

transfer from reserve to fund the £741k contribution (as referred to above) required in 2017/18. This ensures that the drawdown from reserve over the two years is equivalent to the contribution required for 2016/17 and 2017/18.

- 8.10 Current forecasts for 2017/18 are that there will be a surplus on our share of Council Tax of approximately £260k and a deficit on Business Rates of around £115k. Use of the amount held in the reserve, currently projected to be £374k at the end of the year, should mitigate the impact on the General Fund balance in 2018/19 of the contribution to the Collection Fund to cover the Business Rates deficit recorded for 2017/18.
- 8.11 The Council is also subject to a business rates levy from Central Government as it is expected that NHDC will collect more in business rates than the baseline need determined by Central Government. The estimated levy required is currently forecast to be £600k. The payment of the levy will be funded from the grant held in reserve. NHDC and the other authorities that previously formed the Hertfordshire Business Rates pool are currently reviewing whether reforming a pool for financial year 2018/19 would be financially worthwhile (if the option continues to be available).
- 8.12 The projection of the level of business rates income retained by the Council in 2017/18 at the start of the year was based on the Council's business rates funding baseline need, as published annually by central government in the Local Government Finance Settlement. The baseline need is approximately the minimum that the Council can expect to retain from the total of business rates collected. At quarter one this forecast has been updated to reflect the Council's estimate of business rates income in 2017/18 (as declared to central government in January 2017) with the result being an increase of £362k in the funding expectation.
- 8.13 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 2). 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 £795k, and by the end of quarter one a total of £144k have come to fruition. The three identified risks realised in the first quarter relate to;
- Lower than anticipated income from Hitchin Town Hall due to the delay to the opening of the North Herts Museum and Cafe (as detailed in table 2). £42k
 - Failure to meet projected Careline sales income as a result of the loss of a corporate client (as detailed in table 2) £96k
 - Planning consultant costs incurred in responding to an appeal made against a planning application decision (included within 'other minor balances' in table 2) £6k

Table 4 – Known financial risks

	£'000
Original allowance for known financial risks	795
Known financial risks realised in quarter 1	(144)
Allowance for known financial risks remaining	651

8.14 Table 5 below summarises the impact on the general fund.

Table 5 – Forecast General Fund impact

	Working Budget £k	Q1 Projected Outturn £k	Difference £k
Brought Forward balance (1st April 2017)	(8,235)	(8,235)	-
Projected Net Spend	17,022	17,230	208
Funding (Council Tax, Business Rates, RSG)	(15,188)	(15,556)	(368)
Contribution to Collection Fund	0	741	741
Funding from Reserves (including Business Rate Relief Grant)	0	(373)	(373)
Carried Forward balance (31st March 2018)	(6,401)	(6,193)	208

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. 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.

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.

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 an unplanned overspend 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. HUMAN RESOURCE IMPLICATIONS

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

15. APPENDICES

- 15.1 None.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

- 17.1 Budget Estimate Book 2017/18.
- 17.2 Statement of Accounts 2016/17.

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FINANCE, AUDIT & RISK COMMITTEE

21 SEPTEMBER 2017

PART 1 – PUBLIC DOCUMENT

AGENDA ITEM No.

13

The following is the report to be considered by Cabinet at its meeting to be held on 26 September 2017. The Committee is invited to comment on the report.

TITLE OF REPORT: FIRST QUARTER CAPITAL MONITORING 2017/18

REPORT OF: THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

EXECUTIVE MEMBER: CLLR JULIAN CUNNINGHAM

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 To update Cabinet on progress with delivering the capital programme for 2017/18, as at the end of June 2017, indicating its impact upon the approved capital programme for 2018/19 - 2020/21. The current estimate is a decrease in spend in 2017/18 from that reported in the Capital Programme Outturn report for 2016/17 of £5.494 million, and an increase in spend in future years of £5.234 million. The most significant individual change is that the Council was not granted permission from DCLG to make a Capitalised Pension Fund Contribution.

2. RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of **£15.096million** in 2017/18 on the capital programme, paragraph 8.2 refers, and approves the changes detailed in table 3 which resulted in a net decrease on the working estimate of **£0.260million**.
- 2.2 That Cabinet notes the changes to the capital programme for 2018/19 and onwards as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2018/19 by **£5.234million** (re-profiled from 2017/18). These will be incorporated in to the draft capital programme for 2018/19 onwards.
- 2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 4, and the requirement to keep the capital programme under review for affordability.

3. REASONS FOR RECOMMENDATIONS

- 3.1 Cabinet is required to approve revisions to the capital programme.
- 3.2 Cabinet is required to ensure that the capital programme is fully funded.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Options for capital investment are considered as part of the Corporate Business Planning process.

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.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 27th June 2017.

7. BACKGROUND

- 7.1 In February 2017, Council approved the capital programme for 2017/18 to 2020/21. This was subsequently amended by reprogramming from 2016/17.
- 7.2 The Medium Term Financial Strategy for 2017 to 2022 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.

8. RELEVANT CONSIDERATIONS

Capital Programme 2017/18

- 8.1 Summaries of the capital programme by Council priority and service are shown in appendix A together with the overall funding analysis and projected availability of capital funding balances (set aside and capital receipts). The full programme is detailed in Appendix B and shows the revised costs to date, together with the expected spend from 2017/18 to 2020/21 and the funding source for each capital scheme.
- 8.2 Capital expenditure for 2017/18 is estimated to be **£15.096million**. This is a reduction of **£5.494million** on that forecast in the 2016/17 Capital Programme Outturn report (reported to Cabinet on 13th June 2017). The decrease in spend in 2017/18 is largely due to re-profiling spend into future years. Table 1 below details changes to capital programme.

Table 1- Current Capital Estimates

	2017/18 £M	2018/19 £M	2019/20 to 2020/21 £M
Original Estimates approved by Full Council February 2017	8.465	4.788	3.197
Changes approved by Cabinet in 2016/17 Capital Outturn report	12.125	-0.365	0.025
Revised Capital estimates at start of 2017/18	20.590	4.423	3.222
Changes detailed in this report	-5.494	5.234	0

	2017/18 £M	2018/19 £M	2019/20 to 2020/21 £M
Current Capital Estimates at Q1	15.096	9.657	3.222

8.3 Table 2 lists changes to the 2017/18 Capital Programme and the impact in subsequent years:

Table 2: Scheme Timetable Revision:

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

Scheme	2017/18 Working Budget £'000	2017/18 Forecast Spend £'000	Difference £'000	Reason for Difference	Estimated impact on 2018/19 onwards £'000
Pension Capitalisation	2,500	0	-2,500	This required approval from the Department for Communities and Local Government to grant a capitalisation request, where capital funding is used for what would usually be considered to be revenue purposes. When NHDC last made this type of application (3 years ago) it was granted. This time the application was denied on the basis that our reserves would still be above the minimum level at the end of 2020/21. Officers will continue to seek a change in the decision, and can also look at using the Capital Receipts Direction when sufficient capital receipts are generated.	2,500
Community Facilities Refurbishment	586	200	-386	Revised estimate is based on a forecast of the number of applications in each year and the time lag between the grant being approved and costs being incurred.	386
Provide Housing at Market Rents through NHDC Property Company	550	200	-350	Spend in 17/18 likely to be on the renovation of existing properties only. Property purchases will be made in future years.	350
Cycle Strategy Implementation	278	0	-278		278
Transport Plans Implementation	209	0	-209		209
Green Infrastructure Improvements	185	0	-185		185
Property Improvements	640	380	-260	Some of the works identified from condition surveys are no longer required as some buildings have or are being	260

Scheme	2017/18 Working Budget £'000	2017/18 Forecast Spend £'000	Difference £'000	Reason for Difference	Estimated impact on 2018/19 onwards £'000
				reprioritised in how they are managed, e.g. disposal, full repairing leases, possible future change of use. The overall list of condition survey works still requires the full budget allocation.	
Trial Installation of On Street Charging	50	0	-50		50
Roll Out of On Street Parking Charging Pay & Display	235	0	-235		235
Hitchin Swim Centre Car Park	276	50	-226	The revised spend profile is based on a parking survey being undertaken, the Council being successful with the Public Enquiry, the appointment of consultants to finalise the design and produce tender documents, with an aim to undertake the work next financial year.	226
Bancroft Recreation Ground MUGA	170	0	-170	This project is dependent on external funding, which is unlikely to be secured until the next financial year.	170
Lairage Multi Storey Structural Repairs	126	6	-120	A Structural Engineer is currently performing monitoring works to ascertain the level of work required.	120
Walsworth Common Pitch Improvements	103	0	-103	This project is dependent on S106 funding, which is unlikely to be received until late 2017/18.	103
Off Street Car Parks Resurfacing	151	60	-91	A condition survey of car parks is currently being undertaken to establish the extent of works needed over the next several years.	91
Royston Civic Centre Redevelopment	41	0	-41	No longer needed for this project. Given that there has been no further action in developing this site, and the project is GAF funded, it is requested that this resource is reallocated to the Transport Plans budget given that there are likely to be projects emerging from these in the near future.	41
Walsworth Common Car Park	30	0	-30	These works cannot commence until after the bridge has been repaired and the pitch has been finished	30

Scheme	2017/18 Working Budget £'000	2017/18 Forecast Spend £'000	Difference £'000	Reason for Difference	Estimated impact on 2018/19 onwards £'000
Other minor changes			0		0
Total Revision to Budget Profile			-5,234		5,234

8.4 There are also changes to the overall costs of schemes in 2017/18. These changes total a net reduction of £0.260million and are detailed in Table 3:

Table 3: Changes to Capital Schemes Commencing in 2017/18:

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

Scheme	2017/18 Working Budget £'000	2017/18 Forecast Spend £'000	Difference £'000	Comments
Storage Facilities at Works Road	185	40	-145	Resource no longer needed. IT works to the property will be funded from the Disaster Recovery Capital budget
Refurbishment of DCO	5,105	5,225		
Careline refurbishment costs (Harkness Court)	43			
Warren Car Park Redevelopment	100	0	-100	Resource no longer needed. This budget was identified in case we wished to pursue a multi-storey car park if the civic centre site was developed and the car parking spaces were reduced. There has been little/no appetite for progressing development on the civic centre site.

Scheme	2017/18 Working Budget £'000	2017/18 Forecast Spend £'000	Difference £'000	Comments
Letchworth Multi Storey Car Park Enhancement	70	0	-70	Budget remaining after the completion of the enhancements to the multi-storey car park.
Dog / Litter Bins	0	40	40	Outturn represents the purchase of 80 new Litter Bins following the removal of 175 Dog Bins. This will result in a revenue saving on the emptying of Dog Bins.
Trip Hazards Hitchin Town Centre	25	0	-25	These works will be funded from the General Fund.
Other minor changes			-37	
Total revision to scheme spend			-260	

Capital Programme 2017/18 Funding onwards

8.5 Table 4 below shows how the Council will fund the 2017/18 capital programme.

Table 4: Funding the Capital Programme:

	2017/18 Balance at start of year £M	2017/18 Forecast Additions £M	2017/18 Estimated Use of Funding £M	2017/18 Forecast Balance at end of year £M
Useable Capital Receipts	3.221	1.040	(2.406)	1.855
Set-aside Receipts	16.642		(11.380)	5.262
<i>S106 receipts</i>			(0.565)	
<i>Other third party grants and contributions</i>			(0.745)	
Total	19.863	1.040	(15.096)	7.117

8.6 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.

9. LEGAL IMPLICATIONS

9.1 Cabinet's terms of reference specifically include "to monitor expenditure on the capital programme". 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 Asset disposals must be handled in accordance with the Council's Contract Procurement Rules.

10. FINANCIAL IMPLICATIONS

- 10.1 The main financial implications are covered in section 8 of the report.
- 10.2 The Authority operates a 10% tolerance limit on capital projects and on this basis over the next four-year programme it should be anticipated that the total spend over the period could be £2.797million higher than the estimated £27.974million.
- 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. A cash balance of £1.0million currently earns the Authority approximately £8k per year in interest. The general fund estimates are routinely updated to reflect the reduced income from investments as cash balances reduce. When the Capital Financing Requirement (CFR) reaches zero the Council will need to consider borrowing for further capital spend and will need to start charging a minimum revenue provision to the general fund for the cost of capital. The CFR at the 31 March 2017 is negative £17million.
- 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 Covalent (the Council's Performance & Risk management software). Some of the major capital projects have been included as the Council's Top Risks (such as the new North Hertfordshire Museum). The Top Risks are monitored by the Finance, Audit and Risk Committee.
- 11.2 Cabinet receives quarterly reports on project progress and forecast spend

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 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 Cabinet agreement of the investment. A sound management of funds ensures that the Council has sufficient monies to support the improvement of district facilities.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 As the recommendations made in this report do not constitute a public service contract, the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied, although equalities implications and opportunities are identified in the relevant section at paragraphs 12. Any individual

capital scheme which is subject to the award of a public service contract will be evaluated in terms of its social value through the Council's procurement processes.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource implications.

15. APPENDICES

- 15.1 Appendix A - Capital Programme Summary 2017/18 onwards.
Appendix B - Capital Programme Detail including Funding 2017/18 onwards.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

- 17.1 2017/18 Budget Estimates Book.
<https://www.north-herts.gov.uk/sites/northherts-cms/files/Budget%20Estimates%20Book%202017-18%20Final%20for%20internet.pdf>

By Council Priority**APPENDIX A**

Priority	2016/17 Outturn £	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Attractive & Thriving	2,105,700	4,962,700	3,482,800	-1,479,900	1,555,100	0	300,000
Prosper & Protect	1,041,900	2,053,400	1,046,400	-1,007,000	3,911,000	150,000	0
Responsive & Efficient	2,538,400	13,573,800	10,566,500	-3,007,300	4,191,000	1,677,600	1,094,000
Grand Total	5,686,000	20,589,900	15,095,700	-5,494,200	9,657,100	1,827,600	1,394,000

By Service Group

Service Group	2016/17 Outturn £	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Advances & Cash Incentives	0	548,000	548,000	0	548,000	0	0
Asset Management	1,395,400	6,787,400	6,084,500	-702,900	3,210,000	150,000	0
Building Control	0	0	0	0	0	0	0
CCTV	69,500	60,000	60,000	0	0	0	0
Community Services	427,500	689,200	318,200	-371,000	636,000	250,000	120,000
Computer Software and Equipment	409,500	316,600	259,700	-56,900	100,000	537,600	84,000
Corporate Items	2,100	2,510,600	10,600	-2,500,000	2,500,000	0	0
Growth Fund Projects	0	672,000	0	-672,000	713,000	0	0
Leisure Facilities	1,965,500	3,218,900	2,731,800	-487,100	648,900	85,000	385,000
Museum & Arts	715,000	156,900	148,600	-8,300	0	0	0
Parking	124,700	1,084,300	529,300	-555,000	496,200	0	0
Renovation & Reinstatement Grant Expenditur	544,300	805,000	805,000	0	805,000	805,000	805,000
Town Centre Enhancement	0	141,000	0	-141,000	0	0	0
Waste collection	32,500	3,600,000	3,600,000	0	0	0	0
Waste Disposal	0	0	0	0	0	0	0
Grand Total	5,686,000	20,589,900	15,095,700	-5,494,200	9,657,100	1,827,600	1,394,000

Capital Funding Source

Funding Source	2015/16 Funding £	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Receipt	2,328,100	3,570,500	2,406,400	-1,164,100	3,528,400	974,200	122,000
Drawdown of cash investments	2,184,600	14,795,600	11,379,540	-3,416,060	4,478,000	199,600	331,200
Government Grant	520,200	1,508,000	745,000	-763,000	1,416,800	653,800	653,800
IT Reserve	0	0	0	0	0	0	0
Other Capital Contributions	196,100	163,000	0	-163,000	163,000	0	250,000
Revenue Contribution	0	0	0	0	0	0	0
S106 Funding	457,000	552,800	564,760	11,960	70,900	0	37,000
Grand Total	5,686,000	20,589,900	15,095,700	-5,494,200	9,657,100	1,827,600	1,394,000

Capital Receipt Analysis

	2016/17 Outturn £	2017/18 Working Budget £	2017/18 Revised Funding £		2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
B/fwd Capital Receipt Funding	-5,461,900	-3,221,172	-3,221,172		-1,854,772	-726,372	-1,502,172
Add: Capital Receipts Received in Year	-87,372	-1,040,000	-1,040,000	0	-2,400,000	-1,750,000	-500,000
Less: Capital Receipts Used in Year	2,328,100	3,570,500	2,406,400	-1,164,100	3,528,400	974,200	122,000
C/Fwd Capital Receipt Funding	-3,221,172	-690,672	-1,854,772	-1,164,100	-726,372	-1,502,172	-1,880,172

Set-Aside Receipts Analysis

	2016/17 Outturn £	2017/18 Working Budget £	2017/18 Revised Funding £		2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
B/fwd Set-Aside Receipt Funding	-18,827,000	-16,642,400	-16,642,400		-5,262,860	-784,860	-585,260
Set-Aside Receipts Received in Year	0	0	0	0	0	0	0
Set -Aside Receipts Used in Year	2,184,600	14,795,600	11,379,540	-3,416,060	4,478,000	199,600	331,200
C/Fwd Set-Aside Receipt Funding	-16,642,400	-1,846,800	-5,262,860	-3,416,060	-784,860	-585,260	-254,060

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Project	Funding Source	2016/17 Outturn Funding £	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Revised Funding £	2019/20 Revised Funding £	2020/21 Revised Funding £
40 KVA UPS Device or Battery Replacement								
	Capital Receipt	0	0	0	0	0	7,000	0
	Drawdown of cash investments	0	20,000	0	-20,000	0	0	0
40 KVA UPS Device or Battery Replacement Total		0	20,000	0	-20,000	0	7,000	0
Additional PC's - Support Home Working/OAP								
	Capital Receipt	0	0	0	0	0	13,000	0
	Drawdown of cash investments	0	13,000	13,000	0	0	0	0
Additional PC's - Support Home Working/OAP Total		0	13,000	13,000	0	0	13,000	0
Additional Storage								
	Capital Receipt	0	0	0	0	0	13,000	0
	Drawdown of cash investments	0	12,000	12,000	0	0	0	0
Additional Storage Total		0	12,000	12,000	0	0	13,000	0
Alternative to safeword tokens for staff/members working remotely								
	Capital Receipt	0	0	0	0	0	8,000	0
Alternative to safeword tokens for staff/members working remotely Total		0	0	0	0	0	8,000	0
Area Visioning								
	Drawdown of cash investments	4,600	26,400	26,400	0	0	0	0
Area Visioning Total		4,600	26,400	26,400	0	0	0	0
Back-up Diesel 40 KVA Generator (DCO)								
	Capital Receipt	0	0	0	0	0	20,000	0
Back-up Diesel 40 KVA Generator (DCO) Total		0	0	0	0	0	20,000	0
Baldock Road Recreation Grounds								
	Capital Receipt	62,300	0	0	0	0	0	0
Baldock Road Recreation Grounds Total		62,300	0	0	0	0	0	0
Baldock Town Hall project								
	Drawdown of cash investments	13,200	76,800	74,500	-2,300	0	0	0
	S106 Funding	0	0	2,300	2,300	0	0	0
Baldock Town Hall project Total		13,200	76,800	76,800	0	0	0	0
Bancroft Gardens Play Area								
	Capital Receipt	12,800	2,200	2,200	0	0	0	0
	S106 Funding	8,300	51,700	51,700	0	0	0	0
Bancroft Gardens Play Area Total		21,100	53,900	53,900	0	0	0	0
Bancroft Recreation Ground, Hitchin, Multi Use Games Area (MUGA)								
	Capital Receipt	0	24,100	0	-24,100	24,100	0	0
	Other Capital Contributions	0	80,000	0	-80,000	80,000	0	0
	S106 Funding	0	65,900	0	-65,900	65,900	0	0
Bancroft Recreation Ground, Hitchin, Multi Use Games Area (MUGA) Total		0	170,000	0	-170,000	170,000	0	0
Burymead Road - new roof waterproofing system								
	Drawdown of cash investments	51,200	10,300	2,000	-8,300	0	0	0
Burymead Road - new roof waterproofing system Total		51,200	10,300	2,000	-8,300	0	0	0
Butts Close renovation, Hitchin								
	Capital Receipt	3,700	0	0	0	0	0	0
	S106 Funding	14,200	0	0	0	0	0	0
Butts Close renovation, Hitchin Total		17,900	0	0	0	0	0	0
Cabinet Switches - 4 Floors								
	Drawdown of cash investments	0	15,000	15,000	0	18,000	0	0
Cabinet Switches - 4 Floors Total		0	15,000	15,000	0	18,000	0	0
Capitalised Pension Fund Contribution								
	Drawdown of cash investments	0	2,500,000	0	-2,500,000	2,500,000	0	0
Capitalised Pension Fund Contribution Total		0	2,500,000	0	-2,500,000	2,500,000	0	0
Careline Call Handling Hardware and Software								
	Capital Receipt	0	4,600	4,600	0	0	0	0
Careline Call Handling Hardware and Software Total		0	4,600	4,600	0	0	0	0
Careline Community Alarms								
	Drawdown of cash investments	3,200	0	0	0	0	0	0
Careline Community Alarms Total		3,200	0	0	0	0	0	0
CCTV cameras from tilt to dome mechanism								
	Capital Receipt	2,700	0	0	0	0	0	0
CCTV cameras from tilt to dome mechanism Total		2,700	0	0	0	0	0	0
Channel shift - processing of housing register applications								
	Drawdown of cash investments	0	20,000	20,000	0	20,000	0	0
Channel shift - processing of housing register applications Total		0	20,000	20,000	0	20,000	0	0
Construction of pathway and roadway, Wilbury Hills Cemetery, Letchworth								
	Capital Receipt	0	0	0	0	35,000	0	0
Construction of pathway and roadway, Wilbury Hills Cemetery, Letchworth Total		0	0	0	0	35,000	0	0
Core Backbone Switch								
	Capital Receipt	10,100	0	0	0	0	20,000	0
	Drawdown of cash investments	0	0	0	0	17,000	0	0
Core Backbone Switch Total		10,100	0	0	0	17,000	20,000	0
Council property improvements following condition surveys								
	Capital Receipt	260,000	340,000	380,000	40,000	0	0	0
	Drawdown of cash investments	0	300,000	0	-300,000	560,000	0	0
Council property improvements following condition surveys Total		260,000	640,000	380,000	-260,000	560,000	0	0
Customer Relationship Manager software v8								
	Capital Receipt	1,000	0	0	0	0	0	0
Customer Relationship Manager software v8 Total		1,000	0	0	0	0	0	0

Project	Funding Source	2016/17 Outturn Funding £	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Revised Funding £	2019/20 Revised Funding £	2020/21 Revised Funding £
Customer Self Serve Module								
	Capital Receipt	0	3,000	3,000	0	0	0	0
Customer Self Serve Module Total		0	3,000	3,000	0	0	0	0
Cycle Strategy implementation (GAF)								
	Government Grant	0	278,000	0	-278,000	278,000	0	0
Cycle Strategy implementation (GAF) Total		0	278,000	0	-278,000	278,000	0	0
Dell Servers								
	Capital Receipt	0	0	0	0	0	65,000	0
Dell Servers Total		0	0	0	0	0	65,000	0
Demolish 4 disused tennis courts and landscape to grass and planted area at Bancroft Recreation Ground, Hitchin								
	Capital Receipt	35,000	0	0	0	0	0	0
	Drawdown of cash investments	3,200	0	0	0	0	0	0
Demolish 4 disused tennis courts and landscape to grass and planted area at Bancroft Recreation Ground, Hitchin Total		38,200	0	0	0	0	0	0
Demolition of Bancroft Hall								
	Drawdown of cash investments	44,800	0	0	0	0	0	0
Demolition of Bancroft Hall Total		44,800	0	0	0	0	0	0
Dog / Litter Bins								
	Capital Receipt	0	0	40,000	40,000	0	0	0
Dog / Litter Bins Total		0	0	40,000	40,000	0	0	0
DR Set-up								
	Capital Receipt	42,100	0	0	0	0	25,000	0
	Drawdown of cash investments	0	47,400	47,400	0	0	0	0
DR Set-up Total		42,100	47,400	47,400	0	0	25,000	0
EA Agreement (MS EA)								
	Capital Receipt	90,000	0	0	0	0	0	0
	Drawdown of cash investments	145,400	0	0	0	0	199,600	0
EA Agreement (MS EA) Total		235,400	0	0	0	0	199,600	0
Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract								
	Capital Receipt	0	39,000	29,000	-10,000	0	0	0
	Drawdown of cash investments	0	0	0	0	0	0	39,000
Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract Total		0	39,000	29,000	-10,000	0	0	39,000
Email Encryption Software Solution								
	Capital Receipt	31,100	13,900	0	-13,900	0	0	0
	Drawdown of cash investments	0	0	0	0	0	0	45,000
Email Encryption Software Solution Total		31,100	13,900	0	-13,900	0	0	45,000
Energy efficiency measures								
	Drawdown of cash investments	0	60,000	60,000	0	0	0	0
Energy efficiency measures Total		0	60,000	60,000	0	0	0	0
Financial System upgrade - E-series								
	Drawdown of cash investments	3,700	0	0	0	0	0	0
Financial System upgrade - E-series Total		3,700	0	0	0	0	0	0
Grange Recreation Ground Improvements								
	Capital Receipt	12,400	0	0	0	0	0	0
	S106 Funding	2,800	0	0	0	0	0	0
Grange Recreation Ground Improvements Total		15,200	0	0	0	0	0	0
Green Infrastructure implementation (GAF)								
	Government Grant	0	185,000	0	-185,000	185,000	0	0
Green Infrastructure implementation (GAF) Total		0	185,000	0	-185,000	185,000	0	0
Hitchin Multi Storey Safety and Equalities Act improvements								
	Drawdown of cash investments	0	40,000	40,000	0	0	0	0
Hitchin Multi Storey Safety and Equalities Act improvements Total		0	40,000	40,000	0	0	0	0
Hitchin Outdoor Pool Showers and Toilets								
	Drawdown of cash investments	0	75,000	75,000	0	0	0	0
Hitchin Outdoor Pool Showers and Toilets Total		0	75,000	75,000	0	0	0	0
Hitchin Swim Centre - small paddling pool resurfacing								
	Drawdown of cash investments	500	0	0	0	0	0	0
Hitchin Swim Centre - small paddling pool resurfacing Total		500	0	0	0	0	0	0
Hitchin Swimming Centre Lift								
	Drawdown of cash investments	0	100,000	100,000	0	0	0	0
Hitchin Swimming Centre Lift Total		0	100,000	100,000	0	0	0	0
Hitchin Swimming Pool Car Park extension								
	Capital Receipt	2,500	275,900	50,000	-225,900	225,900	0	0
Hitchin Swimming Pool Car Park extension Total		2,500	275,900	50,000	-225,900	225,900	0	0
Improvements to fixing systems to glazed walkway, Lairage Car Park, Hitchin								
	Drawdown of cash investments	56,900	0	0	0	0	0	0
Improvements to fixing systems to glazed walkway, Lairage Car Park, Hitchin Total		56,900	0	0	0	0	0	0
Infrastructure: Back-Up Diesel 40 KVA Generator DCO								
	Capital Receipt	12,800	0	0	0	0	0	0
Infrastructure: Back-Up Diesel 40 KVA Generator DCO Total		12,800	0	0	0	0	0	0
Installation of trial on-street charging (GAF)								
	Government Grant	0	50,000	0	-50,000	50,000	0	0
Installation of trial on-street charging (GAF) Total		0	50,000	0	-50,000	50,000	0	0
Introduce a Traffic Regulation Order and Car park ticket machines into the 2 car parks at Norton Common								
	Capital Receipt	11,000	0	0	0	0	0	0

Project	Funding Source	2016/17 Outturn Funding £	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Revised Funding £	2019/20 Revised Funding £	2020/21 Revised Funding £
Introduce a Traffic Regulation Order and Car park ticket machines into the 2 car parks at Norton Common Total		11,000	0	0	0	0	0	0
Jackmans Central Play Area Renovation	Capital Receipt	0	75,000	75,000	0	0	0	0
Jackmans Central Play Area Renovation Total		0	75,000	75,000	0	0	0	0
Jackmans Creamery, Letchworth	Capital Receipt	23,400	0	0	0	0	0	0
Jackmans Creamery, Letchworth Total		23,400	0	0	0	0	0	0
John Barker Place, Hitchin	Drawdown of cash investments	0	277,600	277,600	0	548,000	0	0
	S106 Funding	0	270,400	270,400	0	0	0	0
John Barker Place, Hitchin Total		0	548,000	548,000	0	548,000	0	0
Lairage Multi-Storey Car Par - Structural wall repairs	Drawdown of cash investments	-2,400	125,700	5,700	-120,000	120,000	0	0
Lairage Multi-Storey Car Par - Structural wall repairs Total		-2,400	125,700	5,700	-120,000	120,000	0	0
Laptops - Refresh Programme	Drawdown of cash investments	0	0	0	0	6,000	0	0
Laptops - Refresh Programme Total		0	0	0	0	6,000	0	0
Letchworth Multi Storey Enhancements	Capital Receipt	0	70,000	0	-70,000	0	0	0
Letchworth Multi Storey Enhancements Total		0	70,000	0	-70,000	0	0	0
Letchworth Multi Storey Safety Edge Protection Fencing	Drawdown of cash investments	0	120,000	120,000	0	0	0	0
Letchworth Multi Storey Safety Edge Protection Fencing Total		0	120,000	120,000	0	0	0	0
Letchworth Multi Storey Structural Investigations	Drawdown of cash investments	0	39,400	39,400	0	0	0	0
Letchworth Multi Storey Structural Investigations Total		0	39,400	39,400	0	0	0	0
Letchworth Multi_storey Car Park - parapet walls, soffit & decoration	Capital Receipt	0	146,500	146,500	0	0	0	0
Letchworth Multi_storey Car Park - parapet walls, soffit & decoration Total		0	146,500	146,500	0	0	0	0
Letchworth multi-storey car park - lighting	Drawdown of cash investments	0	22,700	22,700	0	0	0	0
Letchworth multi-storey car park - lighting Total		0	22,700	22,700	0	0	0	0
Letchworth Outdoor Pool Showers and Toilets	Drawdown of cash investments	0	75,000	75,000	0	0	0	0
Letchworth Outdoor Pool Showers and Toilets Total		0	75,000	75,000	0	0	0	0
Making Good Trip Hazards, Hitchin Town Centre	Drawdown of cash investments	0	25,000	0	-25,000	0	0	0
Making Good Trip Hazards, Hitchin Town Centre Total		0	25,000	0	-25,000	0	0	0
Mandatory Disabled Facility Grants	Capital Receipt	0	0	0	0	91,200	91,200	24,000
	Drawdown of cash investments	0	0	0	0	0	0	67,200
	Government Grant	520,200	745,000	745,000	0	653,800	653,800	653,800
Mandatory Disabled Facility Grants Total	Mandatory Disabled Facility Grants	520,200	745,000	745,000	0	745,000	745,000	745,000
Mobile CCTV camera replacement	Drawdown of cash investments	66,800	0	0	0	0	0	0
Mobile CCTV camera replacement Total		66,800	0	0	0	0	0	0
New Blade Enclosure	Capital Receipt	0	0	0	0	0	32,000	0
New Blade Enclosure Total		0	0	0	0	0	32,000	0
NH Museum & Community Facility	Drawdown of cash investments	477,900	146,600	146,600	0	0	0	0
	Other Capital Contributions	185,900	0	0	0	0	0	0
NH Museum & Community Facility Total		663,800	146,600	146,600	0	0	0	0
North Herts Leisure Centre Development	Capital Receipt	1,408,900	1,024,900	1,024,900	0	0	0	0
	Drawdown of cash investments	0	897,300	831,740	-65,560	0	0	0
	S106 Funding	48,100	0	65,560	65,560	0	0	0
North Herts Leisure Centre Development Total		1,457,000	1,922,200	1,922,200	0	0	0	0
Norton Common Wheeled Sports improvements	S106 Funding	11,000	159,000	159,000	0	0	0	0
Norton Common Wheeled Sports improvements Total	Norton Common Wheeled Sports in	11,000	159,000	159,000	0	0	0	0
Off Street Car Parks resurfacing and enhancement	Capital Receipt	68,800	151,200	60,000	-91,200	91,200	0	0
Off Street Car Parks resurfacing and enhancement Total		68,800	151,200	60,000	-91,200	91,200	0	0
PC's - Refresh Programme	Capital Receipt	17,000	0	0	0	0	17,000	0
	Drawdown of cash investments	8,000	17,000	17,000	0	17,000	0	0
PC's - Refresh Programme Total		25,000	17,000	17,000	0	17,000	17,000	0
Permit gateway Citizen - to enable customers to renew permits on line	Capital Receipt	4,300	10,700	10,700	0	0	0	0
Permit gateway Citizen - to enable customers to renew permits on line Total		4,300	10,700	10,700	0	0	0	0
Pool filter refurb and UV system at North Herts Leisure Centre	Drawdown of cash investments	54,600	0	0	0	0	0	0
Pool filter refurb and UV system at North Herts Leisure Centre Total		54,600	0	0	0	0	0	0
Premises compliance enhancements								

Project	Funding Source	2016/17 Outturn Funding £	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Revised Funding £	2019/20 Revised Funding £	2020/21 Revised Funding £
	Drawdown of cash investments	-100	0	0	0	0	0	0
Premises compliance enhancements Total		-100	0	0	0	0	0	0
Private Sector Grants								
	Capital Receipt	24,100	60,000	60,000	0	60,000	60,000	0
	Drawdown of cash investments	0	0	0	0	0	0	60,000
Private Sector Grants Total		24,100	60,000	60,000	0	60,000	60,000	60,000
Provide housing at market rents								
	Capital Receipt	0	0	0	0	2,000,000	150,000	0
	Drawdown of cash investments	0	550,000	200,000	-350,000	650,000	0	0
Provide housing at market rents. Total		0	550,000	200,000	-350,000	2,650,000	150,000	0
Recording of Council Meetings								
	Capital Receipt	0	64,000	64,000	0	0	0	0
Recording of Council Meetings Total		0	64,000	64,000	0	0	0	0
Refurbishment and improvement of community facilities								
	Capital Receipt	0	586,000	200,000	-386,000	636,000	250,000	0
	Drawdown of cash investments	0	0	0	0	0	0	120,000
Refurbishment and improvement of community facilities Total		0	586,000	200,000	-386,000	636,000	250,000	120,000
Refurbishment of DCO								
	Drawdown of cash investments	613,200	5,105,000	5,225,000	120,000	0	0	0
Refurbishment of DCO Total		613,200	5,105,000	5,225,000	120,000	0	0	0
Refurbishment of Harkness Court								
	Capital Receipt	0	43,000	0	-43,000	0	0	0
Refurbishment of Harkness Court Total		0	43,000	0	-43,000	0	0	0
Relay concrete slabs that surround the Hitchin outdoor pool								
	Capital Receipt	24,600	35,400	35,400	0	0	0	0
Relay concrete slabs that surround the Hitchin outdoor pool. Total		24,600	35,400	35,400	0	0	0	0
Renew pathways at Bancroft Recreation Ground, Hitchin								
	Capital Receipt	0	50,000	50,000	0	0	0	0
Renew pathways at Bancroft Recreation Ground, Hitchin Total		0	50,000	50,000	0	0	0	0
Renovate play area Howard Park, Letchworth								
	Capital Receipt	0	0	0	0	0	0	75,000
Renovate play area Howard Park, Letchworth Total		0	0	0	0	0	0	75,000
Renovate play area King George V Recreation Ground, Hitchin								
	Capital Receipt	0	0	0	0	0	75,000	0
Renovate play area King George V Recreation Ground, Hitchin Total		0	0	0	0	0	75,000	0
Renovate play area, District Park, Gt. Ashby								
	Capital Receipt	0	0	0	0	75,000	0	0
Renovate play area, District Park, Gt. Ashby Total		0	0	0	0	75,000	0	0
Replace and enhance lighting at St Mary's Car Park								
	Drawdown of cash investments	0	60,000	60,000	0	0	0	0
Replace and enhance lighting at St Mary's Car Park Total		0	60,000	60,000	0	0	0	0
Replace items of equipment, Brook View, Hitchin								
	Capital Receipt	0	10,000	10,000	0	0	0	0
Replace items of equipment, Brook View, Hitchin Total		0	10,000	10,000	0	0	0	0
Replace items of play equipment Holroyd Cres, Baldock								
	Capital Receipt	0	0	0	0	0	0	10,000
Replace items of play equipment Holroyd Cres, Baldock Total		0	0	0	0	0	0	10,000
Replace items of play equipment Wilbury Recreation Ground, Letchworth								
	Capital Receipt	0	0	0	0	0	10,000	0
Replace items of play equipment Wilbury Recreation Ground, Letchworth Total		0	0	0	0	0	10,000	0
Replace items of play equipment, Chiltern Road, Baldock								
	Capital Receipt	0	0	0	0	10,000	0	0
Replace items of play equipment, Chiltern Road, Baldock Total		0	0	0	0	10,000	0	0
Replace main pool grating and overflow gullies at Hitchin Swim Centre								
	Capital Receipt	51,500	0	0	0	0	0	0
Replace main pool grating and overflow gullies at Hitchin Swim Centre Total		51,500	0	0	0	0	0	0
Replace seating at Hitchin Swimming Centre								
	Drawdown of cash investments	9,900	0	0	0	0	0	0
Replace seating at Hitchin Swimming Centre Total		9,900	0	0	0	0	0	0
Replacement of neighbourhood CCTV equipment								
	Capital Receipt	0	60,000	60,000	0	0	0	0
Replacement of neighbourhood CCTV equipment Total		0	60,000	60,000	0	0	0	0
Replacement of Walsworth Common Access Bridge								
	Drawdown of cash investments	5,500	179,500	179,500	0	0	0	0
Replacement of Walsworth Common Access Bridge Total		5,500	179,500	179,500	0	0	0	0
Replacement SAN								
	Capital Receipt	0	0	0	0	0	110,000	0
Replacement SAN Total		0	0	0	0	0	110,000	0
Royston Civic Centre Site redevelopment (GAF)								
	Government Grant	0	41,000	0	-41,000	0	0	0
Royston Civic Centre Site redevelopment (GAF) Total		0	41,000	0	-41,000	0	0	0

Project	Funding Source	2016/17 Outturn Funding £	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Revised Funding £	2019/20 Revised Funding £	2020/21 Revised Funding £
Rural Community Halls Grant Scheme								
	Other Capital Contributions	10,200	0	0	0	0	0	0
Rural Community Halls Grant Scheme Total		10,200	0	0	0	0	0	0
S106 Projects								
	S106 Funding	354,200	0	15,000	15,000	0	0	0
S106 Projects Total		354,200	0	15,000	15,000	0	0	0
Security - Firewalls								
	Drawdown of cash investments	0	10,000	10,000	0	14,000	0	0
Security - Firewalls Total		0	10,000	10,000	0	14,000	0	0
Serby Avenue Play Area renovation, Royston								
	Capital Receipt	67,200	7,800	7,800	0	0	0	0
Serby Avenue Play Area renovation, Royston Total		67,200	7,800	7,800	0	0	0	0
Server / Infrastructure Refresh								
	Capital Receipt	-4,200	0	0	0	0	0	0
Server / Infrastructure Refresh Total		-4,200	0	0	0	0	0	0
Smithsons Recreation Ground								
	Capital Receipt	5,900	0	1,800	1,800	0	0	0
	S106 Funding	18,400	0	0	0	0	0	0
Smithsons Recreation Ground Total		24,300	0	1,800	1,800	0	0	0
Software Asset Management								
	Capital Receipt	0	13,000	0	-13,000	0	0	0
Software Asset Management Total		0	13,000	0	-13,000	0	0	0
Software for personalised bills and annual billing								
	Capital Receipt	12,900	6,000	6,000	0	0	0	0
Software for personalised bills and annual billing. Total		12,900	6,000	6,000	0	0	0	0
Splash Park at Bancroft Recreation Ground								
	Drawdown of cash investments	28,300	10,900	10,900	0	0	0	0
	S106 Funding	0	800	800	0	0	0	0
Splash Park at Bancroft Recreation Ground Total		28,300	11,700	11,700	0	0	0	0
Splash Park at Priory Memorial, Royston								
	Drawdown of cash investments	45,000	15,000	15,000	0	0	0	0
Splash Park at Priory Memorial, Royston Total		45,000	15,000	15,000	0	0	0	0
SQL Licence Costs								
	Capital Receipt	25,000	0	0	0	0	0	0
SQL Licence Costs Total		25,000	0	0	0	0	0	0
St John's Chapel Hitchin, Re-roofing								
	Capital Receipt	200	0	0	0	0	0	0
St John's Chapel Hitchin, Re-roofing Total		200	0	0	0	0	0	0
St Mary's car park. Structural repairs to steps								
	Capital Receipt	1,400	23,800	35,000	11,200	0	0	0
St Mary's car park. Structural repairs to steps Total		1,400	23,800	35,000	11,200	0	0	0
Storage Facilities								
	Drawdown of cash investments	515,100	184,900	40,000	-144,900	0	0	0
Storage Facilities Total		515,100	184,900	40,000	-144,900	0	0	0
Tablets - Android Devices								
	Capital Receipt	7,100	500	500	0	0	8,000	0
	Drawdown of cash investments	0	7,500	7,500	0	8,000	0	0
Tablets - Android Devices Total		7,100	8,000	8,000	0	8,000	8,000	0
Telephony system								
	Drawdown of cash investments	2,100	10,600	10,600	0	0	0	0
Telephony system Total		2,100	10,600	10,600	0	0	0	0
Town Centre pay & display machines for on-street charging								
	Capital Receipt	0	235,000	0	-235,000	235,000	0	0
Town Centre pay & display machines for on-street charging Total		0	235,000	0	-235,000	235,000	0	0
Town Lodge - Various patch repairs to the roof								
	Drawdown of cash investments	1,500	0	0	0	0	0	0
Town Lodge - Various patch repairs to the roof Total		1,500	0	0	0	0	0	0
Transport Plans implementation (GAF)								
	Government Grant	0	209,000	0	-209,000	250,000	0	0
Transport Plans implementation (GAF) Total		0	209,000	0	-209,000	250,000	0	0
Ultra Violet water disinfection system								
	Capital Receipt	0	50,000	50,000	0	0	0	0
Ultra Violet water disinfection system Total		0	50,000	50,000	0	0	0	0
Walsworth Common Pavilion - contribution to scheme								
	Capital Receipt	0	0	0	0	0	0	13,000
	Other Capital Contributions	0	0	0	0	0	0	250,000
	S106 Funding	0	0	0	0	0	0	37,000
Walsworth Common Pavilion - contribution to scheme Total		0	0	0	0	0	0	300,000
Walsworth Common Pitch Improvements								
	Capital Receipt	0	15,000	0	-15,000	15,000	0	0
	Other Capital Contributions	0	83,000	0	-83,000	83,000	0	0
	S106 Funding	0	5,000	0	-5,000	5,000	0	0
Walsworth Common Pitch Improvements Total		0	103,000	0	-103,000	103,000	0	0
Walsworth Common Reconstruction of Car Park								
	Capital Receipt	0	30,000	0	-30,000	30,000	0	0
Walsworth Common Reconstruction of Car Park Total		0	30,000	0	-30,000	30,000	0	0
Warren Car Park redevelopment								
	Capital Receipt	0	100,000	0	-100,000	0	0	0
Warren Car Park redevelopment Total		0	100,000	0	-100,000	0	0	0
Waste and Street Cleansing Data Mgmt								
	Drawdown of cash investments	32,500	0	0	0	0	0	0
Waste and Street Cleansing Data Mgmt Total		32,500	0	0	0	0	0	0
Waste and Street Cleansing Vehicles								
	Drawdown of cash investments	0	3,600,000	3,600,000	0	0	0	0
Waste and Street Cleansing Vehicles Total		0	3,600,000	3,600,000	0	0	0	0

Project	Funding Source	2016/17 Outturn Funding £	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Revised Funding £	2019/20 Revised Funding £	2020/21 Revised Funding £
Westmill Community Centre Design Work								
	Capital Receipt	500	0	0	0	0	0	0
Westmill Community Centre Design Work Total		500	0	0	0	0	0	0
Grand Total	Grand Total	5,686,000	20,589,900	15,095,700	-5,494,200	9,657,100	1,827,600	1,394,000

FINANCE, AUDIT & RISK COMMITTEE 21 SEPTEMBER 2017

PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 14

The following is the report to be considered by Cabinet at its meeting to be held on 26 September 2017. The Committee is invited to comment on the report.

TITLE OF REPORT: TREASURY MANAGEMENT FIRST QUARTER 2017/18

REPORT OF: THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

EXECUTIVE MEMBER: CLLR JULIAN CUNNINGHAM

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 To inform Cabinet of the Treasury Management activities in the first quarter of 2017/18 to the end of June. The current forecast is that the amount of investment interest expected to be generated during the year is £0.327 million. This is an increase of £0.060 million on the original budget.
- 1.2 To inform Cabinet of the performance against the Prudential and Treasury indicators detailed in the appendix to this report. During the first quarter the Council has operated within the treasury and prudential indicators as set out in the Treasury Management Strategy Statement and in compliance with the Council's approved Treasury Management Practices.

2. RECOMMENDATIONS

- 2.1 Cabinet is asked to note the position of Treasury Management activity as at the end of June 2017.

3. REASONS FOR RECOMMENDATIONS

- 3.1 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 The primary principle governing the Council's investment criteria is the security of its investments, which includes credit, liquidity and market risk (see section 8 below). After this the return (or yield) is then considered, which provides an income source for the Council. The Council's appetite for risk is determined by the Treasury Strategy, which is reviewed each year. In general, greater returns can be achieved by taking on greater risk. Our current strategy has meant that we have been able to achieve a yield that is

above the average achieved by the Capita Hertfordshire and Buckinghamshire Investment Benchmarking Group.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 There is ongoing dialogue with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Capita).

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 27 June 2017.

7. BACKGROUND

- 7.1 Members adopted the 2017/18 Treasury Strategy at the meeting of full Council on the 9 February 2017.

- 7.2 Capita Asset Services Ltd were first contracted to provide Treasury advice for the financial year 2012/13 and this arrangement has been extended until 2017/18, taking advantage of a reduced annual contract cost. 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 the Technical Advisory Group.

8. RELEVANT CONSIDERATIONS

- 8.1 Appendix A provides the Treasury Management update at the end of the first quarter. This document contains economic background, an interest rate forecast and summary outlook provided by Capita for background context to Treasury activities. The remainder of the document contains an update on the Council's investment strategy.

- 8.2 In summary, during the first quarter the Council has operated within the treasury and prudential indicators as set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices.

- 8.3 The Council generated £0.088 million of interest during the first three months of 2017/18. The average interest rate agreed on new deals during the first quarter by Tradition was 1.0% and in house was 0.33%. The average interest rate on all outstanding investments at the 30 June was 1.09%.

- 8.4 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.

- 8.5 **Credit Risk** is the possibility that other parties fail to pay back amounts that have been invested by the Council. This risk is mitigated by assessing the counterparties with whom the Council invests. For banks and building societies that are credit rated by Fitch, they must have a rating greater than BBB. Where building societies do not have a credit rating, then the level of investment is assessed against the overall assets of

the institution. Due to the different risks that they are exposed to, the Council splits its investments between banks and building societies and can have a maximum of 75% invested in each.

- 8.6 The Council also invests with other Local Authorities and Public Corporations (when appropriate opportunities are available) and in Money Market Funds. Money Market Funds are limited to 25% of total investments. A Money Market Fund is a regulated, stand-alone pooled investment vehicle which actively invests its assets in a diversified portfolio of mainly high grade, short-term money market instruments.

- 8.7 As at 30 June the split of investments was:

Banks	32%
Building Societies	57%
Money Market Funds	11%

- 8.8 **Liquidity Risk** is the possibility that the Authority may not have funds available to meet its commitments to make payments.

- 8.9 Cash flow forecasts are prepared to determine the level of funds required to meet the day to day commitments with investments split between the Cash Manager and the In-House team. The In-House investments cover the day to day cash flow activity of the Council whilst the Cash Managers' investments take advantage of higher interest rates for longer term investments when they become available. The level of funds made available to the Cash Manager, currently a total balance of £28.5 million, is primarily determined by the level of expenditure on the Council's Capital programme. The average In-House balance of investments for the first three months was £15.2 million.

- 8.10 **Market Risk** is the possibility that financial loss might arise as a result of changes in interest rates.

- 8.11 Investing long term (greater than one year) currently achieves higher interest rates than short term deals. The risk of long term deals are two fold:

- (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.

- 8.12 Members have indicated that they are prepared to accept the market risk within the limits expressed in the Treasury Strategy, which allows up to 40% of investments to be invested for longer than 364 days at any one time. At the end of the first quarter the Council had 13.4% (£5.5 million) invested for longer than 364 days. During the first quarter Tradition placed four investments for longer than a year. Three were at 1.0% and the fourth was 1.1%.

- 8.13 The **return (or yield)** that the Council achieves is affected by both the level of risk as well as general market conditions. It continues to prove challenging to find acceptable counterparties willing to pay a reasonable return on cash investments, either long or short term. This issue is expected to continue during 2017/18 and beyond. This is emphasised by the Bank of England decision to keep base rate at 0.25% since August 2016, which resulted in a down turn in the level of return offered on cash investments.

- 8.14 The Council has a negative **Capital Financing Requirement** (CFR) of £16.6 million (as at 31st March 2017), which reflects that it has a high level of cash investments and

only £480k of borrowing. The Council currently only has historic borrowing which is not cost effective to repay early.

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.
- 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 The Prudential Indicators comply with the Local Government Act 2003.

10. FINANCIAL IMPLICATIONS

- 10.1 The amount of investment interest expected to be generated during the year is £0.327 million.
- 10.2 Potential options for inclusion in the Treasury Strategy are considered as and when identified. Any proposals to amend the Strategy are reported to Full Council, via Cabinet, for approval.

11. RISK IMPLICATIONS

- 11.1 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 dependant on banks and building societies need for borrowing. The introduction of the Funding for Lending Scheme which allows financial institutions access to low cost funding from Government for an extended period has impacted on their need to borrow and the rates at which they are prepared to borrow.

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 arising from this report.

13. SOCIAL VALUE IMPLICATIONS

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

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource or equality implications.

15. APPENDICES

15.1 Appendix A - Treasury Management Update June 2017.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

Treasury Strategy 2017/18.

CIPFA Prudential Code for Capital Finance in Local Authorities.

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Capita Treasury solutions

Treasury Management Update Quarter Ended 30 June 2017

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APPENDIX 1: Prudential and Treasury Indicators as at 30 June 2017 Error! Bookmark not defined.

Treasury Management Update

Quarter Ended 30 June 2017

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

1. Economic Background

The UK GDP annual growth rates in each calendar year 2013 – 2016 of 1.9%, 3.1%, 2.2% and 1.8%, have all been the top rate, or near top rate, of any of the G7 countries in every year. It is particularly notable that the UK performance was repeated in 2016, a year in which the Bank of England had forecast in August 2016 that growth would be near to zero in the second half of the year due to the economic shock it expected from the result of the Brexit referendum in June. However, it has had to change its mind and in its February and May 2017 Inflation Reports, the Bank upgraded its forecasts for growth (May Report - 2017 1.9%, 2018 and 2019 1.9%). However over these years, it also expects inflation to accelerate towards nearly 3% as increases in costs as a result of the fall in the value of sterling since the referendum, gradually feeds through into the economy, though it should fall back to 2.2% in 2019. Provided those cost pressures do not feed through into significantly higher domestically generated inflation within the UK, the MPC is expected to 'look through' this one off blip upwards in inflation. Wage inflation, which is a key driver of domestically generated price pressures, is currently subdued. There is, though, a potential risk that the MPC might muster a majority to reverse the emergency 0.25% rate cut before embarking on a progressive trend of increases in Bank Rate at a later time.

GDP growth in the US has been highly volatile in 2016 but overall mediocre, at an average of 1.6% for the year. Quarter 1 in 2017 has also been mediocre at 1.4% but current indications are that growth could rebound strongly in quarter 2. The disappointment so far has been the lack of decisive action from President Trump to make progress with his promised fiscal stimulus package. The Fed has, therefore, started on the upswing in rates now that the economy is at or around "full employment" and inflationary pressures have been building to exceed its 2% target. It has, therefore, raised rates four times, with the last three following quickly on one another in December 2016 and March and June 2017. One or two more increases are expected in 2017 and possibly four in 2018.

Growth in the EU improved in 2016, to 1.7%, after the ECB cut rates into negative territory and embarked on massive quantitative easing during the year. The ECB is now forecasting growth of 1.9% in 2017, 1.8% in 2018 and 1.7% in 2019. It has committed to continuing major monthly quantitative easing purchases of debt instruments, though in April 2017 it reduced the rate from €80bn per month to €60bn, to continue until the end of 2017, in order to stimulate growth and to get inflation up to its 2% target.

There are major concerns about various stresses within the EU; these could even have the potential to call into question the EU project. The Dutch and French elections passed off without creating any waves for the EU but we still have a national election in Germany on 22 October; this is not currently expected to cause any significant change. What could be more problematic is the general election in Austria on 15 October where a major front runner is the Freedom Party which is strongly anti-immigration and anti EU. There is also a risk of a snap general election in Italy before the final end possible date of 20 May 2018. A continuing major stress point is dealing with the unsustainable level of national debt in Greece in the face of implacable opposition from Germany to any further bail out. High levels of unemployment in some EU countries and the free movement of people within the EU,

together with the EU's fraught relationship with Turkey in controlling such people movements, are also major stress issues. On top of which the EU also now has to deal with Brexit negotiations with the UK.

China is expected to continue with reasonably strong growth, (by Chinese standards), of 6.5% in 2017. However, medium term risks are increasing. Japan has only achieved 1% growth in 2016 and is struggling to get inflation to move from around 0%, despite massive fiscal stimulus and monetary policy action by the Bank of Japan.

2. Interest Rate Forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August 2016 in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. However, since then, growth has been robust until dipping in quarter 1 of 2017 to 0.2%. Also, CPI inflation has risen substantially as a result of the sharp fall in the value of sterling since the referendum. Consequently, Bank Rate has not been cut again, and market concern has switched to whether the MPC could get together a majority to reverse the August emergency 0.25% rate cut before embarking on a progressive trend of increases in Bank Rate at a later time when the economic and political / Brexit situation is more robust to withstand such increases. There is much uncertainty at this time over the slender majority the Conservative Government has, which is dependent on DUP support, and also over what form of Brexit will transpire and how difficult the EU could be in setting terms. There are therefore a multiplicity of ifs and buts at the current time and depending on how things transpire, then this will materially influence MPC decision making as to when Bank Rate will rise.

Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after the Brexit negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2017/18, which includes the Annual Investment Strategy, was approved by the Council on 9th February 2017. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in higher rates in periods up to 24 months

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2017.

The average level of funds available for investment purposes in house during the quarter was **£15.2m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds **£28.5m** core cash balances for investment purposes (i.e. funds available for more than one year). The investment portfolio yield for the first 3 months of the year is 1.06%.

Investments at 30th June 2017

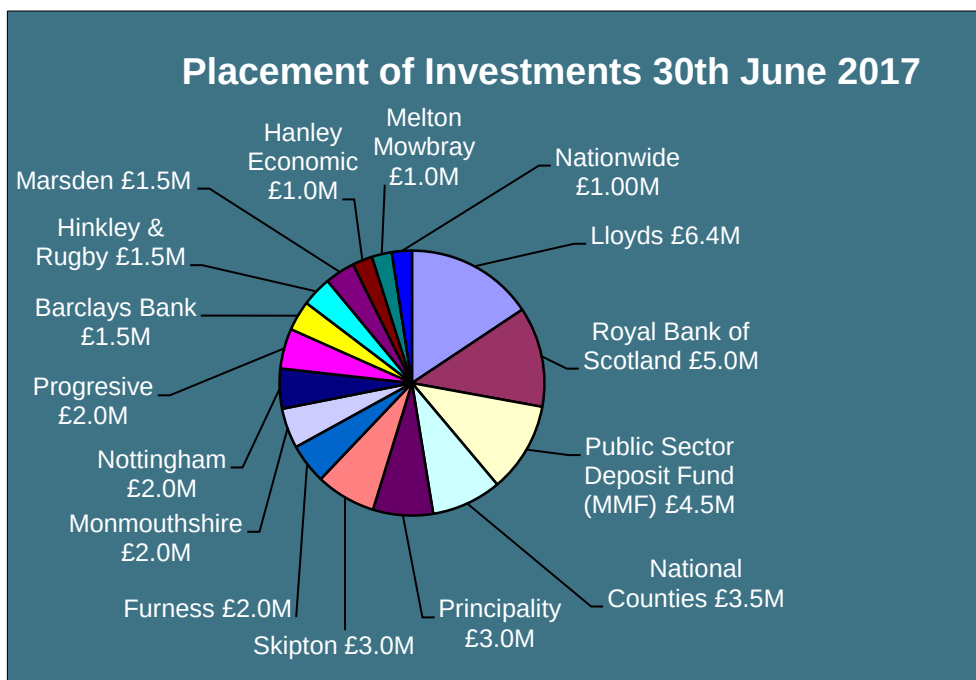
	Amount	Average
	£	Interest Rate %
Managed By NHDC		
Banks	7,900,000	0.61
Money Market Fund	4,500,000	0.30
NHDC To Total	12,400,000	0.57
Managed by Tradition		
Banks	5,000,000	0.97
Building Societies	23,500,000	1.15
Tradition Total	28,500,000	1.13
TOTAL	40,900,000	1.09

In percentage terms, this equates to:

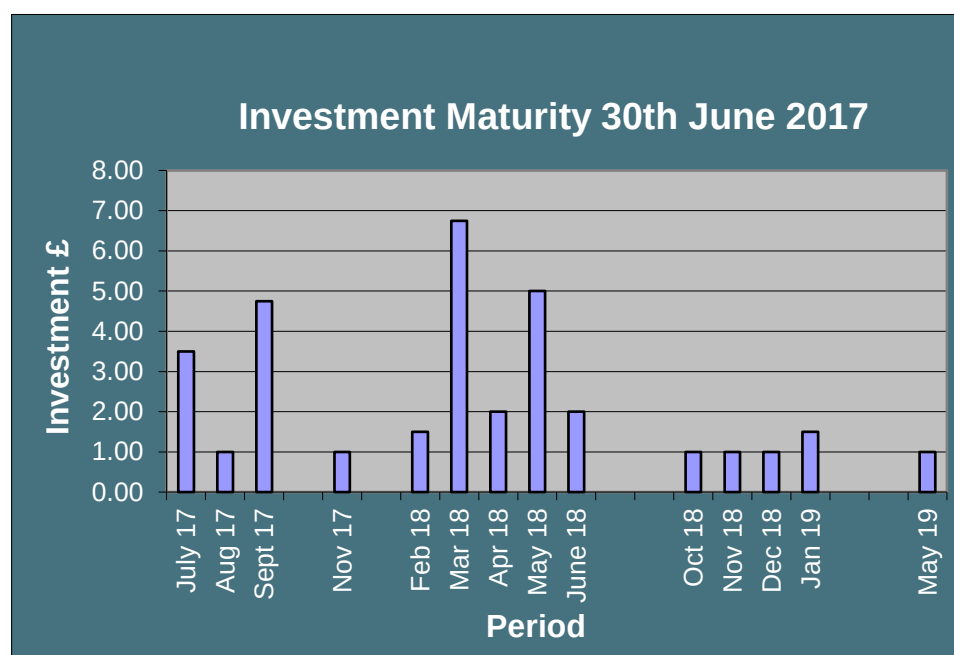
	Percentage
Money Market Funds	11.00
Banks	31.54
Building Societies	57.46

The approved 17/18 strategy is that no more than 75% of investments should be placed with Building Societies.

The pie chart below shows the spread of investment balances as at 30 June 2017. This is a snapshot in time that demonstrates the diversification of investments.

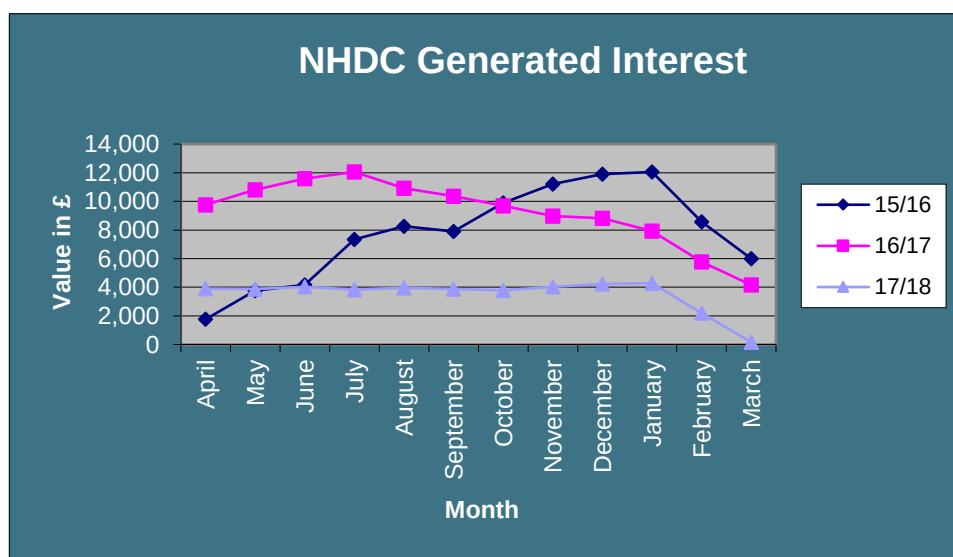


The chart below shows the Council's investment maturity profile. (This does not include the £4.5M held in the Public Sector Deposit Fund Money Market account or £3.4M held in the Lloyds current account which can be called back on any day). Tradition placed six new deals in the first quarter, four of which were for longer than a year. Of these four deals, three were at 1.0% and the fourth at 1.1%.



The Council's Original budgeted investment return for 2017/18 was £0.267M. The projection at the first quarter is £0.327M which is an increase of £0.060M. The increase is mainly due to Tradition deals having been budgeted at 0.7% but renewed at 1.0% and a higher level of investments at the start of they year.

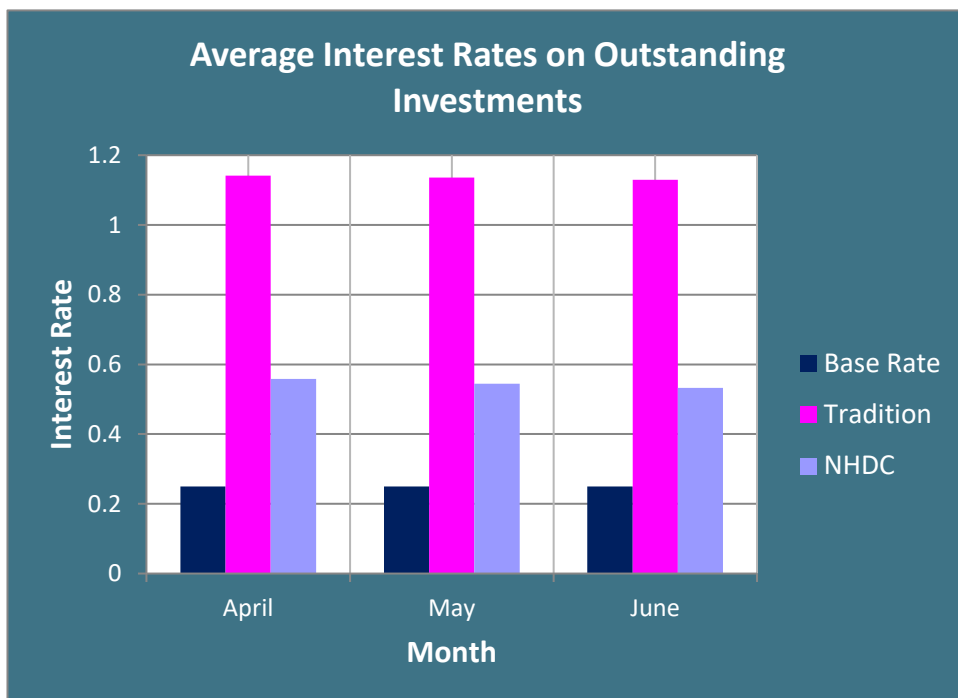
The graph below shows the level of interest expected to be generated from the cash available in-house over the year which is maintained to ensure adequate cash flow. Cash balances have historically reduced over January to March each year as there are less Council tax receipts in February and March.



The table below shows the average rates achieved on investments made during the first quarter.

Ave Interest Rate on Deals made in the 1st Qrt	
NHDC	0.33%
Tradition	1.00%

The graph below shows the average rate of interest on outstanding investments at 30th June.



As can be seen from the graph, the average rate of interest on outstanding investments for NHDC (cash managed internally) is consistently lower than that of the Cash Managers. This is because the investments made by NHDC during the year are to meet cash flow requirements and are therefore made for short periods. At present, rates for shorter periods are lower than for longer periods. The Cash Managers have more long term investments and the turnover of investments is small in comparison to NHDC.

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first quarter of 2017/18.

4. New Borrowing

No borrowing was undertaken during the quarter.

The Council's capital financing requirement (CFR) for 2017/18 is -£16.6m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The CFR is negative as the Council has more cash investments than borrowing. The balance of external and internal borrowing is generally driven by market conditions.

It is anticipated that long term borrowing will not be undertaken during this financial year. The table below gives an indication of the rates that the Council could currently borrow at.

PWLB maturity certainty rates quarter ended 30 June 2017

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.80%	1.14%	1.78%	2.53%	2.27%
Date	03/05/2017	15/06/2017	15/06/2017	13/04/2017	13/04/2017
High	1.08%	1.44%	2.08%	2.75%	2.48%
Date	30/06/2017	30/06/2017	30/06/2017	30/06/2017	09/05/2017
Average	0.87%	1.23%	1.89%	2.60%	2.34%

Loans Outstanding at 30 June 2017

	Amount	Average Interest Rate	Cumulative Rate
	£	%	%
Public Works Loans Board	480,387	9.4317	8.5616
Lender Option Borrower Option	0		
	480,387	9.4317	8.5616

5. Debt Rescheduling

No debt rescheduling was undertaken during the quarter.

6. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators, (affordability limits), are included in the approved TMSS.

During the quarter ended 30 June 2017, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 1.

APPENDIX 1: Prudential and Treasury Indicators as at 30 June 2017

Treasury Indicators	2017/18 Budget £'000	Quarter 1 (Apr - Jun) Actual £'000
Authorised limit for external debt The maximum level of borrowing set by Council which can not be exceeded.	6,000	480
Operational boundary for external debt The limit beyond which external debt is not normally expected to exceed, based on gross external debt	4,000	480
Gross external debt Based on current level of debt, plus an allowance for additional debt if it was required	3,480	480
Investments Level of cash investments, expect actuals to exceed this early in the year as linked to capital spend during the year.	(31,500)	(40,900)
Net borrowing Investments less Gross external debt	(28,020)	(40,420)
Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	25	25
12 months to 2 years	16	16
2 years to 5 years	53	53
5 years to 10 years	96	96
10 years to 20 years	40	40
20 years to 30 years	250	250
The budget represents the structuring of borrowing that was in place at the start of the year. No new borrowing has been taken out so the position is still in line with budget.		
Upper limit of fixed interest rates based on net debt At least 70% of investments should be at fixed rates. Currently only the Money Market Fund investment is at a variable rate.	70% - 100%	89.0%
Upper limit of variable interest rates based on net debt See above.	0% - 30%	11.0%

Upper limit for principal sums invested over 364 days Up to 40% of investments (by value) can be for more than one year.	Max 40%	13.4%

Prudential Indicators	2017/18 Budget £'000	Quarter 1 (Apr - Jun) Actual £'000
Capital expenditure The budget is the expected capital expenditure during the year. The actual total is spend to date. Only at the end of the year will actuals get close to the budget.	20,590	1,874
Capital Financing Requirement (CFR) The total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The year end position reflects the budgeted capital spend during the year. A negative total means that there is no borrowing requirement.	(2,286)	(16,642)
In year borrowing requirement	0	0
Ratio of financing costs to net revenue stream Net expenditure/ (income) from borrowing and investments, as a % of the Council's net revenue. This is negative as the Council is currently receiving a net income from investments.	-1.60%	-2.08%

Incremental impact of capital investment decisions on Band D Council Tax This reflects the expected impact of the net change in financing costs/ income compared to the previous year. This is represented by the theoretical change in Band D Council Tax that would be required to fund this change.	1.13%	1.13%

FINANCE AUDIT AND RISK COMMITTEE

21 SEPTEMBER 2017

***PART 1 – PUBLIC DOCUMENT**

AGENDA ITEM No.

15

TITLE OF REPORT: RISK MANAGEMENT UPDATE

REPORT OF THE HEAD OF FINANCE, PERFORMANCE & ASSET MANAGEMENT
EXECUTIVE MEMBER: COUNCILLOR JULIAN CUNNINGHAM
COUNCIL PRIORITY: PROSPER AND PROTECT / RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

1.1 To provide the Committee with an update on the management of the Corporate risks.

2. RECOMMENDATIONS

2.1 That the Committee notes the report.

3. REASONS FOR RECOMMENDATIONS

3.1 The responsibility for ensuring the management of the risks is that of Cabinet.

3.2 This Committee has responsibility to monitor the effective development and operation of risk management.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 There are no alternative options that are applicable

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 Consultation has been undertaken with SMT and the Risk Management Group (this includes Councillor Julian Cunningham as Risk Management Member 'champion') and these recommendations were supported. Lead Officers discuss these risks with the relevant Executive Member.

6. FORWARD PLAN

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

7. BACKGROUND

7.1 At the June meeting of the Finance, Audit and Risk Committee the following were referred to Cabinet for approval:

- The Annual Risk Report
- A further reduction in the likelihood of the “Increased Homelessness and use of B&B” risk
- A reduction in the likelihood of “Office Accommodation” risk, and
- A reduction in the likelihood of the “Sale of Materials” risk, as a Waste and Street Cleansing Contract Renewal sub risk

8. RELEVANT CONSIDERATIONS

8.1 The Corporate Risks summarised in Table 1 have been reviewed and agreed by SMT. Members are able to view the current risk descriptions on Covalent, the Council’s performance and risk management software.

Likelihood	3 High	4	7 • Income Generation Projects • Sustainable Development (2 x Sub Risks)	9 • Local Plan • Managing the Council’s Finances • North Hertfordshire Museum and Hitchin Town Hall Project
	2 Medium	2	5 • Increased Homelessness and Use of B&B • Office Accommodation • Workforce Planning	8 • Cyber Risks • Waste and Street Cleansing Contract Renewal (8 x Sub Risks)
	1 Low	1	3	6
		1 Low	2 Medium	3 High
		Impact		

- 8.2 Although a number of risks were reviewed by Officers and the Risk Management Group, there are no proposed changes to the Corporate risks in this update.

9. LEGAL IMPLICATIONS

- 9.1 The Committee's Terms of Reference include "to monitor the effective development and operation of risk management and corporate governance, agree actions (where appropriate) and make recommendations to Cabinet." This report gives the Committee the opportunity to review and comment on the high level Risks and have they have and are proposed to be managed.

10. FINANCIAL IMPLICATIONS

- 10.1 Any additional resources to complete risk management actions are included in the Corporate Business Planning process. There are no direct financial implications from this report.

11. RISK IMPLICATIONS

- 11.1 The Risk & Opportunities Management Strategy requires the Finance Audit & Risk Committee to consider regular reports on the Council's Corporate Risks. Failure to provide the Committee with regular updates would be in conflict with the agreed Strategy and would mean that this Committee could not provide assurances to Cabinet that the Council's identified Top / Corporate Risks are being managed.

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 Reporting on the management of risk provides a means to monitor whether the council are meeting the stated outcomes of the district priorities, its targets or delivering accessible and appropriate services to the community to meet different people's needs. The risks of NHDC failing in its Public Sector Equality Duty are recorded on the Risk Register. The Council's risk management approach is holistic, taking account of commercial and physical risks. It should also consider the risks of not delivering a service in an equitable, accessible manner, and especially to its most vulnerable residents such as those who are homeless

13. SOCIAL VALUE IMPLICATIONS

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

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct Human Resource implications arising from this report, but it should be noted that there is a separate Corporate Risk relating to Workforce Planning.

15. APPENDICES

- 15.1 None.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

- 16.1 The risks held on Covalent the Council's Performance and Risk Management IT system.