Public Document Pack

10 November 2017

Our Ref: Finance, Audit and Risk Committee/20.11.17
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: 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

FOUNDATION HOUSE, ICKNIELD WAY, LETCHWORTH GARDEN CITY

On

MONDAY, 20TH NOVEMBER, 2017 AT 7.30 PM

Yours sincerely,

David Miley

David Miley
Democratic Services Manager

Agenda
Part I

Item		Page
1.	**APOLOGIES FOR ABSENCE**	
2.	**MINUTES - 21 SEPTEMBER 2017** To take as read and approve as a true record the minutes of the meeting of the Committee held on 21 September 2017.	(Pages 1 - 8)
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.	**NORTH HERTFORDSHIRE DISTRICT COUNCIL - ANNUAL AUDIT LETTER 2016/17** REPORT FROM ERNST AND YOUNG *To consider the NHDC Annual Audit Letter 2016/17.*	(Pages 9 - 28)
7.	**LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING** REPORT FROM ERNST AND YOUNG *To consider the latest Local Government Audit Committee Briefing paper.*	(Pages 29 - 42)
8.	**SECOND QUARTER REVENUE MONITORING 2017/18** REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT *To consider the Second Quarter Revenue Monitoring report 2017/18.*	(Pages 43 - 50)

9. **SECOND QUARTER CAPITAL MONITORING 2017/18** (Pages 51 - 66)
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

To consider the Second Quarter Capital Monitoring report 2017/18.

10. **TREASURY MANAGEMENT SECOND QUARTER 2017/18** (Pages 67 - 88)
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

To consider the Second Quarter Treasury Management Monitoring report 2017/18.

11. **UPDATED FINANCIAL REGULATIONS** (Pages 89 - 128)
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

To consider the proposed updated Financial Regulations and recommend them to Council for adoption.

12. **FUTURE MEETING - POSSIBLE AGENDA ITEMS**
Introduced by the Chairman.

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NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MEETING HELD IN THE LOWER HALL, ICKNIELD CENTRE, ICKNIELD WAY, LETCHWORTH GARDEN CITY ON THURSDAY, 21ST SEPTEMBER, 2017 AT 7.30 PM

MINUTES

Present: *Councillors Councillor Terry Hone (Chairman), Ian Albert, John Booth (substitute) Steve Jarvis (substitute) and Jim McNally.*

In Attendance: *Ian Couper (Head of Finance, Performance and Asset Management), Howard Crompton (Head of Revenues, Benefits and IT), Antonio Ciampa (Accountancy Manager), Jeanette Thompson (Senior Lawyer), Ian Gourlay (Committee and Member Services Manager), Chris Wood (SIAS Audit Manager, Shared Internal Audit Services), Nick Jennings (Shared Anti-Fraud Manager, Shared Anti-Fraud Services), Robert Garnett (Team Leader, Ernst & Young) and Kay Storey (Manager, Govt. & Public Sector, Ernst & Young).*

Also Present: *Councillor Julian Cunningham (Executive Member for Finance & IT).*

22 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors John Bishop, Simon Harwood (Vice-Chairman), Deepak Sangha and Terry Tyler. Councillor John Booth was substituting for Councillor Bishop, and Councillor Steve Jarvis was substituting for Councillor Tyler.

23 MINUTES

RESOLVED: That the Minutes of the Meeting of the Finance, Audit & Risk Committee held on 12 June 2017 be approved as a true record of the proceedings and be signed by the Chairman.

24 NOTIFICATION OF OTHER BUSINESS

There was no other item of business tabled.

25 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 she 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; and

(2) The Chairman reminded Members that, in line with the Code of Conduct, any Declarations of Interest needed to be declared immediately prior to the item in question.

26 PUBLIC PARTICIPATION

There was no public participation.

27 SHARED ANTI-FRAUD SERVICE (SAFS) - PROGRESS REPORT

The Shared Anti-Fraud Service (SAFS) Manager presented a report providing details of the work undertaken to protect the Council against the threat of fraud, and progress against the Council's Anti-Fraud Action Plan for 2017/18.

The SAFS Manager advised that, during the First Quarter of 2017/18, SAFS had received 37 allegations of fraud affecting NHDC services (mainly involving Council Tax and Housing Benefit fraud). He added that 76 cases had been carried over from 2016/17, but that these had been prioritised to focus on those that would provide NHDC with the largest return on its investment.

The SAFS Manager stated that many of the 2017/18 cases were still in the early stages of investigation and so it was not yet possible to report on the final or potential outcome of every case. The March 2018 meeting of the Committee would receive a report detailing the number of allegations of fraud received, outcomes from investigations and value of fraud losses/fraud prevented.

The SAFS Manager referred to a number of SAFS/NHDC pilots and projects, as set out in Paragraphs 2.3 to 2.6 of the report. In addition, SAFS was currently working with North Hertfordshire Homes on a project to address tenancy fraud.

In respect of 2016/17, the SAFS Manager explained that Appendix C to the report set out SAF's performance against its Key Performance Indicators (KPIs) for NHDC, which showed that performance was good, with most targets being met. He also referred to the open data that was required to be published by Local Authorities to comply with the Department of Communities and Local Government's (DCLG) Transparency Code issued in February 2015.

The SAFS Manager answered a number of Members' questions on the report. In response to a question on the Transparency, he undertook to liaise with NHDC with a view to, in future, including in the published information a figure for the total monetary value of the fraud that was recovered by NHDC.

RESOLVED:

(1) That the progress of the Shared Anti-Fraud Service in delivering the Council's Anti-Fraud Action Plan 2017/2018 be noted; and

(2) That the anti-fraud activity undertaken to prevent and deter fraud and protect public funds be noted.

REASON FOR DECISION: To update the Committee on the activities of the Shared Anti-Fraud Service.

28 SHARED INTERNAL AUDIT SERVICES - ANNUAL REPORT 2016/17

The Audit Manager (SIAS) presented the Shared Internal Audit Services (SIAS) Annual Report 2016/17.

The Audit Manager advised that the report had been presented to and approved by the SIAS Board in June 2017. The key message in the report was that SIAS had achieved one of its key objectives for 2016/17, namely the delivery of billable days, but was just below its target for the issue of draft Audit reports, despite the challenges posed by staff vacancies and sickness absences throughout the year.

In response to a series of Member's questions, the Audit Manager responded as follows:

- The two staff vacancies were due to retirement, and of the four major sickness absences, two were foreseen and two were not foreseen. These "gaps" had been filled by BDO, the SIAS co-sourced audit partners, who had been working with SIAS for the last two and a half financial years, together with the use of CIPFA graduate trainees as part of the Hertfordshire County Council work placement programme;
- The SIAS restructuring was ongoing, and had been necessitated by the fact that the SIAS partners were looking to reduce the number of audit days for 2017/18 and beyond.

RESOLVED: That the Shared Internal Audit Services (SIAS) Annual Report 2016/17 be noted.

REASON FOR DECISION: To enable the Committee to consider and comment on the SIAS Annual Report 2016/17.

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

The Audit Manager (SIAS) presented an update report on progress against the 2017/18 Audit Plan.

The Audit Manager advised that, since the preparation of the report, SIAS had delivered 34% of planned audit days, and had issued a further final audit report, namely Office Accommodation, which had a substantial level of assurance, with two medium priority and two "merits attention" recommendations. The percentage of actual projects completed to draft stage was 20%.

The Audit Manager referred to the medium priority recommendations summarised in Paragraph 2.4 of the report, and also to the high priority recommendations set out in Appendix B to the report. He commented that the two high priority recommendations arising from the Data Protection and Freedom of Information audit had been implemented and would henceforth be removed from the list.

The Audit Manager drew attention to Paragraph 2.8 of the report, which showed that the audits relating to the Green Space Strategy and Asset Management System had been cancelled, with the audit days planned on these audits being returned to contingency.

The Committee debated the differences between high and medium priority recommendations, and it was felt that greater clarity should be provided in future reports as to the methodology used to determine the whether recommendations were high or medium priority.

In response to a Member's question regarding the reasons for the cancellation of the Green Space Strategy audit, the Head of Finance, Performance and Asset Management undertook to investigate this matter and respond to Members of the Committee in due course.

RESOLVED:

(1) That the Internal Audit Progress Report for the period to 28 August 2017 be noted;

(2) That the proposed amendments to the 2017/18 Annual Audit Plan be noted; and

(3) 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.

30 AUDIT RESULTS REPORT FOR NHDC FOR THE YEAR ENDED 31 MARCH 2017

The Manager (Govt. & Public Sector), Ernst and Young, introduced the Audit Results report for NHDC for the year ended 31 March 2017. She advised that the report summarised the work undertaken by herself and colleagues to meet the National Audit Office's Code of Audit Practice, as well as legislative requirements for issuing an audit opinion. She added that the report was in a new format and that she would welcome any Members' comments on the new style document.

The Team Leader, Ernst and Young, reported that the audit had been conducted according to the Audit Plan approved by the Committee in January 2017. The materiality was based on approximately £1.4million (2% of the Council's gross expenditure). He commented that Ernst and Young proposed to offer an unqualified opinion on the Council's accounts for 2016/17.

The Team Leader stated that there were three audit differences identified, with a total of £2.8million which reduced the revaluation of current assets. However, due to the way that Local Government capital accounting worked, there was no impact on the bottom line of the Council's General Fund. These audit differences were corrected prior to the publication of the Council's final Statement of Accounts.

The Team Leader explained that there had been two areas of audit focus, one being the inappropriate capitalisation of revenue expenditure and the second being the risk of management override. Ernst and Young's conclusion on this work was that there were no material misstatements identified, or any weaknesses in control.

The Manager (Govt. & Public Sector) advised that Ernst and Young was proposing to issue an unqualified opinion on its value for money conclusion. In its Audit Plan, Ernst and Young had identified as a potential risk the level of saving required to be made over the life of the Council's Medium Term Financial Strategy, which was greater than the materiality figure used for the audit of the annual accounts. Ernst and Young had conducted a programme of work to investigate this issue, with there projects being used to inform this work, which sought to provide assurance that the projects would be delivered to appropriate standards. The conclusion was that Ernst and Young had been satisfied that enough evidence had been supplied to provide the necessary assurance.

The Manager (Govt. & Public Sector) answered a number of Members' questions regarding the report.

RESOLVED: That the Audit Results for NHDC for the year ended 31 March 2017 be noted.

REASON FOR DECISION: To confirm that the findings of the external auditor were reviewed and noted and that the recommendations were acted upon.

31 ANNUAL GOVERNANCE STATEMENT 2016/17

The Senior Lawyer presented a report in respect of the Annual Governance Statement (AGS) 2016/17.

The Senior Lawyer advised that the draft AGS had been presented to the Committee at its June 2017 meeting. Following that meeting, further liaison had taken place with the external auditors (Ernst and Young), SIAS and SAFS, and the AGS now presented incorporated their input.

The Senior Lawyer drew attention to a minor amendment required to the AGS set out at Appendix A to the report – the date in the first bullet point in the third column on the first page should be March 2017 not March 2016.

The Senior Lawyer reminded Members that the AGS process was now covered by a new CIPFA/SOLACE Framework that had been approved in 2016. The AGS had been prepared following an in-depth review/ input and scoring of arrangements by SMT against the seven Framework 2016 Principles.

The Senior Lawyer stated that issues to be addressed through the AGS were set out in the updated Action Plan, attached to the report as Appendix B.

The Senior Lawyer explained that the AGS 2016/17 was required to be approved by the Committee, as it would be published alongside the 2016/17 Statement of Accounts (see Minute 32 below).

RESOLVED:

(1) That the Annual Governance Statement/Action Plan for 2016/17, as set out at Appendix A to the report (as amended), be approved; and

(2) That the progress to date against the Action Plan, as set out in Appendix B to the report, be noted.

REASON FOR DECISION: To meet the Council's statutory requirements to review and approve the Annual Governance Statement under Regulation 6(4)(a) of the Accounts and Audit Regulations 2015/234; and to review proposed actions, which will improve the Council's governance arrangements.

32 STATEMENT OF ACCOUNTS 2016/17

The Accountancy Manager presented the report of the Head of Finance, Performance and Asset Management in respect of the Statement of Accounts 2016/17.

The Accountancy Manager advised that, as with the AGS, the Statement of Accounts for 2016/17, attached at Appendix A to the report, was required to be approved and published by 30 September 2017.

The Accountancy Manager explained that the report provided an overview of the process. The draft Accounts were published by the due date of 30 June 2017. These were made available for public inspection, following which they were subject to external audit review by Ernst and Young. Some changes were made following Ernst and Young's consideration of the Accounts, all of which had been incorporated into the final version set out at Appendix A.

The Accountancy Manager stated that none of the changes made by Ernst and Young had any impact on the General Fund 2016/17 outturn position reported to the Committee in June 2017.

The Accountancy Manager commented that the 2018/19 process would be very challenging, as the draft Accounts would need to be published by 31 May 2018, and the final version published and approved by 31 July 2018.

RESOLVED: That the 2016/17 Annual Statement of Accounts, as set out in Appendix A to the report, be approved and signed by the Chairman.

REASON FOR DECISION: 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 30 September 2017.

33 FIRST QUARTER REVENUE BUDGET MONITORING 2017/18

The Head of Finance, Performance and Asset Management presented a report in respect of the First Quarter Revenue Budget Monitoring 2017/18, and advised that the report was before this Committee for consideration prior to presentation to Cabinet on 26 September 2017.

The Head of Finance, Performance and Asset Management advised that the forecast variance on the Revenue Budget was an increase of £208,000 on the net working budget of £17.022m for 2017/18, with an ongoing impact in future years of £158,000. He highlighted some of the more significant individual variances set out in Table 2 of the report, including Employer Pension Contribution; Parking Penalty Charge Notice income; Housing Benefit – Contribution to bad debt provision in respect of benefits overpayment income; and Careline Net Direct Trading Expenditure.

The Head of Finance, Performance and Asset Management reported that Table 3 showed that all of the Council's corporate financial health indicators were at green status, and Paragraphs 8.6 to 81.2 of the report summarised the various funding received by the Council. He drew attention to the forecast for Business Rate retention, which showed and increase of £362,000 on funding expectation for 2017/18. He concluded by referring to the financial risks set out in Paragraph 8.13 of the report.

RESOLVED: That the First Quarter Revenue Budget Monitoring report 2017/18 be noted.

REASON FOR DECISION: To provide an opportunity for the Committee to comment as appropriate on the First Quarter Revenue Monitoring report 2017/18.

34 FIRST QUARTER CAPITAL PROGRAMME MONITORING 2017/18

The Head of Finance, Performance and Asset Management presented a report in respect of the First Quarter Capital Programme Monitoring 2017/18, and advised that the report was for consideration prior to presentation to Cabinet on 26 September 2017.

The Head of Finance, Performance and Asset Management advised that, in previous years, there had tended to be a significant amount of re-profiling of the Capital Programme in the latter part of the year. The focus was now on forecasting more accurately in the early part of the year, which was why there appeared to be a considerable amount of "movement" in the First Quarter Monitoring report.

The Head of Finance, Performance and Asset Management referred to Table 2 in the report, which highlighted the scheme timetable revisions from 2017/18 to 2018/19 onwards. He drew attention to the major items, such as Pension Capitalisation, which would continue to be pursued in 2018/19, He commented that the cost variance in the Refurbishment of the District Council Offices (DCO) scheme should be an increase of £120,000 and not £77,000 as stated in the report.

The Head of Finance, Performance and Asset Management explained that the overall situation on Capital reflected the likely position at the end of 2017/18. The significant amount of spend in 2017/18 was due to those projects that had been completed or were almost certain to be completed in year, such as the North Hertfordshire Leisure Centre and Refurbishment of the DCO projects. He added that the forecast balance on the Capital Programme at the end of 2017/18 was expected to be in the region of £7million.

In response to a comment made by the Chairman, the Head of Finance, Performance and Asset Management undertook to ensure that an appropriate recommendation be made to Cabinet regarding the reallocation of capital funding no longer required for the Royston Civic Centre Redevelopment project.

RESOLVED: That the First Quarter Capital Programme Monitoring report 2017/18 be noted.

REASON FOR DECISION: To provide an opportunity for the Committee to comment as appropriate on the First Quarter Capital Monitoring report 2017/18.

35 TREASURY MANAGEMENT FIRST QUARTER 2017/18

The Head of Finance, Performance and Asset Management presented a report in respect of the First Quarter Treasury Management Monitoring 2017/18, and advised that the report was for consideration prior to presentation to Cabinet on 26 September 2017.

The Head of Finance, Performance and Asset Management advised that, during the First Quarter, the Council had continued to operate within the treasury and prudential indicators set out in the Treasury Management Strategy Statement and in compliance with the Council's approved Treasury Management Practices. He commented that the current forecast was that the amount of investment interest expected to be generated during 2017/18 was £327,000, an increase of £60,000 on the original budget.

RESOLVED: That the First Quarter Treasury Management report 2017/18 be noted.

REASON FOR DECISION: To provide an opportunity for the Committee to comment as appropriate on the First Quarter Treasury Management Monitoring report 2017/18.

36 RISK MANAGEMENT UPDATE

The Head of Finance, Performance and Asset Management presented a report which provided an update on Risk Management.

The Head of Finance, Performance and Asset Management advised that the most recent quarterly meeting of Risk Management Group had agreed that there was no need to change the existing risk levels, and hence there were no recommended changes for Senior Management Team and the Committee to consider.

RESOLVED: That the report on Risk Management be noted.

REASON FOR DECISION: To comply with the requirements of the Risk and Opportunities Management Strategy.

37 FUTURE MEETING - POSSIBLE AGENDA ITEMS

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

The meeting closed at 9.17 pm

Chairman at the meeting on
Thursday, 21 September 2017

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FINANCE, AUDIT & RISK COMMITTEE
20 NOVEMBER 2017

*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 6

TITLE OF REPORT: NORTH HERTFORDSHIRE DISTRICT COUNCIL – ANNUAL AUDIT LETTER 2016/17

REPORT FROM ERNST AND YOUNG

The Annual Audit Letter is attached.

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North Hertfordshire District Council

Annual Audit Letter for the year ended 31 March 2017

OCTOBER 2017

Ernst & Young LLP

Building a better working world

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Public Sector Audit Appointments Ltd (PSAA) have issued a ‘‘Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and 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 23 February 2017)” issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to North Hertfordshire District Council (the Council) following completion of our audit procedures for the year ended 31 March 2017. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception: ► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
► Public interest report	We had no matters to report in the public interest
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

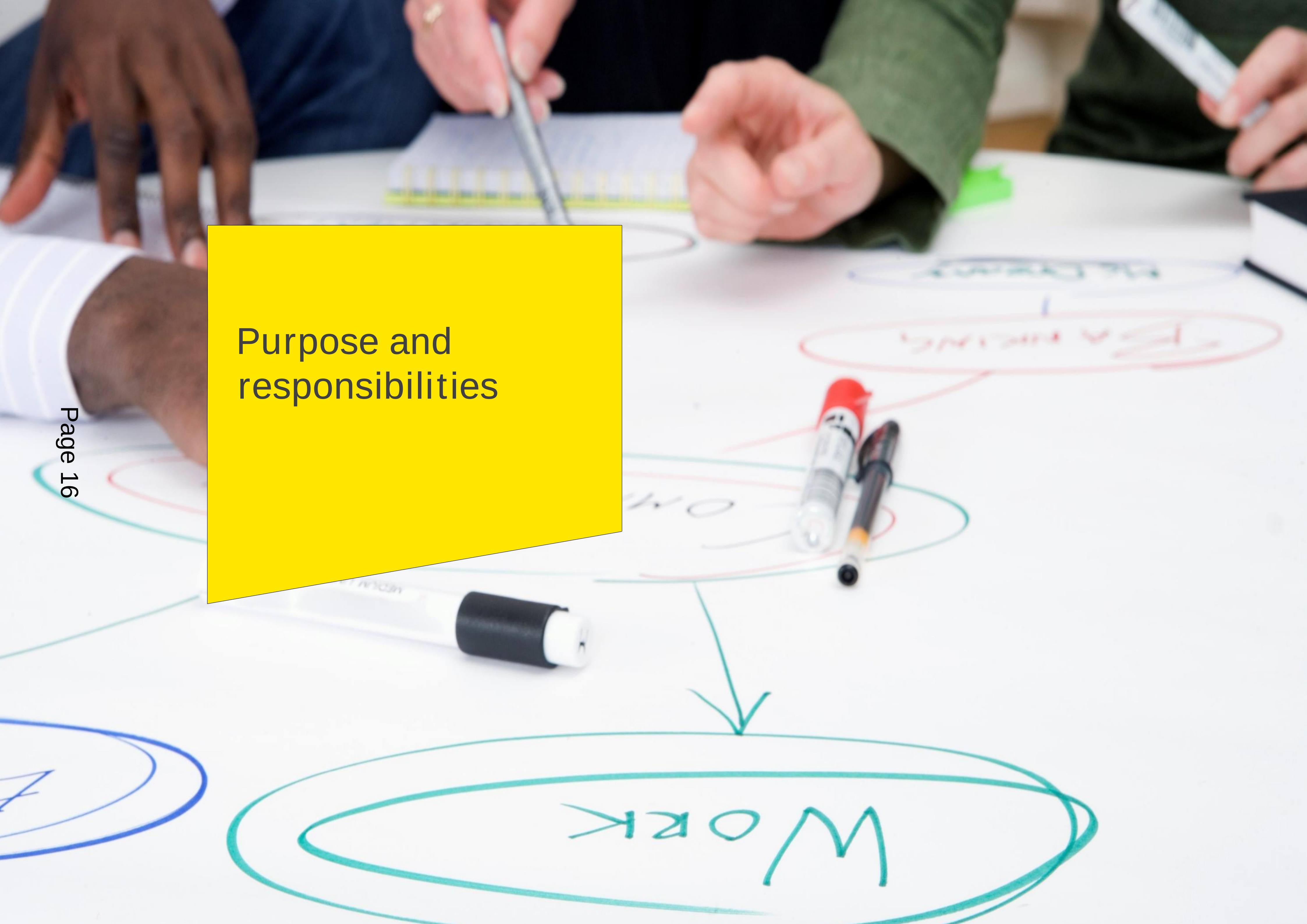
As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 1 September 2017
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 22 September 2017

In January 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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

Suresh Patel
Associate Partner
For and on behalf of Ernst & Young LLP



Purpose and responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the Finance Audit and Risk Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 23 January 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office. As auditors we are responsible for:

- Expressing an opinion on the 2016/17 financial statements; and on the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 22 September 2017. Our detailed findings were reported to the 21 September 2017 Finance Audit and Risk Committee and the key issues we identified were as follows:

Significant Risk	Conclusion
Management override of controls A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.	• 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 2016/17 amounts had not been omitted from the financial statements. We have not identified any material weaknesses in controls or evidence of material management override or any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.
Revenue and expenditure recognition Auditing standards require us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. For councils the potential for the incorrect classification of revenue as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant requirements to be capitalised.	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. Our testing did not identify any expenditure which had been inappropriately capitalised.

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

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.4 million (2016: £1.4 million), which is 2% of gross expenditure on services reported in the accounts, plus operating expenditure and interest payable, being a total of £71.509 million. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Finance Audit and Risk Committee that we would report to the Committee all audit differences in excess of £71,509 (2016: £71,705)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied 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

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Value for Money

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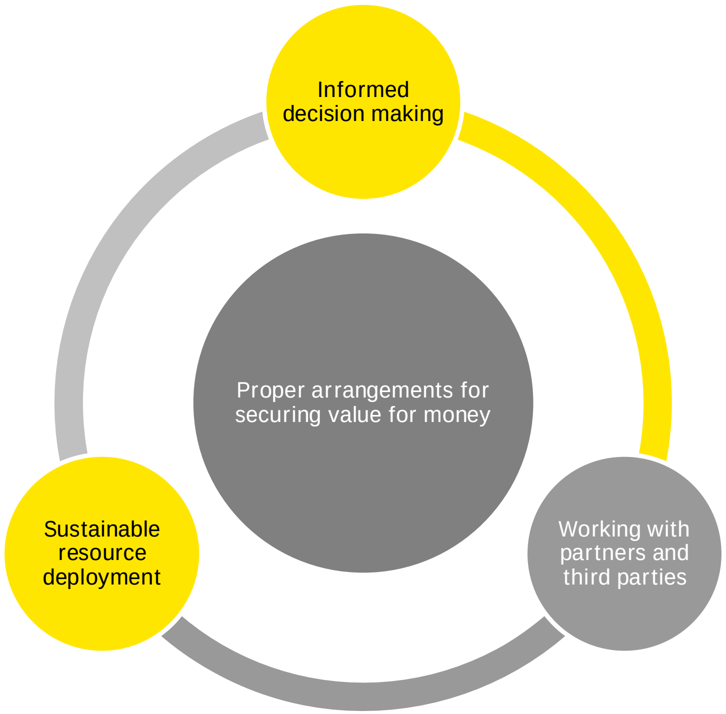
Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its 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.



We identified one significant risk in relation to these arrangements. The tables below present the findings of our work in response to the risk identified and any other significant weaknesses or issues to bring to your attention. We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 22 September 2017.

Significant Risk	Conclusion
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 of 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 future revenue streams from government 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. 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. Review of a sample of savings and efficiency targets We reviewed three projects and there is clear monitoring and reporting of progress on each project. 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.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We had no matters to report.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public. We did not identify any issues which required us to issue a report in the public interest.

Written recommendations, objections and other powers

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response. We did not identify any issues which required us to issue a written recommendation. We did not receive any objections to the 2016/17 financial statements from member of the public. We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

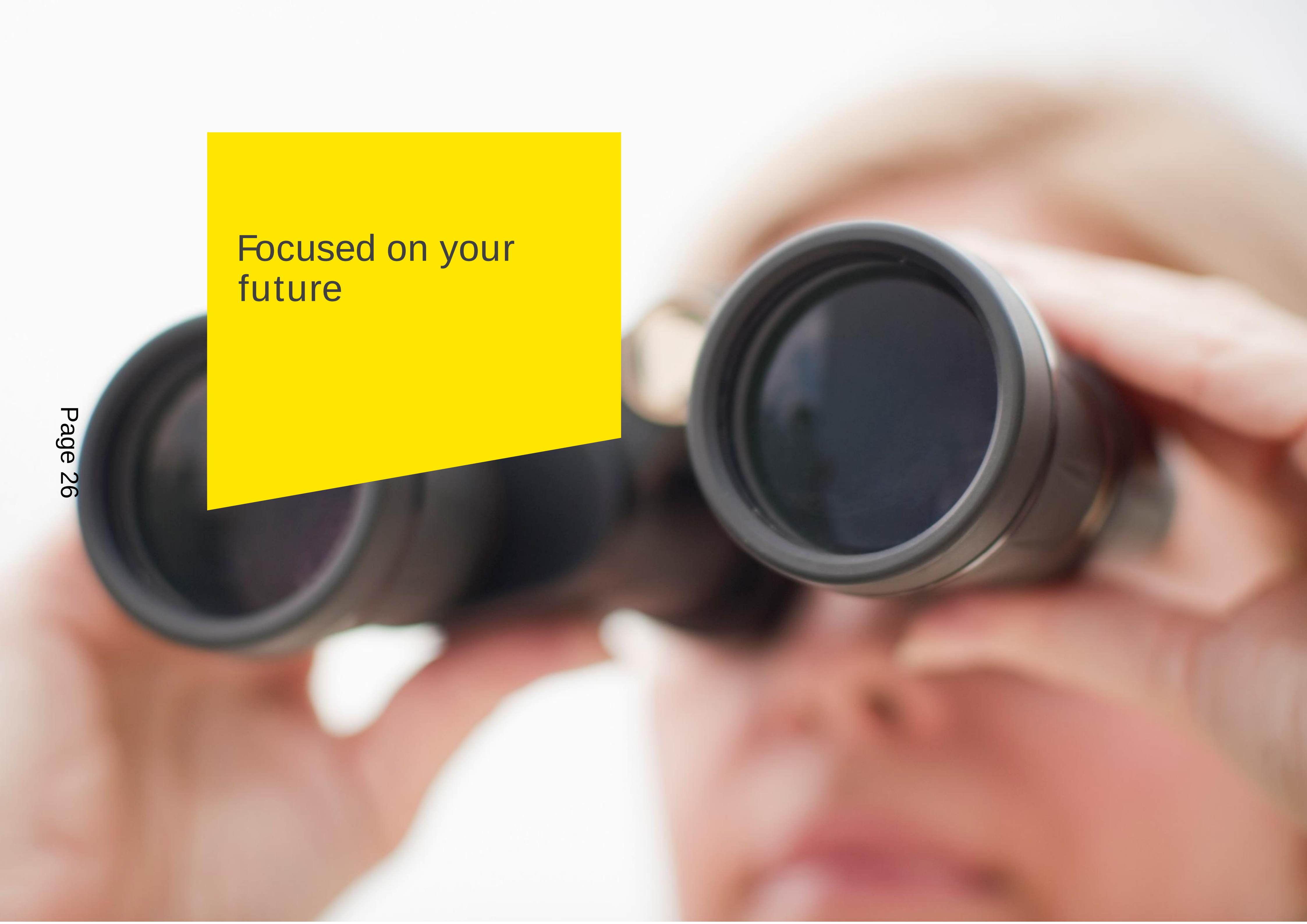
We communicated our assessment of independence in our Audit Results Report to the Finance Audit and Risk Committee on 21 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

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

Our audit did not identify any controls issues to bring to the attention of the Finance Audit and Risk Committee.

Focused on your future



Focused on your future

Area	Issue	Impact
Earlier deadline for production and audit of the financial statements from 2017/18	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.

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FINANCE, AUDIT & RISK COMMITTEE
20 NOVEMBER 2017

***PART 1 – PUBLIC DOCUMENT**	**AGENDA ITEM No.** **7**

TITLE OF REPORT: LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING

REPORT FROM ERNST AND YOUNG

The above report is attached.

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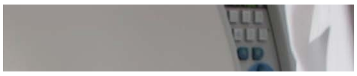
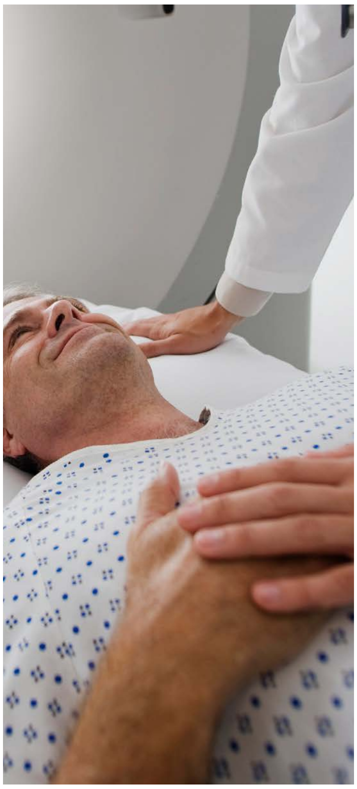
Local Government audit committee briefing

Building a better working world



Contents at a glance



This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.

Government and economic news

EY Item Club Forecast

The latest EY Item Club forecast projects that UK GDP will grow by 1.8% this year, in line with last year's outcome. Rather than meaning that nothing has changed in the economy, it masks an underlying shift in the balance of demand following the fall in the pound after last June's Brexit vote — and means the economy is already adjusting to life outside the EU.

It expects growth to slow down during the course of this year, leaving 2018 and 2019 looking weaker at growth rates of 1.2% and 1.5% respectively.

As consumption grows, the shift in demand that's underway essentially involves a rebalancing from consumption to overseas trade. Last year, consumption effectively accounted for all the growth in demand, with overseas trade subtracting 0.4% from UK GDP growth. But with the savings ratio at a record low, this year sees a major slowdown in consumption as inflation bites into spending power. Meanwhile, net trade is projected to add to GDP in every year covered by this forecast.

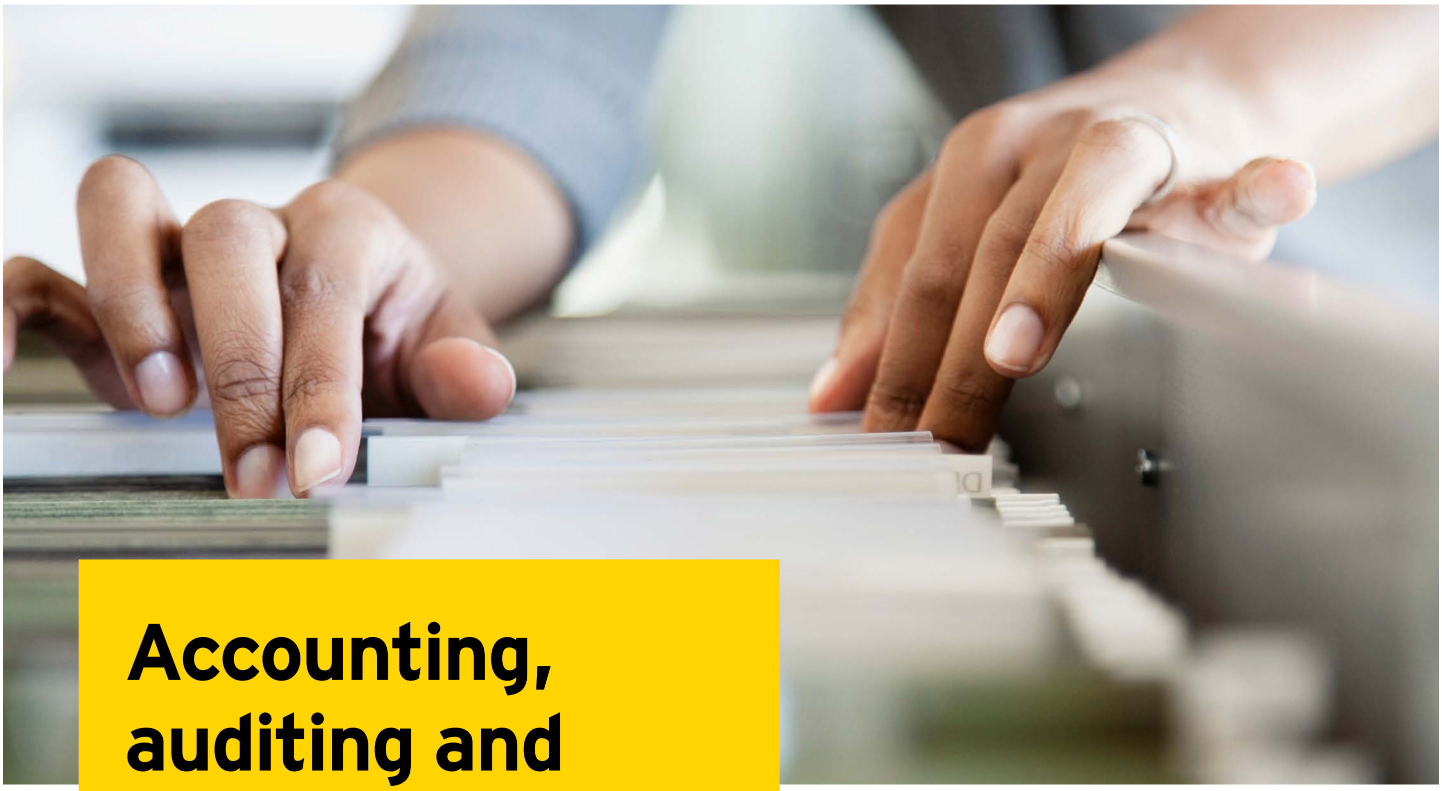
This adjustment is being helped by a timely revival in our overseas markets. World trade and industrial output are growing faster than at any time since 2010, when they bounced back from the recession. For once, the recent economic data has surprised on the upside — not just in the UK but also in the US and Eurozone.

This revival partly reflects the knock-on effects of the collapse in commodity prices in 2015. And their recent recovery has pushed inflation back close to target levels almost everywhere, easing worries about deflation, especially in the Eurozone.

Despite the bright spots, political risks remain. In the US, the 'Trump bump' in the financial markets has been followed by another increase in consumer and business confidence. As a result, consumer confidence there is now stronger than at any time since the dot-com boom in 2000. However, as president, Donald Trump is facing political challenges in delivering some of his campaign promises — a situation that makes the likelihood, timing and magnitude of US policy initiatives very uncertain. What's more, any initiatives he does succeed in delivering could either help or hinder the UK's adjustment to life outside the EU.

Against this mixed background, UK exporters are currently enjoying the benefits of Single Market membership as well as the devaluation in sterling and the revival in the world economy. We are assuming they will be trading under World Trade Organisation (WTO) rules in two years' time, although it's possible that the Government will be able to negotiate more favourable transition arrangements, perhaps followed by free trade agreements. These arrangements would make the adjustment smoother than the WTO option and provide some upside potential.

In respect of Brexit, firms may not have the confidence to invest until they see the shape of the new trading and immigration arrangements. The forecast sees investment falling this year and again in 2018, holding back demand and longer-term economic performance. As the countdown to Brexit begins, it's clear that UK businesses will be living with uncertainty for some time to come.



Accounting, auditing and governance

WannaCry ransomware attack

On Friday 12 May 2017, a global ransomware attack occurred across a whole range of sectors, including healthcare, government, telecommunications and gas, spreading to over 300,000 systems in over 150 countries. This affected many NHS Providers throughout the UK including the ability of some to provide a full suite of healthcare.

Over the last five years the number of attacks has grown tremendously as cyber criminals demand relatively small amounts of money in return for the data they hold hostage. However the return of data does not always happen.

WannaCry was used in conjunction with self-propagating malware allowing it to spread aggressively to other computers over an organization's network without requiring further interaction from users. This is the first time ransomware has been used in this way.

Why is this attack significant?

The global scale of indiscriminate targeting emphasizes the need for all companies, private and public, to pay attention to security basics:

- Keep systems up-to-date with software patches
- Make regular backups of data
- Educate users not to click suspicious links

The overall cost of the disruption is significant, but variable by sector and organization. Actual costs to organizations is not yet known, and will differ for every victim, but could have long lasting effects in the NHS if it lead to delayed or cancelled treatments.

Steps to take now

The WannaCry incident highlights the need for organizations to get the cybersecurity basics right:

1. Identify and manage the organization's cyber risks, with a specific focus on the priority cyber threats and breach scenarios that could disrupt operations or have other negative impacts on the organization.
2. Educate the organization's employees in good cybersecurity practices and the use of third-party assessment/assurance programs.
3. Maintain awareness of the cyber threat environment. Cyber criminals and other attackers are constantly evolving their methods to create ever-more effective ways of exploiting vulnerabilities for monetary gain or disruption purposes. Often this involves interfering with data integrity rather than compromising its confidentiality.
4. Maintaining and regularly reviewing elements of a cybersecurity program will provide a strong foundation for building cyber resilience into your organization: patch often, define your cyber incident response process, back up regularly and practice response scenarios.

Preventive measures to reduce the risk of ransomware

EY member firms range of cybersecurity services – including proactive penetration testing, cyber transformation and Managed Security Operations Centers – can be leveraged to prevent a ransomware outbreak within an organization:

- Ensure vulnerability and patch management policies and procedures are up to date and are implemented through appropriate change control procedures. Where out-of-date and legacy operating systems are used, seek guidance from vendors on further steps.
- Maintain an effective enterprise incident response and business continuity plan that is tested and measured for effectiveness against ransomware and other potential attack methods, as well as updated to reflect the current cyber threat environment.
- Ensure the organization has a security awareness training program in place with proactive testing, including screenshots of what to look out for. Clear guidance should be provided on the immediate steps alongside incident reporting guidelines. This should be communicated to all users and third parties who connect to the organization's network.
- Ensure regular, tested backups are in place to mitigate effects of possible infection and speed the recovery process in lieu of succumbing to ransom payment demands.
- Seek assurance from third parties who connect to your network that they are following similar actions to yourself and that they are appropriately protecting themselves.
- Implement endpoint monitoring, giving security operations teams the visibility into malicious behaviour occurring in the environment.
- Identify critical systems and data and confirm these are connected to Internet only when necessary.
- Make sure to test the security program with frequent penetration tests across the estate.
- Review how proactive security monitoring of the entire environment via a Security Operations Center (SOC) could enable faster detection and response to incidents.

Response considerations in the event of an attack

If an organization believes it is compromised, or is in the process of being compromised, then the following activities can help to provide a rapid response, damage containment and communications to end users:

- Disconnect infected machines from the network and take all backups offline. These could become encrypted as well if left connected to the network.
- EY FIDS's Forensic Technology & Discovery Services team can be quickly mobilized to help companies:
  - Forensically analyse network and host systems to detect early indications of penetration by ransomware to allow more rapid response and remediation.
  - Forensically detect, identify and contain ransomware malware based on previous experience with ransomware negotiations and ransomware eradication. Forensically circumvent ransomware and/or recover data from damaged systems and/or backups, and verify that recovered data are clean from ransomware contamination.
  - Forensically image and preserve highly sensitive impacted machines to help ensure the systems and data are not destroyed by ransomware.
  - Collect and preserve IT and business evidence in a forensically sound manner, and then deliver internal or stakeholder investigations and support disputes with customers, service providers, and requirements for regulatory reporting.
- Activate your incident response plan and don't treat the investigation as merely an IT issue; there should be cross-functional representation in the investigation team such as: legal, compliance, information security, business, PR, HR, etc.
- Identify and address vulnerabilities in the environment, sufficiently harden the environment to complicate the attacker's effort to get back in, enhance the ability to detect and respond to future attacks, and prepare for eradication events.
- Activate your business continuity plan. Prepare data based on varying requirements for regulatory inquiries or civil suits.

Women and leadership

The King's Fund recently drew attention to a couple of reports on women in leadership roles:

- NHS Women on Boards: 50:50 by 2020 (see http://www.nhsemployers.org/case-studies-and-resources/2017/03/nhs-women-on-boards-5050-by-2020)
- Women in finance

These reports draw attention to the problems some women face in obtaining senior leadership positions within the NHS and other organisations. While there are typically more women that start in finance roles than men there are few women that move up the management ladder. The main reason for this is thought to be organisational culture.

A study in 2016 across a range of sectors found that unsupportive workplace cultures present the most significant barrier for women to progress their career. This was the case for female respondents in most age categories. Gender inequality and discrimination were reported with women feeling that they have to over-perform simply because of their gender. Recommendations following this study included building closer relationships between men and women in the workplace, and the provision of opportunities to discuss gender issues experienced within the organisational culture.

Organisational culture, such as the drive for a more inclusive approach to leadership development, is currently receiving considerable attention in the NHS. Given the NHS is made up of a predominantly female workforce, the impact of such a culture is largely upon women. Despite 77 percent of the NHS workforce being female there is generally a much lower percentage of women in senior leadership positions. For the NHS Improvement/NHS Employers target of 50:50 representation on boards to be achieved 500 more women would need to be appointed to board-level positions by 2020.

The NHS report also advocates gender-specific learning in NHS training programmes, covering topics such as unconscious bias, management of flexible working practices and specific female coaching, mentoring and sponsorship.

Within the EY Assurance service line we have many experts in Culture and have provided various services across the NHS and Local Government. If you would like to discuss any of these past projects, or a new one for your body, please contact your local engagement lead who can provide more information.

2018/19 Code of Practice on Local Authority Accounting Consultation

CIPFA/LASAAC are consulting on the 2018-19 Code of Practice on Local Authority Accounting in the United Kingdom.

The consultation closes on 6 October 2017 with responses direct to CIPFA. The following changes are being consulted on:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Narrow scope amendments to International Financial Reporting Standards
- Legislative and policy changes.

Further information is available from Paul Mayers, Audit Manager, on 07972 221 078 or paul.mayers@nao.gsi.gov.uk.

Other news

Use of Housing Companies

Housing lawyer Ian Doolittle has stated that there are over 40 councils which have or are currently working towards setting up housing companies, with this figure expecting to increase over the coming years.

The reasoning behind setting the companies up can vary from building homes to sell and rent at market rates, to building social housing separate to the HRA. The message from central government regarding this is that any means to help the current housing crisis is welcomed.

Deputy Chief of the Chartered Institute of Housing (CIH) Gavin Smart spoke about the benefits housing companies can have in serving different market segments, however was wary regarding whether the new homes are genuinely affordable. He stated that councils must prioritise building new home at social rent levels.

An interesting aspect around the housing companies being set up is that responsible borrowing of money from the General Fund does not count towards the HRA Debt cap. This is being seen as an attractive option for many councils who have reached the debt cap which was introduced in 2012.

With private developments not meeting demand and private housing carrying a high cost it seems Housing Companies could be seen as an important mechanism in achieving the Government's aim to build one million new homes over the next five years.

For advice on the implications of setting up a Housing Company please speak to your audit engagement team.

EY Local government audit committee members governance forum

Between April and July we held five events across the country for local government audit committee chairs and members to meet, network, gain some EY insights and learn from each other on topical governance challenges facing the sector. We've met almost 80 members some with a few weeks experience and others with many decades, some who may well have been just out of school, others far wiser but all passionate about their local communities their roles as elected officials.

In this section of the briefing we share with you the benefits members obtained from attending our events and our plans for the future.

We focused each forum on the current hot topic in the sector – commercialisation and what it means for audit committees. Notwithstanding the challenge posed by the simple question of 'what does commercialisation mean', the variety of ongoing and emerging activities was striking ranging from advertising on roundabouts to building new crematorium and establishing housing development companies. Some key threads for members was public perception of authorities acting commercially, the need for authorities to ensure that they have the right capabilities, capacity, are focused on the long term and that the organisational culture matches the direction of travel.

Audit committee members had some concerns that they only tend to see commercial activities after they had been signed and sealed rather than providing challenge on governance and accountability before deals are completed.

Members valued the opportunity to meet peers, network and connect and hear how others are tackling similar issues using different approaches. Members also valued the insights that EY brings from our engagement with a wide range of authorities and other organisations around the country.

Next steps

Following the overwhelmingly positive feedback from attendees we plan to run these forum every six months. We will seek input from members to set the agenda but ensure sufficient time for networking and sharing and suspect the commercialisation agenda will remain the hot topic. Please liaise with your engagement partner and audit manager for details of dates and venues.

Outcome of Local Government Tender Process

The Public Sector Audit Appointments Limited (PSAA) announced the results of the Local Government tender on 20 June 2017, and we are delighted to say that we have been successful in retaining our 30% share of the Local Government external audit market. Details of the announcement can be found on the PSAA website.

Since 2012, we have invested and committed to the growth of our public sector assurance team, and we believe this outcome reflects the feedback our clients and the PSAA have given us on the quality, efficiency and effectiveness of our service. This is also evidenced by our AQRT scores, which is discussed below. We are committed to the public sector and going forward we are extremely pleased that we are the leading Big 4 firm delivering audit services to the local government sector.

Between now and the end of December 2017, PSAA will be consulting with audited bodies on the proposed appointed auditor to determine the allocation of audit clients. We will be actively participating in the process, with our primary focus on ensuring the allocations safeguard independence, objectivity, and ensuring we are able to continue to deliver high quality, efficient and effective audits.

In the meantime, we are continuing to work to support our clients in preparing for the faster closure of accounts from the 2017/18 financial year. We recognise the journey our local government clients are making to transform and ensure sustainable public services. We are committed to work with our clients to share our insights from the vast range of services we provide in the public sector.

Financial Reporting Council's (FRC) Audit Quality Inspection Results

Executing high quality audits continues to be our highest priority. Ensuring that we deliver high quality audits is fundamental to our business and our public service obligation. We are therefore committed to a significant and sustained investment in audit quality.

EY's investment continues to be reflected in the FRC's inspection results

The firm is subject to external inspection by the FRC's Audit Quality Review Team (AQRT), the ICAEW's Quality Assurance Department (QAD) and the Public Company Accounting and Oversight Board (PCAOB) from the US. The AQRT's scope is the audits of FTSE 350 and other public interest companies in the UK and it issues public reports outlining its work and conclusions.

We are delighted that 88% of our audits inspected by the AQRT this year were assessed as requiring no more than limited improvements and that once again no audits subject to review were identified as requiring significant improvements. The results of the FRC AQRT report published in June 2017, as presented in the chart below, reflect our sustained investment in audit quality.

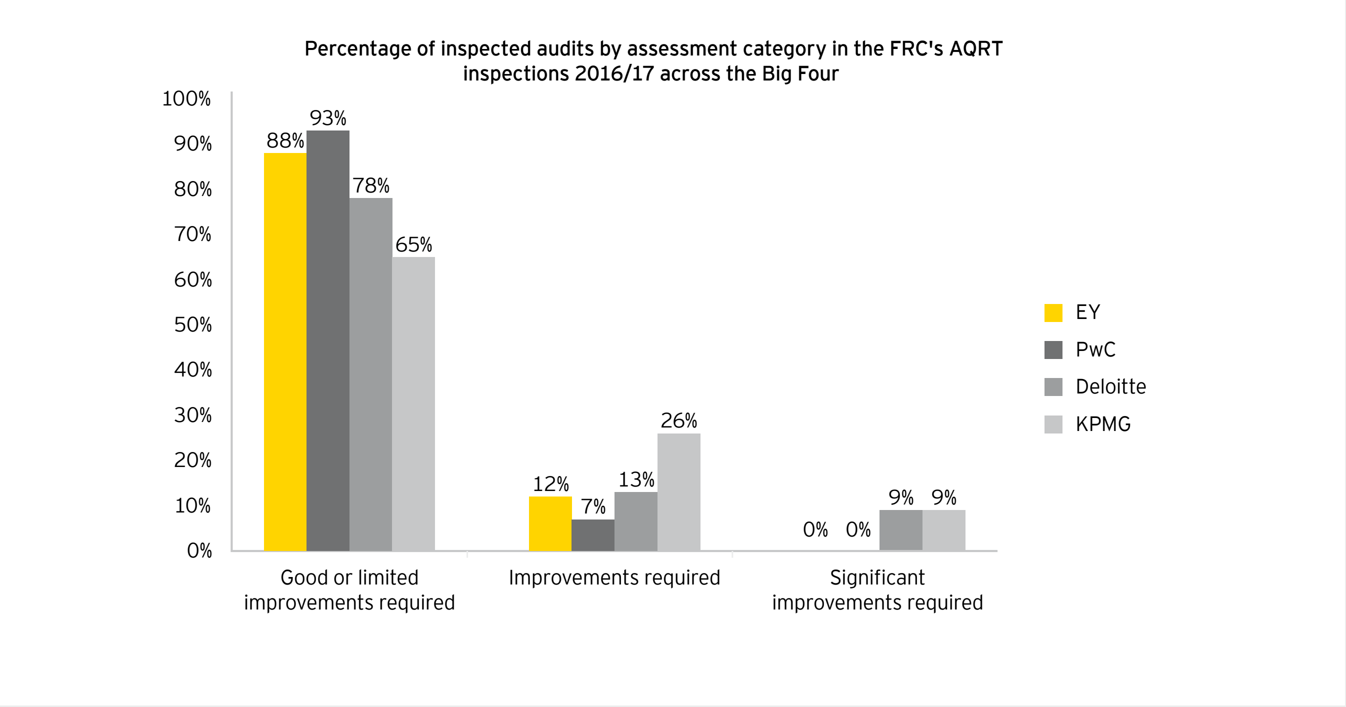


Figure 1. Bar chart showing the FRC Audit Quality Review Team inspection results for EY, PwC, Deloitte and KPMG

Key questions for the Audit Committee

Does your organisation and its partners have in place IT security arrangements which minimise the risk and impact of cyber attacks?

Is your culture allowing women to progress to senior positions?

Are you aware of the commercial activities of your authority? What assurance have you sought on the adequacy of risk identification, effectiveness of risk management and the arrangements for optimising benefits realisation?

Are you assured that all financial considerations have been addressed? Including appropriate due diligence, staying within state aid rules, understanding the impact on the minimum revenue provision and clarity on the longer term revenue implications of capital investments.

Do you know about the significant commercial activities in the pipeline? What assurance do you have that business cases are robust and realistic?

Has your authority recently discussed and agreed its risk appetite?

Find out more

EY Item Club Forecast

http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections

WannaCry ransomware attack

http://www.ey.com/gl/en/services/advisory/ey-wannacry-ransomware-attack

Women and leadership

http://www.nhsemployers.org/case-studies-and-resources/2017/03/nhs-women-on-boards-5050-by-2020

Use of Housing Companies

http://www.publicfinance.co.uk/feature/2016/10/company-houses-how-councils-are-constructing-new-model-housing

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FINANCE, AUDIT & RISK COMMITTEE
20 November 2017

*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 8

The following is the report to be considered by the Cabinet at its meeting to be held on 21 November 2017. The Committee is invited to comment on the report.

TITLE OF REPORT: SECOND 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 second quarter (30 September 2017). The forecast variance is a decrease of **£131k** on the net working budget of **£17.230m** for 2017/18, with an ongoing impact in future years of a **£13k increase**. The most significant variances, which are highlighted and explained in table 2, relate to housing benefits overpayments income (-£200k) and car parking fee income (+£100k)**.** 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 – 8.12)

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 £131k decrease 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 £13k increase in net expenditure. These will be incorporated in 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 28th July 2017.

7. BACKGROUND

7.1 Council approved the revenue budget in February 2017 of £16.545 million. As at quarter 2 the working budget has increased to £17.230 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 28th 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
Quarter 1 2017/18 Revenue Monitoring report - 2017/18 variances approved by Cabinet (September 2017)	208
Current Working Budget	**17,230**

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 2018/19 £k
Housing Benefit Overpayments Income	-488	-688	-200	Increase in income projection follows the appointment to a temporary post to process changes to payments and raise income invoices accordingly.	0
Car Parking Fee Income	-1,813	-1,713	+100	Budget estimates for 2017/18 anticipated that the outcomes from the review of the Council's Parking Strategy would result in additional annual income of £100k. However, due to staffing resource being reallocated to progress the Local Plan and difficulties appointing to the Transport Officer post, the completion of phase 2 of the review has been delayed and as such it is not expected that the additional income will be realised in this financial year. It is though anticipated that the income target will be achieved in 2018/19. Failure to achieve the budgeted income from car parks was identified as a financial risk in 2017/18.	0
Residents Car Parking Permits Income	-140	-170	-30	Permit sales income recorded in April to September 2017 is similar to that recorded in the same period last year. The outturn in 2016/17 was an overachievement of budgeted income by £30k, which is forecast for this year and on an ongoing basis.	-30
Economic Development Officer	+52	+17	-35	Following the resignation of the Economic Development Officer in July 2017, NHDC has now agreed a shared service arrangement with East Herts District Council. It is anticipated that the recruitment process will be complete by December 2017.	0
Extending the boundary of the Chiltern Area of Outstanding Natural Beauty	+20	0	-20	The application to Natural England to extend the boundary was submitted by the Chilterns Conservation Board on behalf of North Hertfordshire District Council and the Board in 2013. The Council has however not received any further correspondence or update from Natural England as to their decision or when a decision can be expected. It is therefore proposed at this point that the budget for the associated consultants' costs, which was requested to be carried forward into 2017/18, be declared no longer required and that any future requirement for funding in relation to this application be subject to a new revenue investment bid.	0

Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Estimated Impact on 2018/19 £k
Income from proposed NHDC Lottery	-50	0	+50	The proposal to launch a lottery was approved as an efficiency proposal within the 2017/18 budget. Officers have since been assessing the options for delivery and the viability of the scheme as a whole. Whilst a recommendation is yet to be made, it has been established that the nature of the process involved prior to launching a lottery means that it is unlikely that any additional income would be generated before the end of 2017/18. Failure to achieve budgeted income from new initiatives was identified as a financial risk in 2017/18.	0
North Hertfordshire Museum and Community Facility Business Rates Assessment	+17	+70	+53	The increase in rates expenditure follows the revised ratings assessment by the VOA as measured at April 2017 (as part of the national business rates revaluation exercise). NHDC have appointed rating consultants to review and, if appropriate, make an appeal against this outcome. An appeal however could take some time for the VOA to process and resolve. It is therefore deemed prudent at this point to adjust for this on an ongoing basis.	+53
Total of explained variances	**-2,402**	**-2,484**	**-82**		**+23**
Other minor balances	19,632	19,583	-49		-10
Overall Total	**17,230**	**17,099**	**-131**		**+13**

8.2 Cabinet are asked to approve the differences highlighted in the table above (a £131k decrease 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 £13k 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 underachievement of £115k. This relates to:

- Net overachievement reported at Q1 of £50k
- Underachievement of £150k as detailed in table 2 above (NHDC Lottery £50k and car parking fee income £100k).
- Hybrid Mail; an underachievement of £15k due to delays in implementation. The delay has been due to a wider consideration of the impacts on the organisation of the options available. It is still expected that the forecast savings will be achieved, and could be more than those originally estimated. The impact in this year has been absorbed by other off-setting variances.

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 was reported that one carry forward budget of £20k would not be spent. At quarter 2 it is forecast that a further carry forward budget of £20k, earmarked to fund costs associated with the proposed extension of the Chiltern area of outstanding natural beauty, will not be spent and that another carry forward budget, requested to resource the Economic Development Officer post in 2017/18, is expected to be only partially spent (£17k of the £52k budget carried forward) in the current financial year. Both changes are highlighted and explained in table 2. 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 three indicators are green and one indicator is red. The red indicator in relation to car parking fees relates to the additional parking fee income anticipated in 2017/18 from the Parking Strategy review, as detailed in table 2 above.

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)	(595)	(800)	(117)
Land Charges	Green	(174)	(83)	(174)	0
Car Parking Fees	Red	(1,813)	(870)	(1,713)	100
Parking Penalty Charge Notices	Green	(410)	(299)	(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. Current forecasts for 2017/18 are that there will be a surplus on our share of Council Tax of approximately £275k and a deficit on Business Rates of around £400k.

8.8 The Council also receives compensation in the form of a grant from Central Government for business rate reliefs introduced, which goes in to our funds rather than the Collection Fund. We are holding this amount in a reserve. Use of the amount held in reserve, currently projected to be £519k at the end of the year, will 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.

8.9 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 £466k. The payment of the levy will be funded from the grant held in reserve.

8.10 The estimate of retained business rates income for 2017/18 has increased by £17k at Q2. This revision relates to the estimated level of rates income retained from premises being used for renewable energy projects. As the billing authority NHDC retains 100% of business rates income from renewable energy projects, with this income disregarded from all calculations within the rates retention scheme (e.g. does not affect Central Government levy or business rates tariff). In 2016/17 NHDC retained £54k of rates income from hosting renewable energy projects.

8.11 Table 4 below summarises the impact on the projected general fund balance from the changes at quarter 2 detailed in this report.

Table 4 – Forecast General Fund impact

	Working Budget £k	Q2 Projected Outturn £k	Difference £k
Brought Forward balance (1st April 2017)	**(8,235)**	**(8,235)**	**-**
Projected Net Spend	17,230	17,099	(131)
Funding (Council Tax, Business Rates, RSG)	(15,556)	(15,573)	(17)
Contribution to Collection Fund	741	741	0
Funding from Reserves (including Business Rate Relief Grant)	(373)	(373)	0
Carried Forward balance (31st March 2018)	**(6,193)**	**(6,341)**	**(148)**

8.12 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 two a total of £302k have come to fruition. The two identified risks realised in the second quarter relate to;

- Failure to achieve budgeted income from a variety of sources, including Car Parks and new initiatives (Lottery), as detailed in table 2. £150k
- Cost of legal counsel advice in relation to a judicial review (included within 'other minor balances' in table 2) £8k

Table 5 – Known financial risks

	£'000
Original allowance for known financial risks	**795**
Known financial risks realised in Quarter 1	(144)
Known financial risks realised in Quarter 2	(158)
Remaining allowance for known financial risks	**493**

9. LEGAL IMPLICATIONS

9.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. Specifically 5.6.8 of Cabinet's terms of reference state that it has remit "*To monitor quarterly revenue expenditure and agree adjustments within the overall budgetary framework".* By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget and to maintain a prudent balance.

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.

FINANCE, AUDIT & RISK COMMITTEE 21 November 2017

PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 9

The following is the report to be considered by the Cabinet at its meeting to be held on 21 November 2017. The Committee is invited to comment on the report.

TITLE OF REPORT: SECOND 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 September 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 First Quarter Capital Monitoring report of £0.619million, and an increase in spend in future years of £0.923 million. The most significant individual changes are the inclusion of the purchase of new Fitness Equipment at Hitchin and Royston Leisure Centres, and the re-profiling of John Barker Place and Property Improvements into 2018/19.

2. RECOMMENDATIONS

2.1 That Cabinet notes the forecast expenditure of **£14.520million** in 2017/18 on the capital programme, paragraph 8.2 refers, and approves the changes detailed in table 3 which resulted in a net increase on the working estimate of **£0.304million**.

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 **£0.923million** (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 28 July 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 and re-profiling at the first quarter.

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 **£14.520million**. This is a reduction of **£0.619million** on that forecast in the first quarter 2017/18 report (reported to Cabinet on 26 September 2017). The decrease in spend in 2017/18 is largely due to re-profiling of 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 approved by Cabinet at 1st Qrt	-5.451	5.234	0

	2017/18 £M	2018/19 £M	2019/20 to 2020/21 £M
Changes detailed in this report	-0.619	0.923	0
Current Capital Estimates at Q2	**14.520**	**10.580**	**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
HAG John Barker Place	548	0	-548	The scheme has been revised so now awaiting a decision on the new planning application.	548
Property Improvements	380	65	-315	Some of the works initially identified from condition surveys will not be carried out this year. This is due to a review of the level of works required and a consideration of future ownership plans. The budget is based on prioritising spend from a long list of identified works, and as such the overall works budget will still be needed in future years.	315
Replacement Floodlights St Marys Car Park	60	0	-60	This work is still required but will not commence in this financial year	60
Total Revision to Budget Profile			**-0.923**		**0.923**

8.4 There are also changes to the overall costs of schemes in 2017/18. These changes total a net increase of £0.304million 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
Fitness Equipment Hitchin & Royston Leisure Centres	0	520	520	Purchase of new cardio and resistance equipment for the Hitchin and Royston leisure facilities, as approved by Full Council in August 2017.The Council's Leisure Contractor (Stevenage Leisure Limited) will

Scheme	2017/18 Working Budget £’000	2017/18 Forecast Spend £’000	Difference £’000	Comments
				pay back the Council in full over 5.5 years at an agreed interest rate of 3.5%. The repayment will be made through an increase in the annual management contract sum.
Section 106 Projects	15	67	52	To date, a total of £67k of S106 funds have been released for community schemes.
Careline - Alarm Receiving Centre(ARC) ICT Compliance	0	30	30	Changes to IT security requirements and telecommunication protocols mean that a hardware upgrade is required. This change also simplifies the way that upgrades are carried out.
Disabled Facilities Grants	745	600	-145	DFG spend to the year end is uncertain because the recently formed Hertfordshire Home Improvement Agency, of which NHDC is a partner along with several other authorities, takes over responsibility for delivery of DFGs from 1 October 2017. Ultimately, it is anticipated that the Agency will provide a more streamlined and efficient service but it is likely that it will take time to build up capacity.
Access Bridge Walsworth Common	180	120	-60	Successful bid for these works came in at a lower cost than anticipated in the budget.
Letchworth Multi Storey Car Park Structural Repairs	39	0	-39	This work can be absorbed within the Letchworth Multi Storey Parapet/Soffit/Decoration Capital budget.
Home Repairs Assistance Grants	60	30	-30	Demand for HRAGs has been lower than expected so far this year. The Housing and Public Protection Service is looking to improve the advertising of these grants so that those needing support are able to access it.
Neighbourhood CCTV Equipment	60	35	-25	Although costs are yet to be finalised, it is anticipated that work will be completed this year under budget.
Other minor changes			**1**	
Total revision to scheme spend			**304**	

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	(2.586)	1.675
Set-aside Receipts	16.642		(10.987)	5.655
S106 receipts			*(0.347)*	
Other third party grants and contributions			*(0.600)*	
Total	**19.863**	**1.040**	**(14.520)**	**7.330**

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 £2.832million higher than the estimated £28.322million.

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

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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	3,482,800	3,528,900	46,100	1,930,100	0	300,000
Prosper & Protect	1,041,900	1,046,400	525,800	-520,600	4,459,000	150,000	0
Responsive & Efficient	2,538,400	10,609,500	10,465,100	-144,400	4,191,000	1,677,600	1,094,000
Grand Total	**5,686,000**	**15,138,700**	**14,519,800**	**-618,900**	**10,580,100**	**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	0	-548,000	1,096,000	0	0
Asset Management	1,395,400	6,127,500	5,783,000	-344,500	3,525,000	150,000	0
Building Control	0	0	0	0	0	0	0
CCTV	69,500	60,000	35,000	-25,000	0	0	0
Community Services	427,500	318,200	371,200	53,000	636,000	250,000	120,000
Computer Software and Equipment	409,500	259,700	259,700	0	100,000	537,600	84,000
Corporate Items	2,100	10,600	10,600	0	2,500,000	0	0
Growth Fund Projects	0	0	0	0	713,000	0	0
Leisure Facilities	1,965,500	2,731,800	3,251,800	520,000	648,900	85,000	385,000
Museum & Arts	715,000	148,600	148,600	0	0	0	0
Parking	124,700	529,300	429,900	-99,400	556,200	0	0
Renovation & Reinstatement Grant Expenditur	544,300	805,000	630,000	-175,000	805,000	805,000	805,000
Town Centre Enhancement	0	0	0	0	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**	**15,138,700**	**14,519,800**	**-618,900**	**10,580,100**	**1,827,600**	**1,394,000**

Capital Funding Source

Funding Source	2016/17 Funding £	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Receipt	2,328,100	2,406,400	2,586,400	180,000	3,843,400	974,200	122,000
Drawdown of cash investments	2,184,600	11,422,540	10,986,640	-435,900	4,815,600	199,600	331,200
Government Grant	520,200	745,000	600,000	-145,000	1,416,800	653,800	653,800
IT Reserve	0	0	0	0	0	0	0
Other Capital Contributions	196,100	0	0	0	163,000	0	250,000
Revenue Contribution	0	0	0	0	0	0	0
S106 Funding	457,000	564,760	346,760	-218,000	341,300	0	37,000
Grand Total	**5,686,000**	**15,138,700**	**14,519,800**	**-618,900**	**10,580,100**	**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		-1,674,772	-231,372	-1,007,172
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	2,406,400	2,586,400	180,000	3,843,400	974,200	122,000
C/Fwd Capital Receipt Funding	**-3,221,172**	**-1,854,772**	**-1,674,772**	**180,000**	**-231,372**	**-1,007,172**	**-1,385,172**

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		-5,655,760	-840,160	-640,560
Set-Aside Receipts Received in Year	0	0	0	0	0	0	0
Set -Aside Receipts Used in Year	2,184,600	11,422,540	10,986,640	-435,900	4,815,600	199,600	331,200
C/Fwd Set-Aside Receipt Funding	**-16,642,400**	**-5,219,860**	**-5,655,760**	**-435,900**	**-840,160**	**-640,560**	**-309,360**

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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	0	0	0	0	0	0
40 KVA UPS Device or Battery Replacement Total		**0**	**0**	**0**	**0**	**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**
Alarm Receiving Centre (ARD) Upgrade								
	Capital Receipt	0	0	30,000	30,000	0	0	0
Alarm Receiving Centre (ARD) Upgrade Total		**0**	**0**	**30,000**	**30,000**	**0**	**0**	**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	74,500	74,500	0	0	0	0
	S106 Funding	0	2,300	2,300	0	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	0	0	0	24,100	0	0
	Other Capital Contributions	0	0	0	0	80,000	0	0
	S106 Funding	0	0	0	0	65,900	0	0
Bancroft Recreation Ground, Hitchin, Multi Use Games Area (MUGA) Total		**0**	**0**	**0**	**0**	**170,000**	**0**	**0**
Burymead Road - new roof waterproofing system								
	Drawdown of cash investments	51,200	2,000	2,000	0	0	0	0
Burymead Road - new roof waterproofing system Total		**51,200**	**2,000**	**2,000**	**0**	**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	0	0	0	2,500,000	0	0
Capitalised Pension Fund Contribution Total		**0**	**0**	**0**	**0**	**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	380,000	65,000	-315,000	315,000	0	0
	Drawdown of cash investments	0	0	0	0	560,000	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 £
Council property improvements following condition surveys Total		**260,000**	**380,000**	**65,000**	**-315,000**	**875,000**	**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**
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	0	0	0	278,000	0	0
Cycle Strategy implementation (GAF) Total		**0**	**0**	**0**	**0**	**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	600	600	0	0	0
Demolition of Bancroft Hall Total		**44,800**	**0**	**600**	**600**	**0**	**0**	**0**
Dog / Litter Bins								
	Capital Receipt	0	40,000	40,000	0	0	0	0
Dog / Litter Bins Total		**0**	**40,000**	**40,000**	**0**	**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	29,000	29,000	0	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**	**29,000**	**29,000**	**0**	**0**	**0**	**39,000**
Email Encryption Software Solution								
	Capital Receipt	31,100	0	0	0	0	0	0
	Drawdown of cash investments	0	0	0	0	0	0	45,000
Email Encryption Software Solution Total		**31,100**	**0**	**0**	**0**	**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	0	0	0	185,000	0	0
Green Infrastructure implementation (GAF) Total		**0**	**0**	**0**	**0**	**185,000**	**0**	**0**
Hitchin & Royston Fitness Equipment								
	Capital Receipt	0	0	520,000	520,000	0	0	0
Hitchin & Royston Fitness Equipment Total		**0**	**0**	**520,000**	**520,000**	**0**	**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	50,000	50,000	0	225,900	0	0
Hitchin Swimming Pool Car Park extension Total		**2,500**	**50,000**	**50,000**	**0**	**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)								

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 £
	Government Grant	0	0	0	0	50,000	0	0
Installation of trial on-street charging (GAF) Total		**0**	**0**	**0**	**0**	**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
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	0	-277,600	825,600	0	0
	S106 Funding	0	270,400	0	-270,400	270,400	0	0
John Barker Place, Hitchin Total		**0**	**548,000**	**0**	**-548,000**	**1,096,000**	**0**	**0**
Lairage Multi-Storey Car Par - Structural wall repairs								
	Drawdown of cash investments	-2,400	5,700	5,700	0	120,000	0	0
Lairage Multi-Storey Car Par - Structural wall repairs Total		**-2,400**	**5,700**	**5,700**	**0**	**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	0	0	0	0	0	0
Letchworth Multi Storey Enhancements Total		**0**	**0**	**0**	**0**	**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	0	-39,400	0	0	0
Letchworth Multi Storey Structural Investigations Total		**0**	**39,400**	**0**	**-39,400**	**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	0	0	0	0	0	0
Making Good Trip Hazards, Hitchin Town Centre Total		**0**	**0**	**0**	**0**	**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	600,000	-145,000	653,800	653,800	653,800
Mandatory Disabled Facility Grants Total	**Mandatory Disabled Facility Grants**	**520,200**	**745,000**	**600,000**	**-145,000**	**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	831,740	831,740	0	0	0	0
	S106 Funding	48,100	65,560	65,560	0	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	60,000	60,000	0	91,200	0	0
Off Street Car Parks resurfacing and enhancement Total		**68,800**	**60,000**	**60,000**	**0**	**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**

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 £
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								
	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	30,000	-30,000	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**	**30,000**	**-30,000**	**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	200,000	200,000	0	650,000	0	0
Provide housing at market rents. Total		**0**	**200,000**	**200,000**	**0**	**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	200,000	200,000	0	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**	**200,000**	**200,000**	**0**	**636,000**	**250,000**	**120,000**
Refurbishment of DCO								
	Drawdown of cash investments	613,200	5,268,000	5,268,000	0	0	0	0
Refurbishment of DCO Total		**613,200**	**5,268,000**	**5,268,000**	**0**	**0**	**0**	**0**
Refurbishment of Harkness Court								
	Capital Receipt	0	0	0	0	0	0	0
Refurbishment of Harkness Court Total		**0**	**0**	**0**	**0**	**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	0	-60,000	60,000	0	0
Replace and enhance lighting at St Mary's Car Park Total		**0**	**60,000**	**0**	**-60,000**	**60,000**	**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	35,000	-25,000	0	0	0
Replacement of neighbourhood CCTV equipment Total		**0**	**60,000**	**35,000**	**-25,000**	**0**	**0**	**0**
Replacement of Walsworth Common Access Bridge								
	Drawdown of cash investments	5,500	179,500	120,000	-59,500	0	0	0
Replacement of Walsworth Common Access Bridge Total		**5,500**	**179,500**	**120,000**	**-59,500**	**0**	**0**	**0**
Replacement SAN								

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 £
	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	0	0	0	0	0	0
Royston Civic Centre Site redevelopment (GAF) Total		**0**	**0**	**0**	**0**	**0**	**0**	**0**
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	15,000	67,400	52,400	0	0	0
S106 Projects Total		**354,200**	**15,000**	**67,400**	**52,400**	**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	1,800	1,800	0	0	0	0
	S106 Funding	18,400	0	0	0	0	0	0
Smithsons Recreation Ground Total		**24,300**	**1,800**	**1,800**	**0**	**0**	**0**	**0**
Software Asset Management								
Capital Receipt	Capital Receipt	0	0	0	0	0	0	0
Software Asset Management Total		**0**	**0**	**0**	**0**	**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	35,000	35,000	0	0	0	0
St Mary's car park. Structural repairs to steps Total		**1,400**	**35,000**	**35,000**	**0**	**0**	**0**	**0**
Storage Facilities								
	Drawdown of cash investments	515,100	40,000	40,000	0	0	0	0
Storage Facilities Total		**515,100**	**40,000**	**40,000**	**0**	**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	0	0	0	235,000	0	0
Town Centre pay & display machines for on-street charging Total		**0**	**0**	**0**	**0**	**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	0	0	0	250,000	0	0
Transport Plans implementation (GAF) Total		**0**	**0**	**0**	**0**	**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	0	0	0	15,000	0	0
	Other Capital Contributions	0	0	0	0	83,000	0	0
	S106 Funding	0	0	0	0	5,000	0	0
Walsworth Common Pitch Improvements Total		**0**	**0**	**0**	**0**	**103,000**	**0**	**0**
Walsworth Common Reconstruction of Car Park								
	Capital Receipt	0	0	0	0	30,000	0	0
Walsworth Common Reconstruction of Car Park Total		**0**	**0**	**0**	**0**	**30,000**	**0**	**0**
Warren Car Park redevelopment								
	Capital Receipt	0	0	0	0	0	0	0
Warren Car Park redevelopment Total		**0**	**0**	**0**	**0**	**0**	**0**	**0**

Appendix B

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 £
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**
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	15,138,700	14,519,800	-618,900	10,580,100	1,827,600	1,394,000

FINANCE, AUDIT & RISK COMMITTEE
20 NOVEMBER 2017

PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 10

The following is the report to be considered by the Cabinet at its meeting to be held on 21 November 2017. The Committee is invited to comment on the report.

TITLE OF REPORT: TREASURY MANAGEMENT SECOND 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 second quarter of 2017/18 to the end of September. The current forecast is that the amount of investment interest expected to be generated during the year is £0.320 million. This is a decrease of £0.007 million on the figure reported at first quarter.

1.2 To inform Cabinet of the performance against the Prudential and Treasury indicators detailed in the appendix to this report. During the second 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 September 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 28 July 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 second 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 second 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 £0.172 million of interest during the first six months of 2017/18. The average interest rate agreed on new deals during the second quarter by Tradition was 0.76% and in house was 0.30%.The average interest rate on all outstanding investments at the 30 September was 1.00%.

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 September the split of investments was:

Banks	16%
Building Societies	66%
Local Authorities	6%
Money Market Funds	12%

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 six months was £14.2 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 second quarter the Council had 16.6% (£6.5 million) invested for longer than 364 days. During the second quarter Tradition placed two investments for longer than 364 days. One was at 1.0% for eighteen months and the other was 0.75% for 365 days.

8.13 The **return (or yield)** that the Council achieves is affected by both the level of risk as well as general market conditions. Whilst the Bank of England's Monetary Policy Committee (MPC) raised the base rate to 0.5% at its meeting in early November, this was just a reversal of the emergency cut in 2016. It is currently expected that any future rate increases will be very gradual. It is therefore thought that it will still be 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.

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 £470k 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 £0.320 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 Mid Year Review September 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

Asset Services

Treasury solutions

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-year Review Report 2017/18

English Authorities

1 Background

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives. This council does not currently have borrowing requirements due to the capital receipts previously classed as "set-aside".

Accordingly, treasury management is defined as:

> "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council on 9th February 2017.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Finance, Audit and Risk Committee

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2017/18 financial year;

- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2017/18;
- A review of the Council's borrowing strategy for 2017/18;
- A review of any debt rescheduling undertaken during 2017/18;
- A review of compliance with Treasury and Prudential Limits for 2017/18.

3 Economics and interest rates

3.1 Economics update

UK. After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. . The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

It therefore looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

EU. Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

USA. Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

3.2 Interest rate forecasts

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	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%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

Capita Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in MPC policy at that meeting. However, the MPC meeting of 14 September revealed a sharp change in sentiment whereby a majority of MPC members said they would be voting for an increase in Bank Rate "over the coming months". It is therefore possible that there will be an increase to 0.5% at the November MPC meeting. If that happens, the question will then be as to whether the MPC will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further increases in Bank Rate during 2018.

The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. Funds Rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

4 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by this Council on 9th February 2017.

- There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure as approved in the first quarter Capital Budget Monitoring Report.

Capital Expenditure by Service	2017/18 Original Estimate £	Current Position £	2017/18 Revised Estimate £
Advances & Cash Incentives	548,000	0	548,000
Asset Management	850,000	3,504,259	6,127,500
CCTV	60,000	0	60,000
Community Services	340,000	44,919	318,200
Computer Software & Equipment	366,000	52,802	259,700
Corporate Items	0	0	10,600
Growth Fund Project	652,000	0	0
Leisure Facilities	688,000	1,981,439	2,731,800
Museum & Arts	0	87,692	148,600
Parking	415,000	930	529,300
Renovation & Reinstatement Grant Expenditure	805,000	147,597	805,000
Town Centre Enhancement	141,000	0	0
Waste Collection	3,600,000	0	3,600,000
Total capital expenditure	**8,465,000**	**5,819,638**	**15,138,700**

5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), and the expected financing arrangements of this capital expenditure.

Capital Expenditure	2017/18 Original Estimate £	Current Position £	2017/18 Revised Estimate £
Total capital expenditure	**8,465,000**	**5,819,638**	**15,138,700**
Financed by:			
Capital receipts	1,291,300	1,166,338	2,406,400
Government grants	1,396,800	144,776	745,000
Other Capital Contributions	163,000	0	0
Revenue Contributions	0	0	0
S106 Funding	341,300	272,538	564,760
Total financing	**3,192,400**	**1,583,652**	**3,716,160**
Net Financing Need	**5,272,600**	**4,235,986**	**11,422,540**

5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

The Capital Financing Requirement will remain negative during the year.

	2017/18 Original Estimate £	2016/17 Year End £	2017/18 Revised Estimate £
Prudential Indicator – Capital Financing Requirement			
Total CFR	-2,286,000	-16,633,719	-5,211,179
Net movement in CFR	**0**	**-14,347,719**	**11,422,540**

Prudential Indicator – the Operational Boundary for external debt

	2017/18 Original Estimate £	2017/18 Current Position £	2017/18 Revised Estimate £
Prudential Indicator – the Operational Boundary for external debt			
Operational Boundary	4,000,000	4,000,000	4,000,000
Borrowing			
PWLB	480,455	466,179	455,732
LOBO	0	0	0
Total debt	**480,455**	**466,179**	**455,732**
Within Operational Boundary	**3,519,545**	**3,533,821**	**3,544,268**

5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need but this will not be required in 2017/18.

The Head of Finance, Performance and Asset Management reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2016/17 Original Indicator £m	2016/17 Current Position £m	2016/17 Revised Indicator £m
Authorised Limit	6,000,000	6,000,000	6,000,000
Borrowing	480,455	466,179	455,732

6 Investment Portfolio 2017/18

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by forecasts in section 3.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

The Council held £39.1m of investments as at 30 September 2017 (£36.0m at 31 March 2017). The average level of funds available for investment purposes in house during the 2nd quarter was £13.7M. 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. At the 30 September the Council held £28.5M core cash balances for investment purposes (i.e. funds available for more than one year). The investment portfolio yield for the first six months of the year including in-house deals is 0.8%.

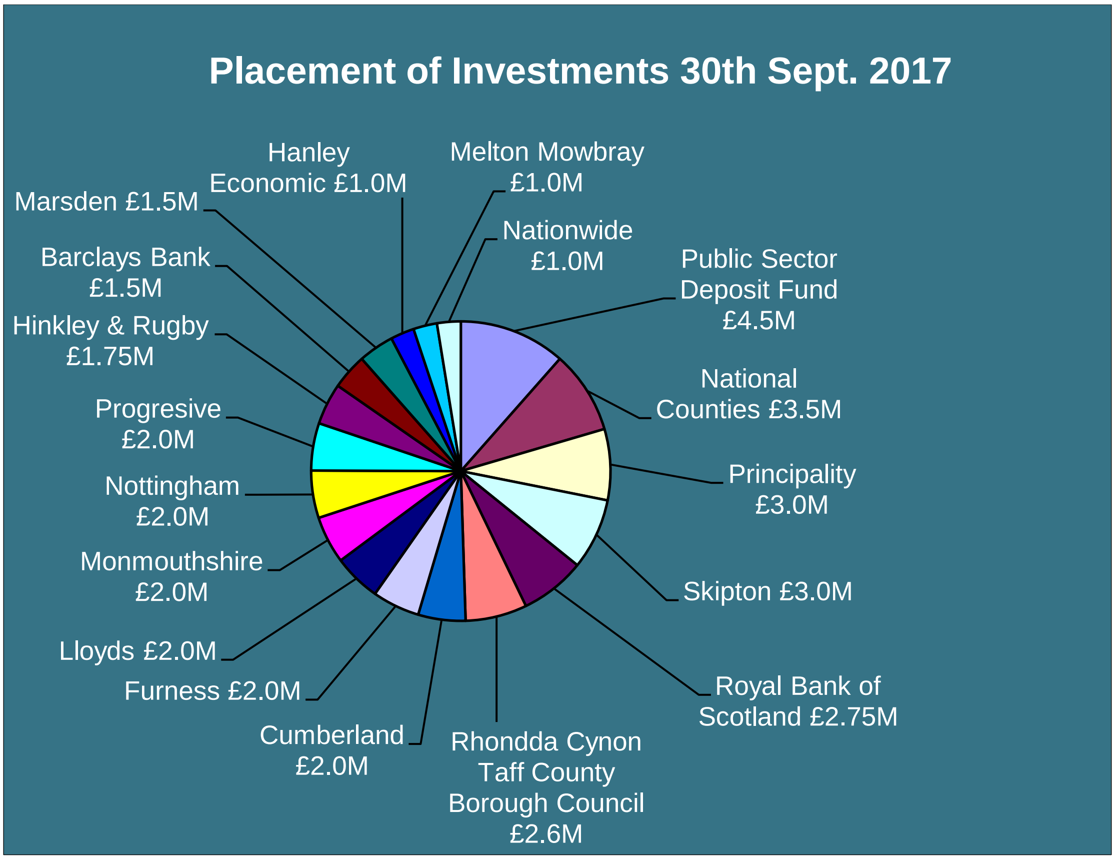
Investments as at 30 September 2017

	Amount £	Average Interest Rate %
Managed By NHDC		
Banks	3,500,000	0.66
Local Authorities	2,600,000	0.30
Money Market Fund	4,500,000	0.28
NHDC To Total	**10,600,000**	**0.50**
Managed by Tradition		
Banks	2,750,000	0.58
Building Societies	25,750,000	1.09
Tradition Total	**28,500,000**	**1.05**
TOTAL	**39,100,000**	**1.00**

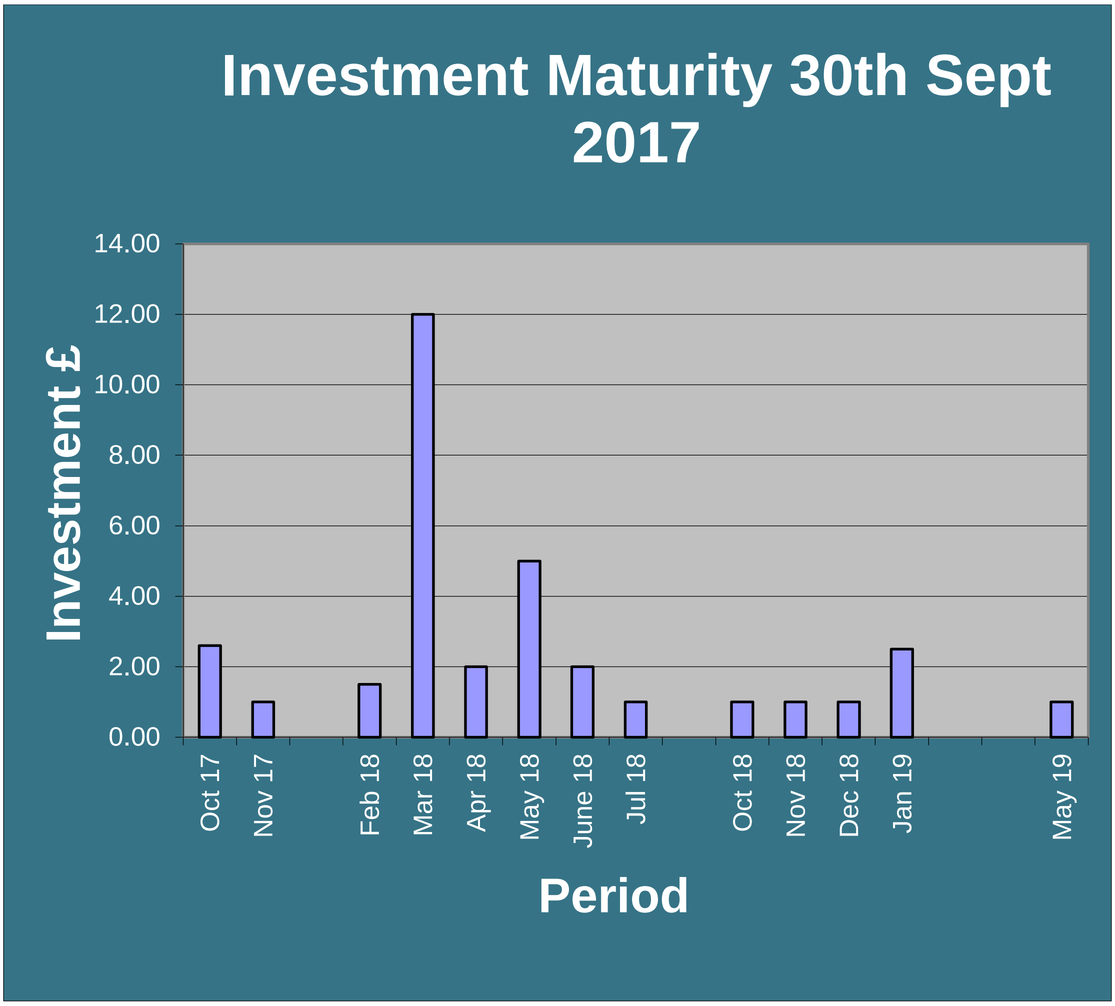
In percentage terms, this equates to:

	Percentage
Local Authorities	6.65
Money Market Funds	11.51
Banks	15.98
Building Societies	65.86

The pie chart below shows the spread of investment balances as at 30 September 2017. This is a snapshot in time that demonstrates the diversification of investments.

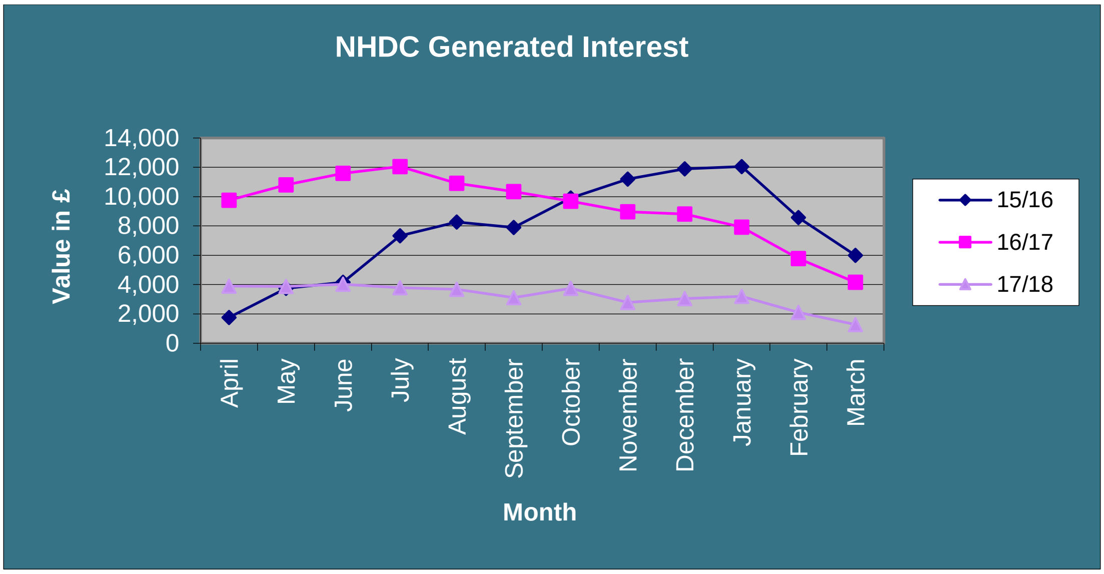


The chart below shows the Council's investment maturity profile. (This does not include the £4.5M held in the Public Sector Deposit Fund Money Market account or £1.0M held in the Lloyds current account which can be called back on any day). Tradition placed five new deals in the second quarter, two of which were for longer than a year (£1M at 1.0% for 18 months and £1M at 0.85% for a year). The other three deals were asked to be kept short to ensure enough funds will be available to fund the capital programme.



The Council's Original budgeted investment return for 2017/18 was £0.267M. The projection at the first quarter was £0.327M which was an increase of approximately £0.060M. The projection at the second quarter is slightly lower at £0.320M.

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 fewer Council tax receipts in February and March.

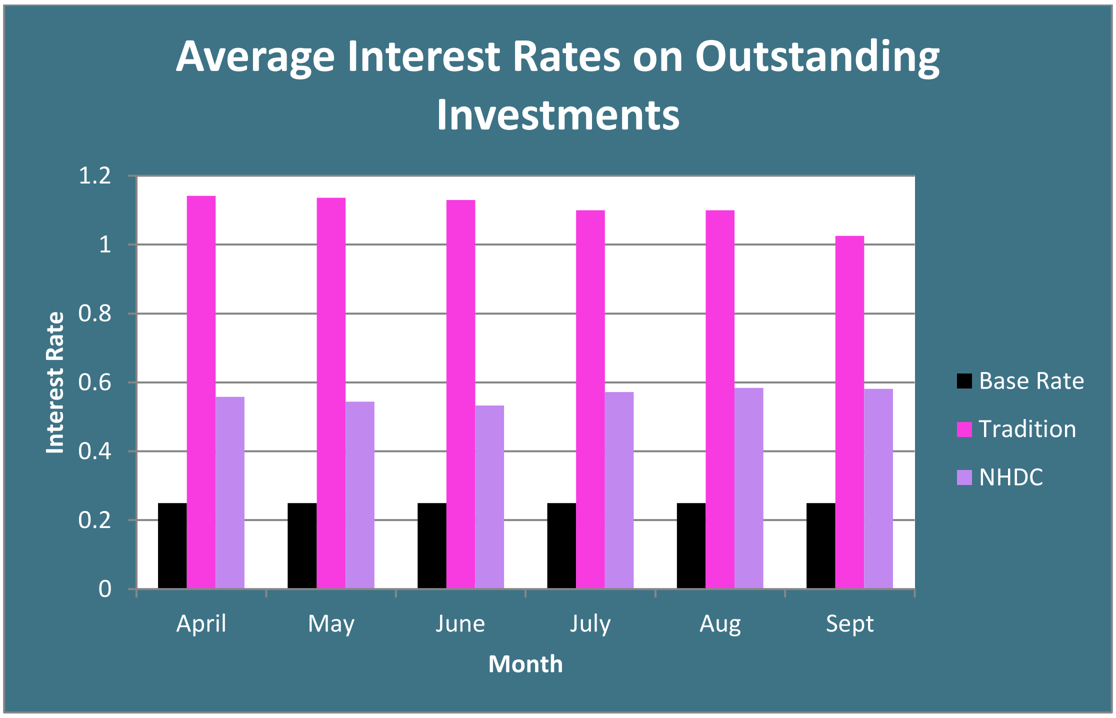


The table below shows the average rates achieved on investments made during the second quarter.

	Ave Interest Rate on Deals made in the 2nd Qrt
NHDC	0.30%
Tradition	0.76%

Base rate started the year at 0.25% and remained constant during the two quarters.

The graph below shows the average rate of interest on outstanding investments at 30th September.



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 in the shorter periods are lower than the 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 six months of 2017/18.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function but will be reviewed when setting next year's TMSS

7 Borrowing

The Council's capital financing requirement (CFR) for 2017/18 is -£5.2M. 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.

Loans Outstanding at 30 September 2017

	Amount	Average Interest Rate	Cumulative Rate
	£	%	%
Public Works Loans Board	466,179	9.526	8.85
	466,179	9.526	8. 85

It is anticipated that long term borrowing will not be undertaken during this financial year.

The table below show the movement in PWLB certainty rates for the first six months of the year to date:

PWLB certainty rates 1 April 2017 to 30 September 2017

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.8	1.14	1.78	2.52	2.25
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.16	1.62	2.22	2.83	2.57
Date	15/09/2017	28/09/2017	28/09/2017	07/07/2017	07/07/2017
Average	0.9408	1.2981	1.9470	2.6475	2.3917

8 Debt Rescheduling

No debt rescheduling was undertaken during the first six months of 2017/18.

9 Other

Revised CIPFA Codes
The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes during November.

A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non treasury investments. Officers are monitoring developments and will report to members when the new codes have been agreed and issued and on the likely impact on this authority.

MIFID II (Markets in Financial Instruments Directive)
The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on this authority apart from having to fill in forms sent by each institution dealing with this authority and for each type of investment instrument we use apart from for cash deposits with banks and building societies.

FINANCE, AUDIT & RISK COMMITTEE
20 NOVEMBER 2017

*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 11

TITLE OF REPORT: UPDATED FINANCIAL REGULATIONS

REPORT OFTHE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT
EXECUTIVE MEMBER: COUNCILLOR JULIAN CUNNINGHAM
COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

1.1 This report provides an update to the Council's Financial Regulations. Whilst the proposed new regulations are significantly different in presentation, the overall content is very similar. The change to the presentation is to make them shorter and easier to find the key information.

2. RECOMMENDATIONS

2.1 To request that FAR Committee notes and comments on the proposed Financial Regulations and recommends them on to Council for adoption.

3. REASONS FOR RECOMMENDATIONS

3.1 The Financial Regulations have been updated to reflect:
- Changes to the staffing structure, including the retirement of the Strategic Director for Finance, Policy and Governance.
- To make them shorter and easier to find information.
- Other minor updates

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 The Financial Regulations form part of the Constitution and are the key framework for the financial operation of the Council. It is therefore essential that they are kept up to date.

4.2 It would have been possible to just update the existing regulations. As Officers and Councillors are required to comply with the Regulations, it is important to try and make them as accessible as possible.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 This report and appendices are being presented to FAR Committee for consideration, prior to referral to Council.

5.2 The Executive Member for Finance and IT has been consulted on the proposed changes.

5.3 The Senior Management Team has also commented on the proposed changes.

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 The Financial Regulations are reviewed on a periodic basis to ensure they remain relevant and appropriate to the Council's needs. This review has been led by the Head of Finance, Performance and Asset Management. Responsibility for the rules lies with the Head of Finance, Performance and Asset Management as Chief Finance Officer. The changes have also been agreed by the Senior Management Team.

7.2 The last major review of the Financial Regulations was agreed by Council at its meeting on 12th February 2015.

8. RELEVANT CONSIDERATIONS

8.1 The current Financial Regulations are based on a format and guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2001. They include quite a lot of duplication of information which can make it difficult to find the key rules and guidance that needs to be followed.

8.2 The current regulations (Part B, Section 19 of the Constitution) also make a lot of reference to the post of Strategic Director for Finance, Policy and Governance. This post previously acted as Chief Finance Officer (or s151 Officer). Following the postholder's retirement the post was deleted. The new regulations instead refer to the Chief Finance Officer. As this is a post that the Council is required to have it would make the Regulations more adaptable to future changes.

8.3 The new regulations make reference to both Heads of Service and Service Directors. This is so that they cover the interim period until the Council's new management structure is in place. Once the new structure is in place all references will be changed to the appropriate Service Director. This change will be carried out by the Chief Finance Officer under the delegation to make minor changes under Section 2.6.2(a) of the Constitution.'

8.4 Most of the changes made to the regulations relate to presentation and job titles i.e. they do not make changes to the actual regulations to be followed. However the significant changes to the presentation make it impossible to provide a tracked changes version of the regulations. The actual changes to the regulations are therefore detailed in the following paragraphs.

8.5 There are two changes to the reporting of revenue budget variances (section 3.8 of the proposed new regulations). The previous version required that variances (overspends and underspends) that were greater than 5% of budget **or** £25,000 were reported to Cabinet. Given that there are some budgets which are quite low in value (especially where they are a combination of expenditure and income) this could require some very low variances to be reported. The new version proposes that the variance has to be greater than 5% **and** £25,000. This does mean that variances on larger budgets would not get reported until they got very high (e.g. 5% of a £4m budget would be £200k). However, the regulations further state that the Chief Finance Officer will determine whether to report any variances that do not meet the value criteria.

8.6 The second change in section 3.8 relates to the first quarter revenue budget monitor. From now on the financial accounts need to be approved by Finance, Audit and Risk Committee by the end of July. To avoid having an additional meeting of the Committee, it is proposed that this meeting will also review the first quarter finance reports. To meet the deadlines for this meeting, it may be necessary for the first quarter revenue monitor to be based on the first two months, updated for significant changes that have occurred during month 3.

8.7 Section 5.5 refers to the same changes referenced in paragraphs 8.5 and 8.6, but in relation to capital monitoring instead.

8.8 The previous lower limit for virements (where budget is moved from one area to another) was £100. The proposal is that this is increased to £1,000 (section 7.2). This reflects the work involved and that there is no value in moving budget for very small amounts.

8.9 The previous regulations included a provision for where the Council was passed property for safekeeping by the owner. Given that there are significant risks in looking after property, the revised version details that Officers and Councillors should not accept property for safekeeping (section 12.12).

9. LEGAL IMPLICATIONS

9.1 The Local Government Act 1972 requires the Council to have a written constitution. Full Council adopts and changes the Constitution, and documents such as the Financial Regulations that are appended to the Constitution (Constitution 4.4.1 (p)).

9.2 The Finance, Audit and Risk Committee “maintain an overview of the Council’s Constitution in respect of Contract Procurement Rules and Financial Regulations, consider any major changes and make recommendations to Council for approval” (Constitution 10.15 (g)).

9.3 The Chief Finance Officer is responsible for keeping the Financial Regulations under review (Constitution 2.4). This is currently delegated to the Head of Finance, Performance and Asset Management as Chief Finance Officer.

10. FINANCIAL IMPLICATIONS

10.1 There are no financial implications arising directly from the recommended amendments to the Financial Regulations.

11. RISK IMPLICATIONS

11.1 Adoption of the proposed amendments will contribute to the Council’s internal control environment and the management of risk.

12. EQUALITIES IMPLICATIONS

12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2 There are no equalities implications arising from this report.

13. SOCIAL VALUE IMPLICATIONS

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

14. HUMAN RESOURCE IMPLICATIONS

14.1 There are no direct human resources implications arising from the report, although compliance with these regulations is a requirement of an employee's contract of employment.

15. APPENDICES

15.1 Appendix A - Proposed Financial Regulations.

16. CONTACT OFFICERS

16.1 Ian Couper, Head of Finance. Performance and Asset Management
ian.couper@north-herts.gov.uk; ext 4243

16.2 Jeanette Thompson, Acting Corporate Legal Manager
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16.3 Reuben Ayavoo, Senior Policy Officer
reuben.ayavoo@north-herts.gov.uk; ext 4212

17. BACKGROUND PAPERS

Part B of the Constitution Section 29 Financial Regulations
https://www.north-herts.gov.uk/sites/northherts-cms/files/Constitution%20PART%20B%20Financial%20Regulations%2014%2007%2016.pdf

Part B

Section 19 – Financial Regulations

Index

1. Introduction

1.1 To conduct its business efficiently the Council needs to ensure that it has sound financial management policies in place and that they are strictly adhered to. Part of this process is the establishment of financial regulations that set out the financial policies of the Council.

1.2 These financial regulations apply to every Member and Officer of the Council, although they place specific requirements on certain individuals, including:

- Cabinet Members
- Chief Executive (also Head of Paid Service)
- Deputy Chief Executive
- Chief Finance Officer (also known as Section 151 Officer)
- Monitoring Officer
- Service Directors- whilst the roles still exist this also refers to Heads of Service and Corporate Managers
- Budget Holders
- Cabinet
- Full Council
- Finance, Audit and Risk Committee
- Overview and Scrutiny Committee
- Senior Management Team- comprising of the Chief Executive, the Deputy Chief Executive and Service Directors

1.3 These Financial Regulations form part of the Constitution of the Council. They have been written to support all Officers and Members of the Council in fulfilling their duties regarding devolved financial responsibility and should be read in conjunction with the Scheme of Delegation in the Constitution.

1.4 These Regulations are an integral part of the District Council's control framework. They help ensure that we make financial decisions in a consistent way across the Council. This supports us in our duties to ensure that we are transparent in all our actions and are clearly accountable for all the decisions we make. By ensuring these Regulations are applied, the Council can be confident that economic, efficient and effective financial management supports the achievement of its objectives.

1.5 **All Officers** are required to read and be familiar with these Regulations. Contact details are provided at the end if any clarification or advice is required. Training will also be provided when required. Failure to comply with the Regulations can be treated as misconduct under the Council's 'Managing Misconduct' policy.

1.6 **All Managers** should ensure that their staff are aware of the existence and content of the Financial Regulations, including any associated documents. They should also ensure that their staff are aware of how the Regulations apply to their role and ensure compliance.

1.7 Where applicable, members of the **Senior Management Team** should establish a scheme of delegation identifying **Officers** authorised to act on their behalf in respect of responsibilities contained within this document. These arrangements should be contained within a signed scheme of delegation document. Delegated limits and specimen signatures should be supplied to the **Chief Finance Officer**.

2. Revenue Budget Setting

2.1 Budgetary control is the monitoring of financial activity against planned budgets to:

- Ensure that money is spent in accordance with the Council's priorities as expressed in the annual budget;
- Ensure that overall expenditure in achieving those priorities is kept within the budget set; and
- Ensure that planned performance (output) has been achieved and is in line with the planned budget (inputs).

Budgets (spending plans), are needed so that the authority can plan, authorise, monitor and control the way money is allocated and spent. The Council has a legal duty to set a balanced budget.

2.2 The **Chief Finance Officer**, in consultation with the **Senior Management Team**, is responsible for producing a Medium Term Financial Strategy. This is produced annually and is a five-year forward assessment of all revenue commitments based on present levels of service and reflects any known commitments, changes in service level or resources. It also details the implications for the level of council tax to be levied. This helps to ensure that the authority is always preparing for events in advance.

2.3 All members of the **Senior Management Team** are responsible for ensuring that all reports consider financial implications over the medium term. This includes an estimate of the revenue consequences over as long a period as possible, and at least three years.

2.4 **Service Directors** are responsible for providing estimates of their revenue spend for the following year, which should include the impact of any growth, pressures, efficiencies and service changes. The **Chief Finance Officer** will approve the detailed content of these estimates, in line with the general directions of the **Cabinet**. Once collated the estimates will be submitted to the **Senior Management Team** and then on to **Cabinet** (with any comments from the **Senior Management Team**). This will form the draft budget for the following year.

2.5 **All Officers** should consider how to make best use of resources and value for money. The **Senior Management Team** will lead on identifying opportunities to improve economy, efficiency and effectiveness. The **Chief Finance Officer** will act as a champion in this area, and promote good practice in relation to the identification and appraisal of options.

2.6 **All Officers** must ensure that copies of all proposed reports are passed to the **Chief Finance Officer** (or delegated Accountancy Services Officer) in sufficient time for them to adequately consider the budget implications of any proposals.

2.7 The Medium Term Financial Strategy and Budget require approval by **Full Council**.

3. Revenue Budget Management

3.1 Budget management ensures that once the budget has been approved by **Full Council**, resources allocated are used for their intended purposes and that these resources are properly accounted for. Budgetary control is a continuous process enabling the authority to review and adjust its budget targets during the financial year. It also provides the mechanism that makes **Budget Holders** accountable for their budgets.

3.2 Budget management is about managing and balancing spending and service delivery. **Budget Holders** should try to deliver the agreed level of service within the agreed budget. Whilst all efforts should be made to not spend more than the allocated budget, service levels should not be reduced without considering the implications of this and seeking appropriate approval. Similarly, if it is possible to deliver the agreed level of service using less than the agreed budget, then the service level should not be increased without appropriate approval.

3.3 **Service Directors** are responsible for ensuring that there is a named **Budget Holder** for all service areas (cost centres). It should be ensured that the **Budget Holder** is only responsible for areas of spend that they can influence.

3.4 The **Chief Finance Officer** will ensure that all **Budget Holders** are provided with sufficient information (e.g. spend and income to date, future commitments) and support to enable them to forecast spend for the current year. **Budget Holders** are required to use this and their service knowledge to determine a realistic forecast on a regular basis (at least quarterly).

3.5 Where the **Budget Holder** estimates that spend will be different to budget, then this is known as an underspend (where forecast spend is less than budget) or overspend (where forecast spend is more than budget). **Budget Holders** must report forecast underspends and overspends as early as possible in the year.

3.6 The **Chief Finance Officer** will determine the divisions of service to be used in budget reporting. This will achieve a balance between transparent reporting and ensuring that there are a manageable number of reporting areas.

3.7 Where the underspend or overspend for a reporting area is greater than 5% of the budget for that area (subject to a minimum of £10,000) then this will be recorded by **Accountancy Services**, alongside the explanation that is provided by the **Budget Holder**. Where possible they should be addressed by a budget virement (see section 7). Reporting areas will be determined by the **Chief Finance Officer** and will be based on service areas with sub-divisions for larger service areas.

3.8 The **Chief Finance Officer** will provide quarterly reports to **Cabinet** (via **Finance, Audit and Risk Committee** for comment) that detail all significant forecast overspends and underspends. This will include all overspends and underspends that are both greater than 5% of the budget for that area and are greater than £25,000 in value. The **Chief Finance Officer** will determine whether to report any other overspends and underspends e.g. due to their value, any impacts in future years or service delivery impacts. Where it is not possible to deliver services within the overall budget then this will be referred on to **Full Council**. Due to deadlines for the approval of the statement of accounts and the timing of the Finance, Audit and Risk Committee it may be necessary for the first quarter report to be based on the first two months and only updated for any significant events in the third month. Where this is necessary, it will be agreed by the **Chief Finance**

Officer, **Executive Member for Finance and IT** and the **Chair of Finance, Audit and Risk Committee**.

3.9 Once the quarterly report has been agreed by **Cabinet**, the budget for each service area will be amended in line with the reported overspend or underspend. This is so that they are only reported once and future reports to **Cabinet** will focus on any changes since the previous report.

4. Capital Budget setting

4.1 Capital expenditure involves acquiring or enhancing fixed assets with a long-term value to the authority, such as land, buildings and major items of plant and equipment or vehicles. Capital assets shape the way services are delivered for the long-term and create financial commitments for the future in the form of financing costs and revenue running costs. The financing capacity of the authority is governed by the Prudential Code. This means that capital expenditure should form part of an investment strategy, be affordable and should be carefully prioritised in order to maximise the benefit of scarce resources

4.2 The **Chief Finance Officer**, in consultation with the **Senior Management Team**, is responsible for producing a Capital Expenditure forecast. This is produced annually and is a four-year forward assessment of the forecast spend on existing and new projects. This should also review the expected funding sources for each scheme and any revenue implications. It should be completed alongside the Medium Term Financial Strategy and annual revenue budget so that any revenue implications can be reflected in these documents.

4.3 **Service Directors** are responsible for providing estimates of project spend for the following four years. The **Chief Finance Officer** will approve the detailed content of these estimates, in line with the general directions of the Cabinet. Once collated the estimates will be submitted to the **Senior Management Team** and then on to **Cabinet** (with any comments from the **Senior Management Team**). This will form the draft capital programme for the following year.

4.4 The Capital Programme requires approval by **Full Council**.

4.5 Once approved the Capital Programme gives approval to proceed with projects in the following year up to the amounts allocated for that year. It does not give authority to proceed with projects that have allocations in the years after that.

4.6 Leases may involve capital spend, so there should be a consideration of whether they need to be included in the capital programme (see section 6).

5. Capital Budget Management

5.1 **Service Directors** are responsible for ensuring that there is a named **Budget Holder** for all capital projects.

5.2 The **Chief Finance Officer** will ensure that all **Budget Holders** are provided with sufficient information (e.g. spend to date, future commitments) and support to enable them to forecast spend for the current year and future years of the project. **Budget Holders** are required to use this and their project knowledge to determine a realistic forecast on a regular basis (at least quarterly).

5.3 Where the **Budget Holder** estimates that spend will be different to budget, then this is known as an underspend (where forecast spend is less than budget) or overspend (where forecast spend is more than budget). **Budget Holders** must report forecast underspends and overspends as early as possible in the year.

5.4 Where the underspend or overspend for a project is greater than £25,000 or 10% of the annual budget (whichever is the lower, but subject to a minimum of £10,000) then this will be recorded by **Accountancy Services**, alongside the explanation that is provided by the **Budget Holder**.

5.5 The **Chief Finance Officer** will provide quarterly reports to **Cabinet** (via **Finance, Audit and Risk Committee** for comment) that detail all significant forecast overspends and underspends. This will include all overspends that are greater than £25,000. The **Chief Finance Officer** will determine whether to report any other overspends and underspends e.g. due to their value, any impacts in future years or project delivery impacts. The report will also detail how any increased spend will be financed. Due to deadlines for the approval of the statement of accounts and the timing of the Finance, Audit and Risk Committee it may be necessary for the first quarter report to be based on the first two months and only updated for any significant events in the third month. Where this is necessary, it will be agreed by the **Chief Finance Officer**, **Executive Member for Finance and IT** and the **Chair of Finance, Audit and Risk Committee**.

5.6 If a **Budget Holder** forecasts that a capital scheme will overspend above certain limits, then approval must be sought from Cabinet before continuing. These limits are:

Capital budget	Approval required if overspend is more than:
Up to £60k	£12k
£60k to £250k	20% of budget
£250k to £500k	£50k
£500k to £1,000k	10% of budget
£1,000k to £2,000k	£100k
£2,000k and above	5% of budget

5.7 If an urgent or unanticipated capital need arises, this will be dealt with under the urgency powers delegated to the **Chief Executive** and the proposal then referred to **the Cabinet**, and then **Full Council**, at the earliest opportunity. However the **Executive Member for Finance and IT** can approve in year changes to the Capital Programme up to a limit of £100,000 per project. Any requests for use of this approval should be made via the **Chief Finance Officer**.

6. Leases

6.1 The Council is able to both lease assets from and lease assets to other organisations and individuals. Depending on the terms of the lease this may need to be treated as a revenue or capital transaction. Any **Officer** considering entering in to a lease arrangement should contact **Accountancy Services** as early as possible. They will be able to provide advice on ensuring value for money and how the transaction will need to be treated. If the transaction involves capital then it will be necessary to make sure that there is sufficient capital budget allocated (see section 4).

6.2 All leases for land and buildings should be dealt with by the **Estates Team**.

7. Virements

7.1 A virement is where budget is moved from one area to another. It enables **Service Directors** and **Budget Holders** to manage budgets with a degree of flexibility within the overall policy framework determined by the **Full Council**, and therefore optimise the use of resources.

7.2 There are key controls and constraints in relation to virements. **Accountancy Services** will review all virement requests to ensure that they are adhered to.

- There must be a match between the timing of the expenditure and the availability of budget. A one-off virement can not be used to fund ongoing expenditure, especially if there was a choice as to whether to incur that expenditure.
- They must be at least £1,000 in value. Amounts less than this should be managed by **Budget Holders** ensuring that they remain within their overall budget.
- They should not be used to fund new areas of spend unless the overall benefits of that spend have been fully assessed, and appropriate approval has been obtained. Where possible any unneeded budget should be returned to the General Fund.
- Some budgets are allocated to **Budget Holders** but are also managed centrally (e.g. repairs and maintenance, training). The virement of these budgets is not generally permitted, and would require the approval of the central manager (e.g. Property Services, Learning and Development)
- Salary budgets can only be moved to cover the costs of vacancies being held (e.g. temporary or agency staff spend). If employees decide not to be part of the pension scheme then the employer contribution savings can not be used for other purposes and must be returned to the General Fund.
- Virements are not allowed on non domestic rates budgets.

7.3 The authorisation required for a budget virement is as follows:

Between budgets that are under their control	**Budget Holder**
Between budgets within a Service Area	**Service Director** after consulting with all affected **Budget Holders**
Between budget areas that are in different Service Areas	**Senior Management Team**

7.4 All requests for virements must be on a properly authorised form and should be passed to **Accountancy Services**. Expenditure should not be incurred until notification has been received that the virement has been agreed and actioned.

7.5 There is separate rules in relation to the carrying forward of unspent budgets at year end. See section 9.

8. Accounting Processes and Records

8.1 The **Chief Finance Officer** is responsible for keeping the principal accounting records of the Council, which will be maintained on a central financial system. No other systems will be used for the keeping of accounting or other records relating to the Council's finances without prior agreement by the **Chief Finance Officer**. This ensures that the Council maintains proper accounting records and demonstrates the stewardship of public resources.

8.2 The **Chief Finance Officer** in conjunction with **Service Directors** will ensure that all feeder systems and processes to the principal accounting records of the Council are fully documented with **Officers** trained in their operation. Such systems and processes will incorporate the necessary controls to ensure that the data used to update the principal accounting records is complete, accurate, timely and not duplicated.

8.3 **All Officers** must consult the **Chief Finance Officer** before introducing or amending any book, form, record, administrative procedure or system used for the keeping of accounting or other records relating to the finances of the Council and should act on any advice given.

8.4 **Budget Managers** are responsible for ensuring that feeder accounting systems and processes include the following. The **Chief Finance Officer** is responsible for ensuring that this is the case, and ensuring that this is in place for the central financial system.

- Transactions, material commitments and other essential accounting information are recorded completely, accurately and on a timely basis.
- Separation of duties, which means that different individuals carry out the following tasks:
    - Providing information about sums due to or from the authority and calculating, checking and recording these sums
    - Collecting or disbursing these amounts
    - Examining or checking the accounts of cash transactions
- Maintain adequate records to provide an audit trail leading from the source of income/ expenditure through to the accounting statements.
- Regular reconciliations to ensure the integrity of embedded systems to ensure transactions are correctly recorded.
- Secure and safe storage (including backup) of data and records.
- Procedures are in place to enable accounting records to be reconstituted in the event of a systems failure.

8.5 Expenditure must only be authorised by appropriate **Officers**. **Budget Managers** and **Service Directors** should provide details of authorised signatories. The **Chief Finance Officer** will ensure that there is a system in place for recording these authorisations, and ensuring compliance.

8.6 For specific grants, **Budget Managers** are responsible for ensuring that grant claims are submitted by the due date. Where the receipt of any money is linked to the submission of the grant claim then the claim should be submitted as soon as possible. If the grant claim requires sign off by the **Chief Finance Officer** (or another individual e.g. the Chief Internal Auditor) then the **Budget Manager** should provide sufficient time and information to enable this sign-off to happen.

For any general grants and contributions, the **Chief Finance Officer** will ensure that claims are submitted by the due date.

8.7 All **Officers** must ensure that financial records (both physical and electronic) are kept and destroyed in accordance with the data retention schedule and to comply with relevant legislation (e.g. Freedom of Information Act and Data Protection Regulations). **Service Directors** should ensure that systems are in place to facilitate this and that they are adhered to.

8.8 The **Chief Executive** retains the right to authorise an extended retention period for a specific document or documents in the event of a query, investigation or any other requirement.

9. Annual Statement of Accounts

9.1 The **Chief Finance Officer** will ensure that the Council prepares its draft Statement of Accounts in accordance with accounting practices by proscribed dates. They will then sign off the draft accounts.

9.2 To enable this to happen, the **Chief Finance Officer** will prepare a timetable for the preparation of the statement of the accounts and communicate this to all relevant **Officers**, including **Budget Managers** and **Service Directors**. All **Officers** must comply with this timetable and provide the required information.

9.3 The Council must account for its spend on an accruals basis, which means that goods and services are accounted for in the year in which they are received or provided. For revenue projects or one-off items of expenditure this can lead to a mismatch between the year in which the budget is allocated and when the spend is incurred. **Budget Managers** can make a request for a carry forward of unspent budget. This will only be granted where there is a clear link between the budget and a particular project or one-off item of spend, and it can be shown that the project or one-off item has been delayed between years. All requests will initially be reviewed by **Accountancy Services**, and will require approval by **Cabinet**.

9.4 The **Chief Finance Officer** will select suitable accounting policies and ensure that they are applied consistently. **All Officers** are required to apply accounting policies, when requested by **Accountancy Services** or the **Chief Finance Officer**.

9.5 The **Chief Finance Officer** will make proper arrangements for the audit of the Council's accounts.

9.6 Once audited, the **Finance, Audit and Risk Committee** is responsible for approving the Statement of Accounts. The accounts are also signed off by the Chief Finance Officer to confirm that they provide a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March.

10. Reserves and Balances

10.1 The Council must decide of an appropriate level of General Fund reserve before it can set the level of Council Tax. This should enable the Council to provide for unexpected events should they occur. The **Chief Finance Officer** will advise **Cabinet** and **Full Council** on the appropriate level of this reserve based on guidance, Codes of Practice and advice from the external auditor.

10.2 The Council can also set aside funds in specific reserves. When the reserves are created they should have a clear purpose, and then only be used for that purpose in terms of adding to and spending from the reserve. **Budget Holders** and **Service Directors** should make requests for the creation of specific reserves from the **Chief Finance Officer**. The creation and movements in reserves need to be formally approved by **Full Council**, which is incorporated in to Revenue Budget Outturn report.

11. Risk Management and Insurance

11.1 Risk management is the management of business risk in a manner consistent with the virtues of economy, efficiency and effectiveness. In essence, it is about making the most of opportunities and achieving objectives once those decisions are made. It is about being risk aware, not risk averse. It is important to have a system in place that allows risks and opportunities to be identified and evaluated. This should mean those that know most about the service area are the ones that are carrying out the risk assessments, which means that **All Officers** need to be engaged in it. The **Chief Finance Officer** will ensure that a risk management system is in place and operating effectively.

11.2 The **Risk Management Group** seeks to focus and co-ordinate risk management activities throughout the Council to facilitate the identification, evaluation and management of all key risks. The group comprises of the **Service Director** with responsibility for Risk, key Service representatives, the **Health and Safety Officer**, the **Executive Member for Finance and IT** and a standing invite for any member of the **Finance, Audit and Risk Committee** that wishes to attend.

11.3 The Council's Risk & Opportunities Management Strategy aims to ensure that for each Council function, activity, operation or service the level of risk is known, recorded, monitored and mitigated. In each case, a conscious decision must be taken on how to manage that risk whether through controlling it, transferring it or living with it. The Strategy is updated on an annual basis. It is initially reviewed by the **Risk Management Group** which proposes a version to the **Senior Management Team**. Once agreed by the **Senior Management Team** it is referred on to the **Finance, Audit and Risk Committee**. The Committee make any recommendations they feel appropriate before it is formally adopted by **Cabinet**.

11.4 The **Cabinet** is also responsible for reviewing the effectiveness of the Council's risk management and ensuring that proper insurance exists where appropriate. There are quarterly updates on risk management that follow the following route: **Risk Management Group**, **Senior Management Team**, **Finance, Audit and Risk Committee** and **Cabinet**. The annual risk report is also referred on to **Full Council**. **Cabinet** will also be updated on major changes to risks as soon as possible, even if this is outside the quarterly reporting cycle. These risk reports will focus on what have been determined to be Top Risks.

11.5 The **Service Director** with responsibility for Risk will ensure that the above reports are produced. They will also ensure that all **Officers** and **Members** are provided with advice on risk as required.

11.6 The **Senior Management Team** are responsible for ensuring that there is risk aware culture throughout the Council, cross-cutting risks are identified and analysed, and determining the Council's risk appetite and priorities for action.

11.7 **Service Directors** are responsible for ensuring that there is effective risk management within their service area. This includes the risks in relation to elements of the service that have been contracted out and this may require that joint risk reviews are carried out with partners. **Service Directors** are also required to carry produce an annual assurance statement, at the end of each financial year, of the adequacy of the internal control environment within their service.

11.8 The **Shared Internal Audit Service** also plays an important role in Risk Management. The audits they carry out will focus on areas of risk and make recommendations on areas of improvement. They will also carry out regular reviews of the general Risk Management processes that operate in the Council.

11.9 Certain risks can be transferred or mitigated through insurance cover. The Council can also protect itself by ensuring that its suppliers and contractors have the appropriate level of insurance. The Council receives its insurance advice through the **Insurance Team** at Hertfordshire County Council (HCC). This arrangement is managed by the **Service Director** with responsibility for Risk. In general insurance queries should be made directly to HCC.

11.10 The **Service Director** with responsibility for Risk will ensure that the following happen (in general through the **Insurance Team**):

- Arrangement of insurance cover for all risks that are not self-insured. This includes making recommendations on levels of excess. Any significant changes in excess level will be referred to **Cabinet** for approval. **Service Directors** must ensure that the **Insurance Team** are aware of any new risks or assets that should be considered for insurance, as well as any changes to existing risks or assets. This should be done as soon as possible, but the **Insurance Team** will also arrange an annual review with each **Service Director**. The **Insurance Team** will maintain a record of all policies that are in place.
- Settling insurance claims. **Service Directors** must ensure that the **Insurance Team** is notified of any loss, liability, damage or other event likely to lead to a claim. In instances which suggest that criminal proceedings may be instigated, the **Chief Finance Officer**, **Monitoring Officer** and the **Shared Internal Audit Service** must also be informed. **Service Directors** (or any other **Officer** involved) must respond to any information requested by the **Insurance Team**.

11.11 **All Officers** must consult the **Insurance Team** and **Service Director** with responsibility for Legal on any terms of indemnity that the Council is requested to give.

11.12 All suppliers of goods and services to the Council must hold public / products and employers liability insurance cover. Where the Council is seeking professional advice and guidance, professional indemnity insurance is also required. **Service Directors** must ensure that this is stipulated in the specification for the goods or services to be acquired, with the amounts in line with those advised by the **Insurance Team**. **Service Directors** must ensure that the cover is maintained for the duration of the contract and up to date certificates are obtained as evidence. Valid certificates should be uploaded to the Council's E-Tendering system.

11.13 All employees of the Council are included in suitable fidelity guarantee insurance. For cover under this policy to apply, two suitable written references must be obtained for all new employees. This can be reduced to one reference from an existing employer if the individual has held their existing job for at least three consecutive years. **All Managers** must ensure that suitable references are obtained for all new starters.

12. Assets and Security

12.1 It is important that the Council is aware of what assets it has and the procedures in place to secure those assets.

12.2 **Service Directors** are responsible for maintaining proper security and safeguarding of all buildings, stocks, stores, furniture, plant, equipment, machinery, cash, etc. under their control. This should include contingency plans for the security of assets and continuity of service in the event of disaster or system failure. Any new arrangements (or changes to existing arrangements) should be discussed and agreed by the **Service Director** with responsibility for Risk. There are specific general requirements in relation to the holding of cash, which are:

- The amount of cash held should be kept to a minimum. Limits will be agreed on how much cash can be held (dependent on where it is stored e.g. safe, locked drawer) and **Officers** should not exceed these.
- **Officers** who collect cash on behalf of the Council must take all reasonable precautions to ensure its safe custody, including following any specific agreed arrangements.

12.3 **Service Directors** are responsible for the maintenance and update of a register of keys for external doors, safes, cash boxes and other secure items. The register should show the list of key holders and an out-of-hours contact number. The register must be kept securely and must not be accessible to unauthorised individuals. All keys must either be with the designated key holder at all times or held in a secure place. Security keys of safes, cash boxes and key cupboards, should not be left on site when the premises are unoccupied by Council Officers, unless expressly approved by **Service Director** with responsibility for Risk. The loss of any keys must be reported to the **Service Director** with responsibility for Risk as soon as their loss is noticed.

12.4 The **Service Director** with responsibility for Property will maintain an inventory of office furniture such as desks, chairs and kitchen contents. The form and extent of the records will be as agreed by the **Chief Finance Officer**. Where possible all assets will also be marked as belonging to the Council.

12.5 The **Service Director** with responsibility for Property will maintain a complete inventory of all land and property owned or leased by the Council. The record must include details of the following:

- the purpose for which the land is currently held
- extent and exact plan reference
- purchase details (for acquisitions and where possible for others)
- details of the interest in the property (e.g. freehold, leasehold)
- rents that are payable or receivable, and details of tenancies.

They are also responsible for the stewardship of the land and property assets. This means ensuring that they are kept in an appropriate condition, with regular condition and compliance surveys. The extent of utilisation (e.g. determining under use) and suitability for use should also be kept under review. The **Service Director** with responsibility for Property will be responsible for any land or property asset that is declared surplus.

12.6 **Service Directors** should maintain a record of all other assets under their control. Appropriate entries must be made at the time of purchase and disposal. They should ensure that an annual check (or more regularly if appropriate) of all items on the inventory with a purchase value in excess of £1,000 is carried out. These checks should be carried out by someone that is not responsible for the day to day management of these items (if applicable). The **Chief Finance Officer** should be notified of any deficiencies that are found during these annual checks.

12.7 For significant stocks or stores of lower value items (i.e. where the total value is greater than £100) there will also be a need to maintain a record. **Service Directors** should ensure that this record is maintained. The requirements in 12.6 should be followed, with the following variations:

- An annual check (stock take) should be carried on (or close to) the 31st March. Additional checks during the year should also be carried out if required.
- Advice from **Accountancy Services** should be sought on how to value the stocks or stores
- Small variations in the number of items do not need to be notified to the **Chief Finance Officer**, unless this highlights concerns over the security of the stock.

12.8 Where assets are no longer required then the relevant **Service Director** should ensure the following process is followed:

- Check with other service areas to see if they have a use for the asset.
- Before disposal, ensure that the asset is owned by the Council.
- For leased assets, ensure any disposal is agreed with the lessor.
- Where the estimated value is less than £2,500, the **Chief Finance Officer** should be notified.
- Where the estimated value is greater than £2,500, approval must be sought be from the **Chief Finance Officer**.
- If the value is estimated to be more than £5,000 then the disposal should be via a public auction (except land assets which are covered by the Contract Procurement Rules).
- Income will be accounted for as corporate income (i.e. not service specific income).

12.9 **All Officers** and **Councillors** should note that Council assets should only be used for legitimate Council business. They should only be removed from Council premises in line with the ordinary business of the Council. Any variations to this must be agreed by the relevant **Service Director**.

12.10 **All Officers** receiving visitors are responsible for ensuring that their visitor is signed in and wears the appropriate visitor's badge at all times. They must also ensure that visitors are adequately supervised during their visit, do not have access to confidential Council information and that the security of Council assets is maintained.

12.11 The **Service Director** with responsibility for IT must ensure adequate arrangements for maintaining proper security and privacy of computer held information and for ensuring compliance with the Data Protection Act, the Freedom of Information Act and any other relevant legislation. All **Officers** and **Councillors** must adhere to guidance issued.

12.12 All **Officers** and **Councillors** finding lost property on Council premises should pass it to **Property Services**. They will keep an inventory of such items and ensure their safe keeping. **Officers** and **Councillors** should not accept property for safekeeping by their owner.

12.13 If there is a need for moveable private property to be taken into Council custody, an itemised inventory must be prepared by the **Officer** taking possession. Where practicable, the inventory must describe the condition of the property. The relevant entries should be witnessed by two **Officers** and, where known, the owner of the property. The inventory record of these items must be included within the normal inventory maintained by the appropriate **Service Manager**.

13. Treasury Management and Banking

13.1 The **Chief Finance Officer** will ensure that all Council borrowings and investments are conducted in accordance with regulations, guidance and the Council's adopted Treasury Management Strategy. All decisions in respect of borrowing, investment or financing (that comply with the above) are delegated to the **Chief Finance Officer** (or through sub-delegation to an appropriate **Officer** in **Accountancy Services**).

13.2 The **Chief Finance Officer** must prepare an annual Treasury Management Strategy for approval by **Full Council** (February). The strategy will cover borrowing, investment and management of cash flow, approved methods of raising finance and approved sources of borrowing. The **Chief Finance Officer** will also provide an annual review to **Full Council** (July), as well as quarterly reports to **Cabinet**.

13.3 The **Chief Finance Officer** will ensure that:

- All borrowings are in the name of the Council.
- Records are maintained of all monies borrowed by the Council.
- All trust funds will, wherever possible, be in the name of the Council.
- All Officers who act as trustees by virtue of their official position, must deposit all securities relating to a trust with the **Service Director** with responsibility for Legal unless the deed requires otherwise.
- All securities which are the property of, or are in the name of the Council, or its nominees and title deeds of all property in its ownership or mortgaged to the Council, must be held in the custody of the **Service Director** with responsibility for Legal and a copy of all such securities shall be held off site.

13.4 The **Chief Finance Officer** is responsible for all banking arrangements. No other **Officer** is authorised to open or operate a bank account on the Council's behalf. **Cabinet** will approve the Council's bankers and the accounts used.

13.5 The **Chief Finance Officer** is responsible for the ordering and control of all cheques. They will make sufficient arrangements for the safe custody of blank cheques and the control and reconciliation of those issued. Cheques on the Council's main bank accounts will be stored securely by **Accountancy Services** and may only be signed by **Officers** specifically authorised by the **Chief Finance Officer**. The **Chief Finance Officer** will ensure that the Council's bankers are kept informed of authorised signatories.

13.6 Only **Officers** authorised by the **Chief Finance Officer** can certify alterations to cheques. Cheques should only be altered where the value is less than £1,000 and the alterations are limited to the removal of a crossing, to the correction of the date, and the correction of a misspelling of the name of the payee. Where an error has been identified on a cheque valued at more than £1,000, the cheque must be replaced.

13.7 Cheques for all payments exceeding £1,000 must be counter-signed by one of the employees authorised to do so.

13.8 The **Chief Finance Officer** is responsible for ensuring that a monthly reconciliation between the Council's bank account and its income and expenditure records is performed.

14. Internal Control and Audit

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

14.2 The **Chief Finance Officer** is responsible for advising on effective systems of internal control, that are compliant with applicable statutes, regulations, and best practice. This includes the provision of a continuous Internal Audit function.

14.3 The Council's Internal Audit function is provided by the Shared Internal Audit Service (SIAS), which is hosted by Hertfordshire County Council. They provide assurance to the Council that:

- Internal controls are sound, adequate and appropriately applied
- Assets and interests are safeguarded against losses arising from inefficient management, poor value for money, waste, theft, fraud, or any other cause
- Financial and other management data is suitable and reliable
- Rules, regulations, legislation, policy and procedures are being followed
- Risk management action is appropriately applied.

14.4 To assist them in their work, the **Chief Finance Officer** and any approved representative(s) have authority to:

- Enter at all reasonable times any Council premises or land, subject to any statutory or contractual restrictions that might apply;
- Access all records, documents, correspondence and data relating to the business of the Council, including those of a contractor acting on the Council's behalf and to remove any such records as is necessary for the purpose of their work;
- Require and receive such explanations from any **Officer**, **Councillor** or contractor acting as an employee of the Council as are necessary concerning any matter under examination;
- Require any **Officer** to produce cash, stocks or any other Council property under their control; and
- Have direct access to the **Chief Executive** and the **Chairs** of the **Overview & Scrutiny Committee** and the **Finance, Audit & Risk Committee**.

14.5 The **SIAS Head of Assurance** (in consultation with members of the **Senior Management Team** and the External Auditor) is responsible for the preparation and maintenance of an annual risk-based audit plan. This plan is reviewed by the **Chief Finance Officer** and contains details of the work to be undertaken in a financial year and includes a contingency for unseen responsive work. The plan is approved by the **Finance, Audit and Risk Committee**.

14.6 The **SIAS Audit Manager** is responsible for planning ahead and documenting as many known risks to the Council as possible. This is achieved by maintaining a document which details all auditable areas across the Council along with any relevant risk information. This document is formally updated as part of the annual planning process.

14.7 The Shared Internal Audit Service will issue audit reports as a result of work they undertake. These will include an assessment of current control levels and recommendations for improvements (including a prioritisation). The relevant

Officer must respond to draft audit reports detailing the actions they will take in response to the recommendations made. This response should be as soon as possible, and in all cases within four weeks. Any failure to do this will be reported to the **Chief Finance Officer** and the **Finance Audit and Risk Committee**.

14.8 All **Officers** are required to carry out the actions that they have agreed to in an audit report. The actions should be carried out in accordance with the agreed deadline.

14.8 The **Chief Finance Officer** will ensure that the Senior Management Team receive regular reports on the progress against high and medium priority recommendations.

14.9 The **SIAS Head of Assurance** or **SIAS Audit Manager** will provide quarterly updates to the **Finance, Audit and Risk Committee** that cover:

- Progress against the plan and agreed key performance indicators
- Audits completed during the previous period and any medium (summary explanation) or high (detailed explanation) priority recommendations
- The status of current and previous high priority recommendations
- Any other matters that they wish to bring to the attention of the Committee.

14.10 The **Chief Finance Officer** will ensure that appropriate actions (including required approval) are undertaken in respect of the appointment of External Auditors.

14.11 The **Senior Management Team** are responsible for the development and maintenance of anti-fraud, anti-corruption and anti bribery policies. All **Officers** should read and understand these policies.

15. Income

15.1 It is important that the Council has processes in place to ensure that it collects income as efficiently as possible. This should ensure that it is identified, collected, receipted and banked properly.

15.2 **Service Directors** are responsible for designing the systems for income collection. These systems should be in accordance with the following, and agreed by the **Chief Finance Officer**:

Calculation of charges

- Charges should be set in accordance with legislation and accurately calculated (**Accountancy Services** can provide support with this)
- Charging policies should be reviewed regularly, usually annually
- There should be a separation in duties between the **Officer** calculating the amount due and the **Officer** receiving the payment
- Ensure that VAT is charged as appropriate (**Accountancy Services** can provide advice on this)

Collection of income

- Where possible income should be collected in advance of supplying goods or services
- Sundry invoices should only be raised for amounts exceeding £50. Under this amount payment by debit or credit card should be sought, although payment by cheque can be accepted. Exceptions to this £50 limit must be approved by the **Chief Finance Officer**
- Sundry invoices should be raised within 5 days of the provision of the goods or service. The invoice should clearly state the date of the supply.
- All payments received by cash or cheque should be banked promptly
- Cash should be banked without deduction and must not be used for expenditure, to create or supplement floats or petty cash accounts or to enable the cashing of personal cheques
- To ensure that third party cheques are not accepted in payment for goods or services provided by the Council.
- To ensure that all paying-in slips show a reference to the related debt (such as the receipt number or the name of the debtor) or the origin of the cheque. The name of the relevant Service Area or a reference to the related debt must be written or printed on the reverse of each cheque.
- To ensure income collected on behalf of a third party whether for commission or not, is receipted and banked in the same way as the Council's own money. Payment of any amount due to a third party must be made once the account has been checked and the balances agreed.

Records

- The correct stationery should be used. For raising sundry invoices this is the Council's Financial Management System. Sufficient information needs to be provided to enable the recording and collection of the amount owed.
- Invoices should not be raised after income has been received. A tax receipt can be sent, if requested by the customer
- If requested, to ensure sums received are acknowledged immediately by the issue of an official receipt, ticket, voucher or other document prescribed by the **Chief Finance Officer**. To hold securely receipts,

tickets and other records of income, for the appropriate period stated in the Retention Schedule.

- To order and control all receipt forms, books, tickets and other such items relating to the service. To maintain a register of issues, returns and destructions.

Non-payment

- Should use established performance management systems to monitor recovery of income and flag up areas of concern to the **Chief Finance Officer**.
- To assist the **Chief Finance Officer** in collecting debts by providing any further information requested by the debtor, and in pursuing the matter on the authority's behalf.
- Where appropriate seek approval for debt cancellation or write-off (see sections below)
- Unless mitigating factors are identified, service provision should be cancelled where debts are not paid in accordance with standard payment terms

Refunds

- Where a refund to the customer is due, seek advice from **Accountancy Services** on the appropriate procedure

15.3 The **Service Director** with responsibility for Revenues has overall responsibility for the collection of all income due to the Council. They will determine whether to institute distress and court proceedings for the recovery of outstanding monies due to the Council.

15.4 Debts can only be cancelled where they have been raised in error. The approval levels for cancelling debts are:

Up to £5,000	**Service Director**
£5,000 and above	**Service Director** with responsibility for Revenues, in consultation with the relevant **Service Director**

15.5 Debts can be written off where they have been raised correctly, have not been paid and it is determined that there is no prospect of collecting the amount owed. The approval levels for writing off debts are:

Up to £500	**Budget Holder**, in consultation with the relevant **Service Director**
£500 to £5,000	**Service Director** with responsibility for Revenues
£5,000.01 to £10,000	**Service Director** with responsibility for Revenues in consultation with the **Executive Member for Finance and IT**
Above £10,000	**Cabinet**

The **Service Director** with responsibility for Revenues will also approve the write off of all debts where the debtor is declared bankrupt, is in liquidation or subject to an Individual Voluntary Arrangement, and where the debtor is deceased and there are insufficient funds in the estate to repay the debt

15.6 The **Chief Finance Officer** will ensure that the appropriate accounting adjustments are made following a debt write-off or cancellation.

15.7 The **Chief Finance Officer** will ensure that all **Service Directors** are provided with details of outstanding debts for their service.

16. Ordering and paying for goods and services

16.1 This section should be read in conjunction with the Contract Procurement Rules.

16.2 **All Officers** must declare any links or personal interests which they may have with purchasers, suppliers or contractors if they are engaged in contractual or purchasing decisions on behalf of the council in accordance with the conflicts of interest policy. **Service Directors** should ensure that these forms are completed.

16.3 All orders must be appropriately raised and approved in accordance with authorised signatory limits and delegations. **Service Directors** should ensure that **Accountancy Services** are provided with details of authorised Officers including limits and specimen signatures. The **Chief Finance Officer** will ensure that the list of authorised signatories is maintained.

16.4 **All Officers** should raise and authorise orders promptly as the supplier should not provide works, goods or services until they have received the official order.

Raising Orders

16.5 **Budget holders** should ensure that official orders are raised in advance of receipt of works, goods or services. The order should detail exactly what is being supplied and the price to be paid (or estimated price). This is to ensure that there is a mutual understanding between the Council and the supplier. The only exceptions to this are:

- Supplies of utilities, advertising, periodic payments such as rent or rates, petty cash purchases and purchase card purchases
- Where a signed agreement or contract detailing the exact works, goods or services to be provided exists between the Council and the supplier, the order can be shortened to only include a brief description of the project and the total contract value
- Exceptions agreed by the **Service Director** with responsibility for Finance
- Verbal orders may only be issued in situations of true urgency, as authorised by the **Service Director** with responsibility for Finance and must be confirmed by an official order within two working days.

16.6 The **Chief Finance Officer** will determine (in consultation with the **Service Director** with responsibility for Legal) the format of official orders, and this will include standard terms and conditions. Orders will be raised on the Council's Financial Management System which will ensure that it is recorded against the right budget and VAT is accounted for correctly. **Officers** must only agree variations to the standard terms and conditions with prior approval from the **Chief Finance Officer**.

16.7 **All Officers** should ensure that official orders are not used for private or personal purchases. Council contracts also must not be used for personal purchases.

16.8 Where the Council has entered a contract with a supplier for goods or services the contract must be used and orders for the provision of goods and services in that contract must not be placed with other suppliers. For example, stationery should only be purchased through the stationery contract. Other suppliers may be used if the contracted supplier is unable to provide the goods and services required.

16.9 Where there are Council rules on how certain supplies should be obtained then these should be followed. For example, IT hardware and software should only be purchased with approval from the **Service Director** with responsibility for IT.

16.10 **Service Directors** should ensure that loans, leasing or rental arrangements are not entered into without prior agreement from the **Chief Finance Officer**. This is to protect the Council from entering into unapproved credit arrangements and to ensure value for money is being obtained.

16.11 For construction contracts (including alterations to buildings and civil engineering works), **Service Directors** must ensure that there are agreed systems and procedures in place for financial aspects including certification of interim/final payments, checking, recording and authorising payments, controlling capital schemes and for validating sub contractor's tax status. The various systems and procedures need to be documented and agreed with the **Chief Finance Officer**.

16.12 Orders must not be split or disaggregated to get them below limits (e.g. in relation to authorisation or procurement).

Authorising Orders

16.13 The **Officer** authorising the order is confirming the following:

- The goods or services are appropriate and needed
- There is adequate budgetary provision (the Financial Management System will provide a warning that there is insufficient budget, but will not prevent orders being raised)
- Quotations and tenders have been obtained in line with the Contract Procurement rules

16.14 A variation to works or construction contracts must be accompanied by a variation order, which contains details of the variation and is signed in manuscript by an authorised officer. Variations may only be authorised if sufficient budget provision exists.

Certification for Payment

16.15 **Officers** are required to certify invoices as soon as possible. Arrangements should be made for a substitute during periods of leave (especially extended leave). This is to ensure that the Council does not incur penalties for late payment.

16.16 The **Officer** certifying an invoice for payment must check the following:

- The ordering process has been followed
- The works, goods or services have been received and confirmed to be of appropriate standard and quality
- The invoice received is VAT compliant (if applicable), has been calculated correctly and any discounts and credits have been applied
- The relevant expenditure has been properly incurred and is within the relevant budget provision
- The invoice is correctly coded and that appropriate entries will be made in accounting records. It is not necessary to code the invoice when an order has been raised

- Appropriate entries have been made in inventories, stores records or stock books as required
- The account has not been previously passed for payment and is a proper liability of the Council.
- Extra care should be taken with invoices that are marked as being a copy or have been copied. Payment will only be made on copy invoices if they are endorsed with a statement saying that the invoice has not already been passed for payment and that the expenditure incurred has been approved.
- The invoice submitted is an official supplier invoice (e.g. not a statement, reminder letter or other document). Limited exceptions to this requirement include periodic recurring payments, contract payments and any other exceptions specifically approved by the **Chief Finance Officer**
- Any other instructions provided by the **Chief Finance Officer**

16.17 Payments for Works should be based on the certificate of works that has been approved by the appropriate **Service Director**, which must include details of the value of work, retention money, amounts previously certified and amounts now certified within authorised limits.

Payment

16.18 In general invoice payments are made via electronic bank transfer. Manual cheques can be used for emergency payments. Reasons for an emergency payment are that the delay would cause hardship to the individual, would result in the suspension of essential services or any other reason agreed by the **Chief Finance Officer**. In all cases, the officer requesting the cheque must document the reason for urgency on or attached to the invoice.

16.19 It is possible to pay invoices via purchasing card, but this should only be used for invoices that do not require an order.

16.20 Payment in advance and/ or without an invoice should be avoided. Where it is required an order should still be raised. An official payment requisition form must be completed and authorised by an appropriate Officer. The payment requisition form and any documents for dispatch with the cheque or BACS remittance should be submitted to **Accountancy Services** for processing.

16.21 The **Chief Finance Officer** will ensure that payment is made for all correctly authorised invoices that are in accordance with these financial regulations. **All Officers** should immediately notify the **Chief Finance Officer** of any expenditure to be incurred as a result of statute/court order where there is no budgetary provision. Where payment is specifically required by statute or is made under a court order, this will be processed even if there is no budgetary provision.

16.22 Direct Debit (DD) mandates can only be authorised by those officers who are authorised bank signatories for that purpose, as determined by the **Chief Finance Officer**.

16.23 All BACS payments must be approved for payment via the Council's BACS processing software, by an officer who is authorised to do so on the authorised signatory listing.

General

16.24 The **Chief Finance Officer** will ensure that there are processes in place to monitor compliance with these regulations and the Contract Procurement Rules. Any non-compliance will be reported to the relevant **Service Director**.

16.25 Where possible, **Service Directors** should ensure that there is separation of duties in respect of activities involving payments. There should be at least two authorised officers involved in ordering, receiving and authorising goods, services and works for payment. In all instances the officer authorising the invoice should be different from the officer who checked the invoice and certified it. Where practicable, a different officer from the one who signed the order should authorise the invoice.

Purchase Cards

16.26 Purchase cards will be authorised for certain officers, with an individual transaction threshold specific to the card holder. Purchase cards are generally suitable for low value transactions enabling the Council to shorten the purchase to pay cycle and reduce processing costs. Purchase orders are not required for purchase card transactions.

16.27 Where corporate contracts are in place, purchase cards should not be used to access alternative suppliers.

16.28 Purchase card transactions must be reviewed by the Cardholder within five working days, and receipts uploaded using the online Purchase Card system. Electronic approval of transactions must be carried out by an authorised officer within five working days and must only be completed once receipts have been viewed. All purchase card arrangements and their issue are permitted only on the approval of the **Chief Finance Officer**.

17. Petty Cash Accounts and Change Floats

17.1 The **Chief Finance Officer** will provide a petty cash account to cover incidental office expenses, if the requirement cannot be satisfied by using a purchase card. Petty cash will be issued on receipt of the appropriate application form for use by the petty cash account holder. The maximum limit for transactions is £10 (incl. VAT). A change float can also be provided if required.

17.2 The Officer responsible for the petty cash account/ change float should ensure that:

- The account is kept in credit
- The cash is stored securely
- Wherever possible a VAT receipt must be obtained for items of expenditure. Receipted vouchers, signed by the recipient of the reimbursement must support all expenditure.
- Adequate records to support expenditure are kept in a form approved by the **Chief Finance Officer** to support expenditure. If requested, a certificate as to the state of the account must be provided to the **Chief Finance Officer**.
- Income received by the Council must not be paid in to a petty cash account.
- Should not be used for postage (stamps), unless approved by the **Chief Finance Officer**. Stamps must not be sold to Officers or members of the public.
- Carry out, with another officer, regular checks on the balance of the account or float. A record of such checks should be signed by both officers and maintained.

17.3 The relevant **Service Director** should ensure that the above happens, and also ensures that there is a periodic (not less than every six months) check by an Officer who is not directly responsible for the operation of the account. There should also be a check if the Officer responsible for the petty cash account/ change float leaves the employment of the Council. Any balances should either be paid back to the main Council account or the account transferred to another Officer.

17.4 The Officer responsible must agree the accuracy of the records and cash held with their Line Manager prior to the transfer of the account (either permanently or during a period of planned leave). A form should be completed by the Officer surrendering the Petty Cash/ Change float, declaring the value of cash to be transferred. The new Officer responsible should countersign the Declaration, confirming the amount of cash received. Once completed, the form should be sent to **Accountancy Services**.

17.5 **Service Directors** must notify the **Chief Finance Officer** of the cash balances held on any floats or petty cash accounts at the 31st March on a duly signed certificate for each float or account as soon as possible after the 31st March and not later than such date as agreed in the closure of accounts timetable in each year.

18. Peacetime civil major incidents and business continuity plans

18.1 As part of its emergency planning role, the Council is responsible for a range of activities in the event of a major incident being declared. These activities may require the ordering of works, goods or services. The procuring officers may have little or no advance notice, may not have access to the raise purchase orders and requirements may be above purchase card transaction limits. Therefore the 'reserved order facility' will be put in place.

18.2 The **Chief Executive** is responsible for activating both the Council's Major Incident Plan and Service Business Continuity Plans. Once activated, any orders for the supply of works, goods or services need not be subject to the Council's Contract Procurement Rules. However, during this period the Council's Financial Regulations continue to apply.

18.3 The **Chief Finance Officer** will ensure that **Accountancy Services** operate in a resource allocation role, working closely with the **Chief Executive** in order to advise on and monitor the costs incurred by the Council in response to the major incident. They will also maintain an overview of ordering systems and financial records relating to the incident. This will include authorising the format of temporary order forms and instructing on the financial coding structure to be used. They will also arrange for purchase card limits to be increased if required.

18.4 Officers instructed to order works, goods or services must:

- Maintain a record of all such orders and purchase card transactions
- As soon as is practicable, transfer all temporary orders to the Council's official ordering system providing best estimate of the cost and coded as instructed by Accountancy Services
- Ensure that where practicable, documentation is completed to indicate that the goods or services have been received and works undertaken
- Ensure that an inventory of all remaining goods is compiled following completion of the emergency. The inventory should record what items are to be retained for future Council activities and what items are surplus to the Council's requirements and should be disposed of
- Ensure that all surplus goods are disposed of at best consideration to the Council.
- Report to the **Chief Finance Officer** so that actions listed above can be monitored.

19. Payments to Officers and Councillors

19.1 Officer costs are the largest item of expenditure for most council services. It is therefore important that payments are accurate, timely, made only where they are due for services to the authority and accord with an individual's conditions of employment. It is also important that all payments are accurately and completely recorded and accounted for, and that Members' allowances are authorised in accordance with the scheme adopted by **Full Council**.

19.2 The **Service Director** with responsibility for HR will ensure that:

- There is a system in place to ensure the timely, secure and reliable payment of salaries, wages, compensation, travel and subsistence claims, and other emoluments
- Ensure the accurate and timely payment and recording of tax, pension (superannuation) and other deductions. This will include the completion of any required return
- Ensure that payroll documents are kept, stored and deleted in line with the document retention policy
- To keep the Employee Handbook under review to ensure it refers to the most up to date policies. **All Officers** (including temporary staff) must adhere to the handbook and linked policies
- Agree the format of time recording and payroll documents, in conjunction with the **Chief Finance Officer**
- Arrange for the maintenance of a list of Officers authorised to approve claims, including authorisation levels.. Ensure that Human Resources (HR) staff and the contractor providing payroll services have secure access to this information. At least annually seek confirmation that information contained in the list remains up-to-date. **Service Directors** should provide HR with updated information on changes of staff as they occur.

19.3 **Service Directors** should ensure that adequate and effective systems and procedures are operated, so that:

- payments are only authorised to bona fide employees;
- payments are only made where there is a valid entitlement;
- conditions and contracts of employment are correctly applied; and
- employees' names listed on the payroll are checked at regular intervals to verify accuracy and completeness.
- details of any employee benefits in kind are notified to Human Resources to enable full and complete reporting within the income tax self assessment system

Recruitment

19.4 **Service Directors** should ensure that appointments are made in accordance with the regulations of the Council and approved establishments, grades and scales of pay, and that adequate budget provision is available.

19.5 **Service Directors** should give careful consideration to the employment status of individuals employed as self-employed, under a sub contract or through an intermediary. It may be necessary for the individual to be treated as employed and paid via payroll, with appropriate deductions. There may be penalties for the Council for incorrect treatment. In cases of doubt, advice should be sought from **Human Resources.**

Notification of changes in employee circumstances

19.6 **Service Directors** must notify HR of the following. This should be done as soon as possible and in particular before the Officer leaves. It should be done using appropriate documentation or electronic systems:

- Appointments, resignations, dismissals, suspension, secondments and transfers of all staff including those of casual staff and consultants;
- Absences from duty for sickness or other reasons, apart from approved leave;
- Changes in remuneration, other than pay awards and other negotiated agreements which apply to staff generally;
- Information necessary to maintain records of service for superannuation, income tax, national insurance etc.;
- Untaken or excessive leave when officers leave the employment of the Council;
- Training expenses recoverable when officers leave the employment of the Council.

Claiming expenses

19.7 Allowances will only be payable against actual expenditure incurred up to the maximum allowed under the current regulations. In exceptional circumstances the **Chief Finance Officer** may approve claims above the maximum usually allowable if it is considered that this is reasonable. Receipts should be obtained and submitted online with a claim. Where it is not possible to obtain a receipt, the claimant should list the items purchased, their cost and the supplier. Payment will then be made at the discretion of their Manager.

19.8 For broadband and line rental (applicable to any Officer that works at home) the claimant should provide evidence from one monthly or quarterly bill, but can claim for up to one year at a time (subject to it being in the correct financial year, 1st April to 31st March).

19.9 Mileage will only be reimbursed if it is incurred whilst carrying out official Council duties. Mileage claims must be accompanied by a relevant VAT fuel receipt, in order to comply with current VAT regulations. Officers who use their private vehicle for Council business must have insurance that covers business travel and have complied with the vehicle document verification process.

19.10 Officers travelling by rail should where practicable purchase their ticket in advance using the Council's purchase card, or via personal credit card and reclaim via the expenses process.

19.11 Reimbursement of professional subscription fees will only be made on submission of the invoice from the relevant professional body. Alternatively these may be settled by Purchase Card.

19.12 Payments will only be made to Officers and Members who are entitled to claim travelling or other allowances upon submission of a completed and authorised claim form (including electronic forms) as prescribed by the **Chief Finance Officer**.

19.13 Claims for expenditure incurred between April and December inclusive of any financial year must be submitted within three months of the final day of the claim period. For example, claims made for the period 1st to 30th April must be submitted by 31st July. Claims for expenses submitted after these dates will be paid only with the express approval of the **Chief Finance Officer**.

19.14 Claims for expenditure incurred between January and March inclusive of a financial year must be submitted by 30th April.

19.15 The last day for submission of authorised online claims is the 5th of the month for each pay period (i.e. by 5th of April for April payroll). This date relates to the process of monthly payment and are not the deadlines referred to above. The last day for submission of authorised claims varies and exact dates are available on the Intranet.

Authorising expense claims

19.16 Officers who authorise a claim are confirming that they are satisfied that the journeys were authorised, the expenses properly and necessarily incurred and the allowances properly payable by the Council. Authorisation must be via the online system.

19.17 Officers must not authorise their own claims for payment. Claims should generally be authorised by the claimant’s manager. The **Chief Executive’s** claims should be authorised by the **Deputy Chief Executive**.

Documentation authorisation

19.18 Heads of Service/Corporate Managers must provide Human Resources, or an officer nominated by Human Resources, with the names of officers authorised to sign or authorise electronically payroll documents together with specimen signatures and details of limits of authority and must forward amendment details on the occasion of any change.

20. Taxation

20.1 The council is responsible for ensuring its tax affairs are in order. Tax issues are often very complex and the penalties for incorrectly accounting for tax are severe. It is therefore very important for all officers to be aware of their role.

20.2 **Accountancy Services** will provide **Budget Holders** with relevant information and ensure that they are kept up to date on tax issues that are relevant to their role. **Budget Holders** should use that information to:

- Ensure that the correct VAT liability is attached to all income due and that all VAT recoverable on purchases complies with HM Revenue and Customs regulations
- For construction and maintenance works, ensure that the contractor fulfils the necessary Construction Industry Tax Deduction requirements.

Service Directors should ensure that the **Budget Holders** in their service comply with the above.

20.3 The **Chief Finance Officer** will ensure that:

- A monthly return of VAT inputs and outputs is provided to HM Revenue and Customs in the required format and within stipulated timescales.
- HM Revenue and Customs are provided with details regarding the Construction Industry Tax Deduction Scheme in the required format and within stipulated timescales.

21. Advice and Support

21.1 The table below shows contact details for Officers that can provide advice on various elements of these procedures:

To be updated