

# Public Document Pack

Publication Date

Our Ref Finance, Audit and Risk  
Committee/Meeting Date

Your Ref.  
Contact. Amelia McNally (01462)  
474514

Direct Dial.  
Email.

To: Members of the Committee: Councillors Terry Hone, Simon Harwood, Ian Albert,  
Kate Aspinwall, Jim McNally, Ian Moody and Terry Tyler

Substitutes: Councillors Steve Jarvis, Ben Lewis, Helen Oliver and Janine Paterson

You are invited to attend a

## **MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE**

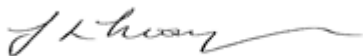
to be held in the

## **COUNCIL CHAMBER, COUNCIL OFFICES, GERNON ROAD, LETCWORTH GARDEN CITY**

On

**MONDAY, 28TH JANUARY, 2019 AT 7.30 PM**

Yours sincerely,



Jeanette Thompson  
Service Director – Legal and Community

## **Agenda** **Part I**

<b>Item</b>	<b>Page</b>
<b>1. APOLOGIES FOR ABSENCE</b>	
<b>2. MINUTES - 17 DECEMBER 2018</b> To take as read and approve as a true record the minutes of the meeting of this Committee held on the 17 December 2018.	(Pages 1 - 8)
<b>3. NOTIFICATION OF OTHER BUSINESS</b> 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.	
<b>4. CHAIRMAN'S ANNOUNCEMENTS</b> 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, wished to exercise a 'Councillor Speaking Right', must declare this at the same time as the interest, move to the public area before speaking to the item and then must leave the room before the debate and vote.	
<b>5. PUBLIC PARTICIPATION</b> To receive petitions and presentations from members of the public.	
<b>6. EXTERNAL AUDIT PLAN</b> REPORT OF THE CLIENT AUDIT MANAGER	(Pages 9 - 28)
<b>7. CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2017/18</b> REPORT FROM ERNST AND YOUNG  To consider the Certification of Claims and Returns Annual Report 2017/18.	(Pages 29 - 32)
<b>8. REVENUE BUDGET 2019/20</b> REPORT OF THE SERVICE DIRECTOR – RESOURCES  To consider the draft budget for 2019/20 and the main factors which contribute to the determination of the North Hertfordshire District Council (NHDC) Council Tax level. To consider the appropriate level of Council Tax that will be recommended to the meeting of the Council on the 7 February	(Pages 33 - 62)

2019.

- 9. INVESTMENT STRATEGY (INTEGRATED CAPITAL AND TREASURY)** (Pages  
REPORT OF THE SERVICE DIRECTOR – RESOURCES 63 - 116)

To consider the Investment Strategy (which replaces the Capital Programme and Treasury Strategy) and recommend to Council the adoption of the Investment Strategy.

- 10. FUTURE MEETINGS - POSSIBLE AGENDA ITEMS**  
Introduced by the Chairman.

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# Agenda Item 2

## NORTH HERTFORDSHIRE DISTRICT COUNCIL

### FINANCE, AUDIT AND RISK COMMITTEE

Meeting held in the Council Chamber, Council Offices, Gernon Road, Letchworth Garden City on  
Monday, 17th December, 2018 at 7.30 pm

Minutes

**PRESENT:** Councillor Terry Hone in the Chair  
  
Councillors Simon Harwood (Vice-Chair), Ian Albert, Kate Aspinwall  
and Jim McNally

**SUBSTITUTES:** Councillors Steve Jarvis

**IN ATTENDANCE:** Mark Chalkley (Client Manager Shared Internal Audit Service),  
Antonio Ciampa (Accountancy Manager), Ian Couper (Service  
Director – Resources), Nick Jennings (Head of Counter Fraud  
Shared Anti-Fraud Service), Gavin Ram Melanie Stimpson  
(Democratic Services Manager)

**ALSO PRESENT:** Councillors –

#### 43 **APOLOGIES FOR ABSENCE**

*Audio Recording – Start of Item – Session 1 – 54 seconds*

Apologies for absence were received from Councillor T Tyler and as a result Councillor S Jarvis attended the meeting as the Substitute Councillor.

#### 44 **MINUTES - 30 JULY 2018**

*Audio Recording – Start of Item – Session 1 – 57 seconds.*

**RESOLVED:** That the Minutes of the Meeting of the Finance, Audit and Risk Committee held on 30 July 2018 be approved as a true record of the proceedings and be signed by the Chairman.

#### 45 **MINUTES - 24 SEPTEMBER 2018**

*Audio Recording – Start of Item – Session 1 – 1 minute 9 seconds.*

**RESOLVED:** That the Minutes of the Meeting of the Finance, Audit and Risk Committee held on 24 September 2018 be approved as a true record of the proceedings and be signed by the Chairman.

#### 46 **NOTIFICATION OF OTHER BUSINESS**

*Audio Recording – Start of Item – Session 1 – 1 minute 14 seconds*

In accordance with 100B (4)(B) of the Local Government Act 1972 and in accordance with the urgent procedure rules as contained within the Council's Constitution the following item was considered - Updated Contract Procedure Rules.

**REASON FOR DECISION:** The Contract Procurement Rules are part of the Constitution (under Section 20) and are revised and updated periodically as part of the Council's governance and procurement review processes.

The Council's Constitution is being reviewed at the Council Meeting in January, which the Procurement Rules will be incorporated. As there was not another Finance Audit and Risk Committee prior to this meeting the matter was considered as a matter of urgency and was therefore not subject to call in.

**47     CHAIRMAN'S ANNOUNCEMENTS**

*Audio Recording – Start of Item – Session 1 – 1 minute 44 seconds*

The Chairman announced that Members of the public and the press may use their devices to film/photograph. In addition, the sound at this particular meeting was being recorded.

Members were 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 were 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, who wished to exercise a 'Councillor Speaking Right', must declare this at the same time as the interest, move to the public area before speaking to the item and then must leave the room before the debate and vote.

**48     PUBLIC PARTICIPATION**

*Audio Recording – Start of Item – Session 1 – 2 minutes 50 seconds*

There was no public participation.

**49     NHDC PROGRESS REPORT - ANTI-FRAUD PLAN 2018/19**

*Audio Recording – Start of Item – Session 1 – 2 minutes 55 seconds*

The Finance Audit and Risk Committee received the Progress Report on the Anti Fraud Plan 2018/19 which was presented by the Head of Counter Fraud Shared Anti-Fraud Service.

The following Members asked a number of questions regarding the content of the report:

Councillors J McNally, S Jarvis, I Albert and T Hone.

As a result of the questions the Head of Counter Fraud agreed to circulate the total number of allegations investigated from the 83 cases reported, as listed in Table 1 of the submitted report.

Whereupon the Committee,

**RESOLVED:** That the work of the Council and the Shared Anti-Fraud Service in delivering the Anti-Fraud Plan 2018/19 be noted.

**REASON FOR DECISION:** To enable the Committee to consider the progress report on the Shared Anti-Fraud Service Anti-Fraud Plan 2018/19.

50 **NHDC - AUDIT COMMITTEE PROGRESS REPORT**

*Audio Recording – Start of Item – Session 1 – 14 minutes 43 seconds*

The Client Manager of the Shared Internal Audit Service presented the Internal Audit Progress Report as at 30 November 2018.

Councillor J McNally and T Hone asked questions regarding the content of the report.

It was noted that the report detailed nine high priority recommendations as a result of the CCTV joint review. The recommendations were monitored by Stevenage Borough Council as the lead authority as well as a Joint Executive Committee which was due to meet in January. The Committee requested to be kept informed of the progress with this matter.

Whereupon it was,

***RESOLVED:***

That the Finance, Audit and Risk Committee notes:

- i. the Shared Internal Audit Service Progress Report for the period to 30 November 2018;
- ii. the proposed amendments to the 2018/19 Annual Audit Plan; and
- iii. the implementation status of high priority recommendations.

***REASON FOR DECISION:*** To enable the Committee to consider the Shared Internal Audit Service Progress Report.

51 **UPDATED CONTRACT PROCUREMENT RULES**

*Audio Recording – Start of Item – Session 1 – 26 minutes 12 seconds*

The Legal Commercial Team Manager presented a report of proposed changes to the Contract Procurement Rules which in summary suggested the following amendments:

- Updates to reflect the restructure within the Council and the corresponding changes required in the Constitution;
- To provide a reporting line for potential breaches to line managers/Senior Management Team;
- Introduction of a new subsection to Section 14 to allow for retrospective approval on Single Tenders following certain requirements being met;
- To ensure that Subcontractors are paid within 30 days payment terms;
- Update to Section 29 which provides Service Directors authority to extend contracts up to 12 months to a maximum value of £100,000;
- Provisions on the use of consultants updated in line with audit recommendations;
- Update to Section 22 to establish an approval process for waivers above the EU threshold and a new approval process for waivers below the OJEU threshold.

In considering the proposed amendments to the Contract Procedure Rules the following Councillors made comments:

Councillors K Aspinwall, T Hone, J McNally, S Jarvis, S Harwood and I Albert.

In response to questions the Legal Commercial Team Manager explained that:

- The main aim of the changes was to reflect the restructure within the Council. However, other changes had been made for the day to day running of procurement to be more practical and efficient;
- Of potential implications of Brexit and the advantages and disadvantages of frameworks in response to a question on why frameworks were not more widely used;
- The potential to standardised procurement documents and processes across Councils would be difficult to achieve.

Subsequently it was agreed that 2.4 of the Rules should provide a definitive interpretation of the consequences if an individual did not comply with the Procurement Rules. Although it was accepted that each case should be considered on its own merits there might be contributing factors as to why the breach occurred. The Committee therefore agreed to the following wording:

***‘2.4 Failure to comply with the Rules ~~may~~ will result in Officers conduct being examined and may be a breach under the Council’s Managing Misconduct Policy....’***

In addition the Committee requested that the Legal Commercial Team Manager consider the following comments and make the changes as considered necessary prior to the Procurement Rules being presented to Council for adoption:

- For ease of reference, that Paragraph 11 ‘Call-Off Further Competition under a Framework Agreement’ and Paragraph 21 ‘Joining a Framework Agreement’ should be amalgamated;
- Reference the proposed new Rules 14.3, 14.8 and 14.9 – suggested that these be located to a more appropriate section with a view that all Rules relating to non compliance could be viewed together;
- Paragraph 4.3 and the term ‘appropriate officer’ - further clarification of the definition was requested.
- That the views of the Council’s Contract Procurement Group be sought regarding the ‘Apply Go Local Policy’ for contracts of up to £50k. Specifically, if there was a need to review the threshold for the Policy’s application.

Having fully considered and debated at length the proposed changes to the Contract Procedure Rules, the Committee,

**RESOLVED:** The Finance, Audit and Risk Committee considered the proposed changes to the Contract Procedure Rules and

**RECOMMENDED TO COUNCIL:** the adoption of the Contract Procedure Rules subject to the following amendment:

***‘2.4 Failure to comply with the Rules ~~may~~ will result in Officers conduct being examined and may be a breach under the Council’s Managing Misconduct Policy....’***

**REASON FOR DECISION:** That the Contract Procurement Rules are part of the Constitution (under Section 20) and are revised and updated periodically as part of the Council's governance and procurement review processes, contributing to effective organisational internal control.

In addition, the review and adoption of the Council’s Contract Procurement Rules is a key action in the Council’s Procurement Strategy.

## **52 RISK AND OPPORTUNITIES MANAGEMENT UPDATE**

*Audio Recording – Start of Item – Session 1 – 1 hour 7 minutes 54 seconds*

The Service Director – Resources presented a report to update the Committee on the Corporate risks of which there were no proposed changes.

In response to a question by Councillor S Harwood it was explained that in relation to the risk of the North Hertfordshire Museum and Hitchin Town Hall Project this would remain a high risk at least until the Council had ownership of 14/15 Brand Street and the Waste Management Recycling and Street Cleaning would remain a high risk at least until the changes to the routes had been fully established.

Whereupon it was,

**RESOLVED:** That the Finance, Audit and Risk Committee notes that there are no changes to the Corporate risks for the Quarter.

**REASONS FOR DECISION:** The Committee has responsibility to monitor the effective development and operation of risk management.

**53      SECOND QUARTER REVENUE MONITORING 2018/19**

*Audio Recording – Start of Item – Session 1 – 1 hour 11 minutes 41 seconds*

The Accountancy Manager presented a report of the summary position on revenue income and expenditure forecasts for financial year 2018/19, as at the end of the second quarter. The forecast variance was a £17k decrease on the net working budget of £15.293m for 2018/19, with an ongoing impact in future years of £300k decrease and a request to carry forward budget of £87k to fund a specific project in 2019/20. There significant variances within these totals were detailed and explained in Table 3 of the submitted report.

Having received and answered questions by Councillors T Hone and S Jarvis, it was

**RESOLVED:** That the Finance, Audit and Risk Committee notes the report, to be presented to the Cabinet.

**REASON FOR DECISION:** To provide an opportunity for the Committee to comment as appropriate on the summary position on revenue, income and expenditure forecasts for the financial year 2018/19, as at the end of the second quarter.

**54      SECOND QUARTER CAPITAL MONITORING 2018/19**

*Audio Recording – Start of Item – Session 1 – 1 hour 19 minutes 30 seconds*

The Accountancy Manager presented a report to the Committee on progress with delivering the capital programme for 2018/19, as at the end of September 2018, and its impact upon the approved capital programme for 2019/20 - 2021/22. The current estimate was a decrease in spend in 2018/19 of £8.666million and an increase in spend in future years of £7.387 million. The most significant individual changes were the re-profiling of funding for John Barker Place, Providing Housing at Market Rents and Hitchin Swim Centre Car Park into 2019/20 and the withdrawal of the capitalised Pension Fund Contribution.

Following Councillor T Hone having asked a question, it was

**RESOLVED:** That the Finance, Audit and Risk Committee notes the report, to be presented to the Cabinet.

**REASON FOR DECISION:** To provide an opportunity for the Committee to comment as appropriate on the progress with delivering the capital programme for 2018/19, as at the end of September 2018.

**55 TREASURY MANAGEMENT SECOND QUARTER 2018/19**

*Audio Recording – Start of Item – Session 1 – 1 hour 22 minutes 10 seconds*

The Service Director – Resources presented of the Treasury Management activities in the second quarter of 2018/19 to the end of September. The current forecast was that the amount of investment interest expected to be generated during the year was £0.320 million, which was an increase of £0.065 million on the working budget.

The Committee were also informed of the performance against the Prudential and Treasury indicators. During the second quarter the Council had 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. Whereupon it was,

**RESOLVED:** That the Finance, Audit and Risk Committee notes the report, to be presented to the Cabinet.

**REASON FOR DECISION:** To provide an opportunity for the Committee to comment as appropriate on the Treasury Management activities in the second quarter of 2018/19 to the end of September 2018.

**56 CORPORATE BUSINESS PLANNING - DRAFT BUDGET 2019/20**

*Audio Recording – Start of Item – Session 1 – 1 hour 23 minutes 5 seconds*

The Service Director – Resources presented to the Committee the draft budget for 2019/20 and the main factors which contributed to the determination of the North Hertfordshire District Council Council Tax level.

In addition the Service Director – Resources also provided an update following the provisional Local Government Finance Settlement that was announced on 13 December 2018.

Comments and questions were received by Councillors I Albert, S Jarvis and T Hone. Whereupon it was,

**RESOLVED:** That the Finance, Audit and Risk Committee notes the report, to be presented to the Cabinet.

**REASON FOR DECISION:** To provide an opportunity for the Committee to comment as appropriate on the draft budget for 2019/2020 as per the Committee's Terms of Reference to 'assist the Council and the Cabinet in the development of its Budget and Policy Framework process by in-depth analysis of policy issues pertaining to finance, audit and risk'.

**57 FUTURE MEETINGS - POSSIBLE AGENDA ITEMS**

*Audio Recording – Start of Item – Session 1 – 1 hour 41 minutes 45 seconds*

The Chairman requested that any suggestions for agenda items at future meetings to be directed to Officers.

During discussions earlier in the agenda the Committee had requested to be kept informed of the progress with the nine high priority recommendations as a result of the CCTV joint review.

The meeting closed at 9.20 pm

Chairman

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# North Hertfordshire District Council

## Audit Planning Report

Year ended 31 March 2019

December 2018



North Hertfordshire District Council  
Council Offices  
Gernon Road  
Letchworth  
SG6 3JF

20 December 2018

Dear Finance, Audit and Risk Committee Members,

**Audit Planning Report 2018/19**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Finance, Audit and Risk Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Finance, Audit and Risk Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you.

Yours faithfully

**Suresh Patel**

For and on behalf of Ernst & Young LLP

United Kingdom

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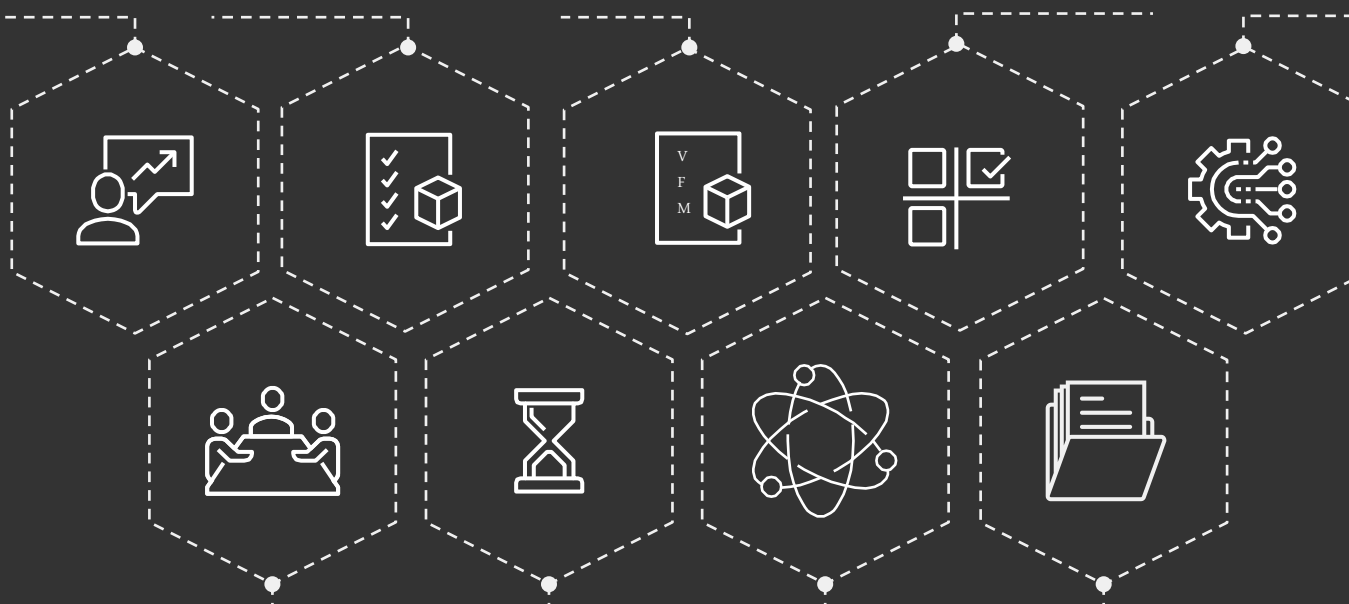
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Appendices

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available via the PSAA website ([www.PSAA.co.uk](http://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 April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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





01

## Overview of our 2018/19 audit strategy





The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Finance, Audit and Risk Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

#### Audit risks and areas of focus

Risk	Risk identified	Change from PY	Details
Management Override: Misstatements due to fraud or error	Fraud risk	No change in risk	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Property, Plant & Equipment Asset Valuation	Inherent risk	No change in risk	Property, plant and equipment (PPE) represents a significant balance of almost £108 million in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate PPE asset valuations held in the statement of accounts.
Pension Liability Valuation	Inherent risk	No change in risk	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit of £45 million is a highly material item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other councils, accounting for this scheme involves significant estimation and judgement.

In addition to the risks outlined above we have identified one area of audit focus.

Area of focus	Change from PY	Details
New accounting standards	<b>New area of focus</b>	For 2018/19 the Council needs to consider the new accounting standards relating to financial instruments (IFRS 9) and revenue from contracts (IFRS 15). In addition, the new standard relating to leases (IFRS 16) applies for 2019/20. The Council needs to assess and evaluate the implications of these new standards on the 2018/19 accounts.

#### Materiality

Page 14

Planning  
materiality

£1.4m

Materiality has been set at £1.4 million which represents 2% of the prior year's gross expenditure on the provision of services including other operating expenditure and interest payable. The level and value of materiality is consistent with the prior year.

Performance  
materiality

£1.0m

We have set performance materiality at £1.0 million, which represents 75% of materiality, consistent with the prior year.

Audit  
differences

£70k

We will report all uncorrected misstatements in the primary statements and associated notes (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and the cashflow statement) greater than £70k. Other misstatements identified will be communicated to the extent that they merit the attention of the Finance, Audit and Risk Committee.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

#### Audit scope

This Outline Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of North Hertfordshire District Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.



## 02

## Audit risks







## Our response to fraud risks

Management Override: Misstatements due to fraud or error

*(Fraud Risk)*

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error due to management override of internal controls.

As identified in ISA (UK and Ireland) 240, 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. We identify and respond to this fraud risk on every audit engagement.

For North Hertfordshire District Council, we have assessed that this risk could manifest in:

- Inappropriate journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Council.
- Management bias in key accounting estimates and judgements.

### What will we do?

We will:

- Identify fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Perform mandatory procedures in relation to journal entries, and other adjustments made in the preparation of the financial statements.
- Assess the nature of any significantly unusual transactions identified.
- Consider if management bias is present in the key accounting estimates and judgements in the financial statements.



# Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

### What is the risk/area of focus?

#### Valuation of Land and Buildings

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

### What will we do?

#### We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.



## Other areas of audit focus (cont.)

### What is the risk/area of focus?

#### Pension Liability Valuation

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 the net pension liability was £45 million.

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

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

### What will we do?

#### We will:

- Put in place a programme of work and instruct the auditors of Hertfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to North Hertfordshire District Council;
- Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.



## Other areas of audit focus (cont.)

### What is the area of focus?

### What will we do?

#### New accounting standards

The Code requires the Council to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are:

- ▶ IFRS 9 – Financial instruments
- ▶ IFRS 15 – Revenue from contracts
- ▶ IFRS 16 – Leases [2020/21]

There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.

We will:

- We will engage early with the Council on their assessment and evaluation of the impact of each new accounting standard. We will also provide an early view on the Council's proposed accounting and disclosures.
- If we need to undertake additional audit procedures on the Council's assessments we will discuss with the Service Director - Resources the impact on our audit fee.



# 03

## Value for Money Risks





### Background

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.

For 2018/19 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this will include consideration of the steps taken by the Council to consider the impact of UK’s exit from the EU on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that local authorities will be carrying out scenario planning and that EU Exit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risk noted on the following page which we view as relevant to our value for money conclusion.

We will continue to revisit this assessment as our audit progresses and update the Finance, Audit and Risk Committee of any changes.



## Value for Money Risks

### What is the significant value for money risk?

#### Churchgate regeneration

The Council is considering a significant scheme for the regeneration of Churchgate in Hitchin. The scheme includes works to the wider public realm and a bid for funding from the LEP has been made. In order to finance the scheme costs of £23 million the Council would need to utilise its available capital resources and also access significant borrowing through PWLB.

### What arrangements does the risk affect?

Take informed decisions / Deploy resources in a sustainable manner/ Work with partners and other third parties

### What will we do?

Our approach will focus on:

- Obtaining information on the arrangements the Council has put in place to ensure that it makes an informed decision
- Reviewing the financial business case supporting the scheme
- Considering how the various options/alternatives have been reviewed.





# 04

## Audit materiality





## Materiality

For planning purposes, we have set materiality for 2018/19 at £1.4m. This represents 2% of the Council's prior year gross expenditure on provision of services, operating expenditure and interest payable. This is consistent with the prior year. We have provided supplemental information about audit materiality in Appendix C.

Page 25

Gross expenditure  
on provision of services  
£69.958m

Planning  
materiality  
£1.4m

Performance  
materiality  
£1.0m

Audit  
differences  
£70k

We request that the Finance, Audit and Risk Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

**Planning materiality** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. We have set planning materiality at £1.4m for the planning stage of the audit.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.0m which represents 75% of planning materiality. This percentage has been set at 75% because of the robust internal control environment of the Council and our low expectation of misstatements based on prior knowledge of the Council.

**Audit difference threshold** – we propose that misstatements identified below this threshold (£70k) are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Finance, Audit and Risk Committee, or are important from a qualitative perspective.



# 05

## Scope of our audit



# Our Audit Process and Strategy

## Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

### 2. Arrangements for securing economy, efficiency and effectiveness (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.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

#### Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Finance, Audit and Risk Committee.

#### **Internal audit:**

We will regularly meet with the Head of Internal Audit (SIAS), and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.





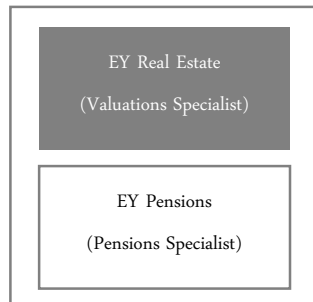
**06**

Audit team



# Audit team

## Audit team structure:



Suresh Patel  
Lead Audit Partner



Kay Storey  
Audit Manager



Samantha Wileman  
Senior



## Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2018/19 audit. We will continue to keep our audit approach under review to streamline it where possible.

## Audit team changes

### Key changes to our team.

Samantha Wileman Senior

- Samantha takes over from Nadeeka Kodituwakku lead senior and has experience of government and public sector audits.

## Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	North Hertfordshire District Council Internal Valuer EY Valuations Team (where required)
Pensions disclosure	EY Actuaries / Hymans Robertson / PwC
Fair Value Investment Measurement	Link Asset Services

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work;
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements; and
- Where appropriate, engage our own specialist support in any areas where we identify concerns, trigger events and/or estimations that are outside of our assessed acceptable range.





07

## Audit timeline





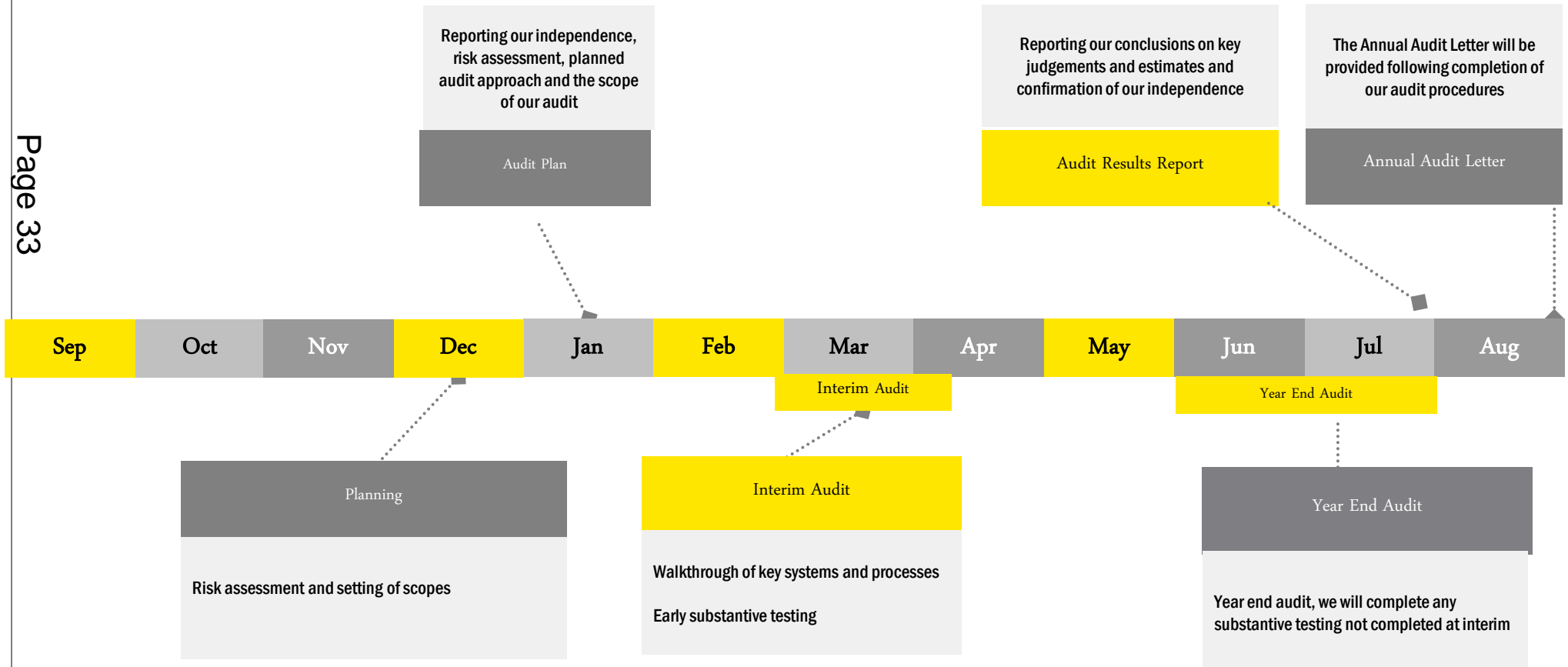


## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

From time to time matters may arise that require immediate communication with the Finance, Audit and Risk Committee and we will discuss them with the Finance, Audit and Risk Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





**08**

Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>▶ The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p> <p>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Written confirmation that all covered persons are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services. We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted. We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Suresh Patel, your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## Relationships, services and related threats and safeguards

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

## Other communications

### EY Transparency Report 2018

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by Gov. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>





# 09

## Appendices



## Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The fee for 2018/19 reflects the year 1 of the new 5 year contract awarded by PSAA.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Total Fee – Code work	40,068	40,068	52,037
<b>Total audit</b>	<b>40,068</b>	<b>40,068</b>	<b>52,037</b>
Other non-audit services not covered above (Housing Benefits)	9,140**	N/A	6,772*
<b>Total other non-audit services</b>	<b>9,140</b>	<b>N/A</b>	<b>6,772</b>
<b>Total fees</b>	<b>49,208</b>	<b>40,068</b>	<b>58,809</b>

*All fees exclude VAT*

\* The fee for 2017/18 Housing Benefits certification has to be agreed with PSAA as we are proposing a reduction from £7,524 to £6,772 in recognition of the work done by the Council on testing cases which we then reviewed

\*\* The planned fee for 2018/19 comprises base fee £6,990 plus anticipated cost of £2,150 for one additional sample (based on 2017/18 experience).

The agreed fee presented is based on the following assumptions:

- ▶ The level of risk in relation to the financial statements and VFM arrangements remains the same;
- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.




## Required communications with the Finance, Audit and Risk Committee

We have detailed the communications that we must provide to the Finance, Audit and Risk Committee.




Our Reporting to you		
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Finance, Audit and Risk Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report January 2019
Significant findings from the audit	<ul style="list-style-type: none"> <li>Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>Significant difficulties, if any, encountered during the audit</li> <li>Significant matters, if any, arising from the audit that were discussed with management</li> <li>Written representations that we are seeking</li> <li>Expected modifications to the audit report</li> <li>Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report July 2019






## Required communications with the Finance, Audit and Risk Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>Whether the events or conditions constitute a material uncertainty</li> <li>Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report July 2019
Misstatements	<ul style="list-style-type: none"> <li>Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>The effect of uncorrected misstatements related to prior periods</li> <li>A request that any uncorrected misstatement be corrected</li> <li>Corrected misstatements that are significant</li> <li>Material misstatements corrected by management</li> </ul>	Audit results report July 2019
Fraud	<ul style="list-style-type: none"> <li>Enquiries of the Finance, Audit and Risk Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>A discussion of any other matters related to fraud</li> </ul>	Audit results report July 2019
Related parties	<ul style="list-style-type: none"> <li>Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>Non-disclosure by management</li> <li>Inappropriate authorisation and approval of transactions</li> <li>Disagreement over disclosures</li> <li>Non-compliance with laws and regulations</li> <li>Difficulty in identifying the party that ultimately controls the entity</li> </ul> </li> </ul>	Audit results report July 2019

## Required communications with the Finance, Audit and Risk Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit planning report, January 2019 and</p> <p>Audit results report, July 2019</p>
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	<p>Audit results report</p> <p>July 2019</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>• Enquiry of the Finance, Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Finance, Audit and Risk Committee may be aware of</li> </ul>	<p>Audit results report</p> <p>July 2019</p>
Internal controls	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>	<p>Audit results report</p> <p>July 2019</p>

## Required communications with the Finance, Audit and Risk Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report July 2019
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report July 2019
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report July 2019
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit plan is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit planning report, January 2019 and Audit results report, July 2019



## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Finance, Audit and Risk Committee reporting appropriately addresses matters communicated by us to the Finance, Audit and Risk Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.



# Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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ED None

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# Certification of claims and returns annual report 2017-18

January 2019

# Contents



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

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

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

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





## 01 - Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£34,041,755
Amended/Not amended	Amended – subsidy increased by £10,473
Qualification letter	Yes
Fee – 2017-18	£6,772 subject to agreement by PSAA
Fee – 2016-17	£4,551

The Council administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid. The certification guidance requires reporting accountants to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the certification of previous years claims. We found errors (total value £10) in the initial sample and carried out extended testing on earned income, there were no errors found in the extended testing.

The errors found had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. The extrapolated error was £1,813 based on rent allowance expenditure of £34 million.



## 02 - Fees

Claim or return	2017-18 Actual fee	2017-18 Indicative fee	2016-17 Actual fee
Housing benefits subsidy claim	£6,772	£7,524	£4,551

PSAA bases the indicative fee for 2017-18 on the outturn fee for 2015-16. That year the Housing Benefit team did not undertake the detailed testing on the initial sample although they did map the cases into the testing workbook. In 2017-18 the Housing Benefit team both mapped the cases and tested them. Whilst the level of testing in 2017-18 and 2016-17 was broadly similar we raised a number of issues on the completion of the 2017-18 workbooks when they were initially reviewed. The 2017-18 fee is subject to the agreement of the Service Director – Resources and PSAA.



## 03 – Looking forward

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body. We are pleased that for 2018-19 the Council has appointed us to act as reporting accountants in relation to the housing benefit scheme. We welcome this opportunity to continue undertaking this work for the Council providing a seamless quality service, drawing on vast array of experienced and knowledgeable public sector professionals in these areas, whilst realising the synergies and efficiencies that are achieved by undertaking both the audit and grant work.

#### About EY

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# Local Government Audit Committee Briefing

Quarter 4, December 2018

The EY logo is positioned in the bottom right corner of the page. It consists of the letters 'EY' in a bold, white, sans-serif font. A small yellow triangle is located to the right of the 'Y'.

Building a better  
working world





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

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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 Club Item

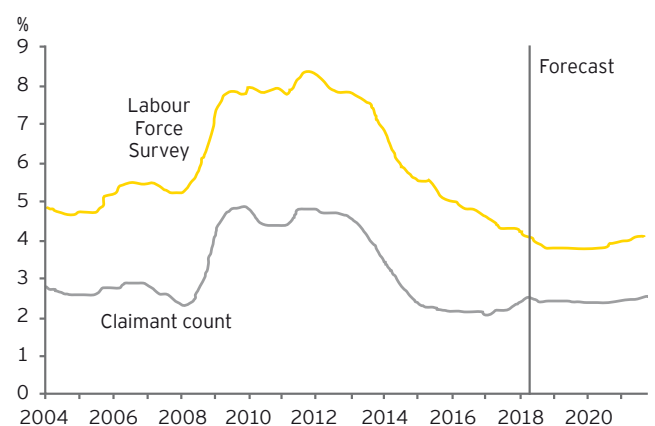
The latest EY ITEM Club forecast casts a cloudier outlook for the UK economy which will have implications for Local Authorities. This partly reflects increased uncertainties about Brexit, due to the elevated risk of the UK leaving the EU without a deal. It also reflects a more challenging global outlook, and continued pressures on consumer purchasing power.

The forecast has slightly downgraded the UK's economic prospects for 2018 and 2019, with GDP growth for 2018 trimmed from 1.4% to 1.3% – the slowest rate of expansion since 2009. While performance improved in Q2 and Q3, the outlook has since become less certain.

One positive note for UK economy is the robust growth in labour demand. The unemployment rate remained at 4.0% for the three months to July, the lowest level since February 1975. Over the same period, the number of vacancies in the UK rose to 833,000, highlighting the tightness in the labour market.

As shown in Figure 1, it appears that the spare capacity in the labour market created during the crisis has been largely absorbed. The Bank of England's (BoE) recent report about the labour market suggests that very limited slack remains – a BoE's regional Agents survey found that 40% of companies are finding it harder to recruit and retain staff compared to last year.

**Figure 1**  
**UK: Unemployment rate**



Source: EY ITEM Club

The recruitment challenges facing employers are well known by local authorities. An expanding and ageing population will only add to the demand pressures, while the supply of workers may be at risk due to the impact of Brexit on migration of EEA workers.

Theory suggests that, with unemployment falling and vacancies rising, there is little scope for further labour market tightening without generating excess wage pressures. However, earnings growth has remained subdued in recent periods, and indeed relapsed in Q2 2018. Some firms appear keen to limit their costs in an uncertain environment, while fragile consumer confidence is likely deterring workers from pushing hard for pay rises.

These consumer pressures are manifesting in many areas of the economy, and notably in the housing market. Caution over engaging in major transactions has seen mortgage approvals at approximately 18.1% below their long-term (1993-2018) average. Given the earnings squeeze, and the faltering demand for private housing, the important role of social housing is likely to persist. There were 1.2 million households on a waiting list for social housing in England on 1 April 2017, exhibiting the significant excess demand. As a result, the announcement by the Government to scrap the HRA borrowing cap is welcome, and should go some way to meeting demand in the market.

## **As Brexit beckons, what is the impact that local authorities can expect across the UK?**

With increasing focus on a potential extension to the Brexit transitionary period and the likelihood of a 'no-deal' scenario failing to diminish, local authorities are beginning to prepare for an array of potential impacts from the UK's departure from the EU. We look below at some of the key focus areas for local government in assessing the impact of Brexit.

### **The impact on social care provision:**

The social care workforce is particularly susceptible to the impact of Brexit. Since the referendum in 2016, there has already been a decrease in the number of EU nationals taking jobs in the UK social care sector, and this is likely to be squeezed further with the end of freedom of movement. This has the potential to lead to labour cost inflation, increasing the financial pressure facing local authorities.

The effects described above will be exacerbated further due to challenges in the healthcare system. The NHS is similarly likely to suffer to workforce challenges and hence, funding challenges. This has the potential to increase the pressure on hospitals to discharge early, increasing the burden on the social care system's capacity. The government's winter crisis cash pledge to the system, is unlikely to mitigate such challenges.

### **The impact on supply chains and logistics:**

Some coastal local authorities may face years of road traffic issues if border checks are applied following Brexit; authorities in the South East likely to be most significantly affected, due to the potential of border checks being applied at Dover.

Furthermore, investigations have been made by authorities such as Pembrokeshire Council into the ready availability of food and medicine in the event of road blockages and closures. Additionally, local authorities are struggling to make plans around international trade, as they await information on charges and how long waiting times at ports are likely to be. This is particularly important in the case of livestock and fresh foods being transported.

Changes to customs unions and physical borders may reduce the availability and increase the price of key goods required by local authorities, including adult social care supplies.

### **Consumer demand:**

Brexit will impact the wider economy, and hence local authorities will need to be attuned to the impact on their local economies.

Brexit uncertainty is already beginning to influence the high street and local authorities need to consider the prospect of increasing voids. Furthermore, local economies that are heavily dependent on certain sectors that are vulnerable to the impact of Brexit, such as financial services and agriculture, may bear a greater brunt of the economic shock that Brexit may cause.

Local authorities may also be impacted more directly, especially those authorities that have embarked enthusiastically on commercial property investments, thereby creating direct exposure to certain sectors, especially the retail sector. In respect of this, CIPFA have issued a warning to councils outlining concerns over their commercial activity, suggesting that some have been guilty of putting public funds at 'unnecessary or unquantified risk'. Councils need to evaluate the proposed impact that they were hoping such investments may have on their financial position, along with other trading activity, in light of the potential economic impact of Brexit.

### **Impact on property and agricultural land prices.**

Predictions that property prices in general are likely to fall following Brexit are well documented. Bank of England Governor Mark Carney has stated that UK house prices may fall by up to a third in the event of a 'no-deal' Brexit.

A reduction in property prices may not be perceived to be a bad outcome for all. Furthermore, the government's HRA borrowing cap announcement has the potential to allow councils to increase the supply of housing, further supporting a challenged housing market. However, such a reduction in property values is likely to create a shock that may create financial hardship for many as well as impacting the performance of certain sectors.

## Budget 2018

On 29 October 2018 the Chancellor delivered the 2018 Autumn Budget to Parliament. Among the headline policy announcements, such as a new 2% tax on revenue for large digital companies, changes to the income tax threshold bands, and increase in funding to help departments prepare for Brexit, there were a number of announcements that will have a direct impact on local authorities. These key announcements include:

- ▶ Immediate abolition of the Housing Revenue Account (HRA) cap which restricts local authority borrowing for house building.
- ▶ £675mn Investment in the Future High Street Fund created to support local areas prepare long term strategies for their high streets and town centres, including investment in physical infrastructure. As part of this announcement, small retail businesses will see a 33% decrease in business rates and public lavatories will receive 100% business rate relief after April 2019.
- ▶ Increased staff costs for local authorities; as the national living wage is set to increase by 5% from £7.83 to £8.21 an hour.
- ▶ Allocation of additional £420mn to local authorities in 2018/19 to tackle potholes and repair damaged roads.
- ▶ Local authorities in England will receive a further £650mn in social care funding.

CIPFA's response to the budget was that while the additional short term support for the provision of services is welcomed, there are greater long term challenges that need to be addressed to embed sustainable funding. The July 2018 OBR's (OBR) projection, upon which the budget was based, forecasts that within 50 years the UK will not be able to afford anything more than debt interest, health,

social care and pension payments. CIPFA is clear that there is not sufficient funding to sustain expectations of public services at the current levels of taxation.

The Local Government Association (LGA) analysis has estimated that local services face a funding gap of £7.8bn by 2024/25; the funding gap as of 2019/20 is estimated to be £3.9bn. The services where there are the greatest funding pressures include social care, homelessness and public health. However, the growing demand for these services has detrimentally impacted on other services that help maintain local communities including libraries, roads and welfare support.

An unexpected announcement made by Government during the budget was that it will no longer use Private Finance Initiative (PFI) schemes, or its successor PF2, because PFI schemes have been identified by the Office for Budget Responsibility (OBR) as a source of significant fiscal risk to the Government. It is unclear if this decision by central Government will impact on local authorities in future years.

## CIPFA Investment Guidance

The media spotlight and public scrutiny surrounding local government finances has increased significantly over the past year due to increased pressures to deliver services from reduced funding. To help authorities better manage their finances CIPFA is updating its guidance on Treasury Management. The new key principle of guidance will be that 'Local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed'.

During 2017/18 the rate at which English councils acquired land and buildings increased by 43% to a total of £4bn; whereas total borrowing increased from £4bn to £10bn (127 %). As such there is a growing concern that too many local authorities are investing heavily in commercial property at a rate that is disproportionate to their available resources. This exposes public funds to unquantified risks. This stands against the primary objective of a local authority's treasury management strategy to safeguard public money.





# Accounting, auditing and governance

## IFRS 9: Statutory Override update

The 2018/19 financial year will be the first year where the accounting standard IFRS 9 will be implemented by local government. IFRS 9 impacts on an authority's financial assets: the investments it holds; the amounts it has lent to others; and other monetary based assets it may have. It changes how these financial assets are classified and how movements in their value are accounted for. It also changes how these assets are impaired; based on the risk that the assets may not be recovered in full, or at all.

Following a consultation by the Ministry for Housing Communities and Local Government on the impact of IFRS 9, an initial statutory override has been granted for five years, despite 90% stakeholders opposing a time-limited period. This statutory override means that councils will still be required to account for fair value movements in financial instruments (in accordance with proper practices as set out in the code on local authority accounting); however these movements will not be charged to the revenue account.

The result of which is that statutory override will remove the potential burden that council tax payers or local authorities may have faced if fair value movements were unfavourable.

## Public Sector Pension Scheme Valuation

The Government undertakes a valuation of public service pension schemes every four years, this year sees the first full assessment of these since the introduction of reformed schemes in 2015.

The Chief Secretary to the Treasury has stated that early indications would suggest that employers' contribution will need to increase as a result of a proposed decrease in the discount rate. The discount rate, known as the SCAPE rate, is based on the OBR projection of the short-term pay growth in terms of GDP. OBR has reduced this rate from 3.0% to 2.8% in 2016 and a further reduction has been proposed as of April 2019 to 2.4%. This discount rate is used to calculate the current costs of future payments and as the discount rate decreases, the pension liability increases. Given that employee rates are effectively fixed under scheme regulations, employer contributions will need to increase to meet the increased liability. Further details are to be announced later in the year in addition to further discussion taken forward as part of the spending review.

## Local Public Audit – Expectations gap

For the public to gain trust and confidence in public spending, a framework of accountability, transparency, governance and ethics needs to be built. The ultimate responsibility lies with the government departments that delegate spending to local public bodies. These public bodies must then be able to demonstrate that the money has been spent efficiently and effectively.

One way the public can gain trust in public spending, is by relying on the external audit process to provide assurance on the financial statements and report by exception on the arrangements the

public body has in place to secure economy, efficiency and effectiveness. However, the role of audit, is often misunderstood creating the audit expectation gap which is the difference between what an auditor actually does, as required by legislation and auditing standards, and what stakeholders think that the auditors' obligations might be and what they might do.

The Institute of Chartered Accountants in England and Wales (ICAEW) produced a report to raise awareness on the expectation gap and suggest some possible solutions. The report also discusses how issues faced by local public bodies such as financial difficulties, increasing demand from an ageing population, complex structures and weaknesses of accountability impacts the audit process and widens the expectation gap.

Some common concerns were noted in the report by interviews with Chief Financial Officers in different sectors and regulatory bodies:

1. Local authorities and health bodies are facing a difficult time with increasing pressure to deliver more services, become innovative and commercial with reduced financial support. This pressure could bring in concerns about behaviours that may not be in the best long-term interests of the public.
2. Reports produced by auditors are not being fully utilised by management and audit committees to build on successes and make improvements within the body where recommendations have been made.
3. Auditors are concerned that qualifications and issues identified in their opinions are not taken seriously enough by those charged with governance.

4. The reduction in audit fees has led to a perception by local bodies that they are receiving reduced scope of work compared to the previous regime (Audit Commission). The concerns are not in relation to compliance with auditing standards, but rather the lack of value added activities that was previously provided.
5. Chief Financial Officers expect more challenge and review of their forward-looking plans which underpin the financial resilience of the authority.
6. Other stakeholders are not getting sufficient assurance over the effectiveness of service delivery and performance in auditors' work.
7. Increased regulation and scrutiny against the reduced number of auditor firms in the local government market.
8. Local public auditors' power being limited by the removal of indemnity insurance and increased difficulty to recover costs.

The ICAEW has offered a number of potential solutions in the report to close this expectation gap including:

1. Chief Financial Officers could consider involving external support to assist them in their financial resilience work, such as challenging their budget assumptions and other key decision making factors, instead of relying on external auditors to provide other value added activities, as these may have some independence restrictions.
2. More broadly, consideration could be given to widen the scope of the audit to include for example a greater future-looking focus.





## Regulation news

### **PSAA: Report on results of 2017/18 audits**

PSAA (Public Sector Accounts Appointments) has reported its annual summary on the timeliness and quality of financial reporting in relation to audits for the 2017/18 financial year. A total of 431 (87 %) local government and fire authorities published their audited accounts by the deadline of 3 July 2018. 2017/18 was the first year that the accounts and audit deadline was brought forward from the 30 September to the 31 July. PSAA's Chief Officer stated that whilst these results were encouraging and reflect considerable efforts of both local government finance staff and auditors, there is still more work to be done in order for 100% of authorities to meet the new deadline.

The number of qualified 'Value for Money' conclusions is currently at 7% (compared to 8% for 2016/17); however there 30 conclusions still to be issued for 2017/18. The most common reasons for issuing a qualified Value for Money conclusion were corporate governance issues, financial stability concerns and contract management issues.



**Other**

## EY 2018 Transparency Report

Our profession has come under scrutiny from policymakers and other stakeholders over the year, and the need for transparency has never been greater. Increasingly, the public is expecting more and more from the audit than its current remit requires. This difference is known as the 'audit expectation gap' which has been discussed above. We believe the time is right for all concerned in the corporate control ecosystem to seize the moment and consider deeply what society expects from businesses and the assurance it needs over their activity.

It's in our interests and the public's for EY UK to be as open and transparent as possible. The Transparency Report goes some way towards helping us achieve this, while also providing an opportunity to share a more balanced perspective on what we

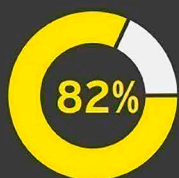
do and how we perform as a business. For example, it refers to our role in building trust and confidence in the capital markets and wider economies, by maintaining and developing positive relationships with our stakeholders. It explains what we do to make a difference to people's lives by helping to improve social mobility in the UK. It also shows how our people are supported in their role as auditors by making reference to our tools, technologies and training programmes. Details on internal and external surveys and inspections are included as well, to show how we are performing against our own expectations and – most importantly – those of our regulators.

We refer to this report in our audit planning reports to audit committees, and we summarise the key headlines below.

# 2018 Highlights

## Audit quality

### External review



**82%** of EY's FTSE 350 audits and **67%** of all inspected audits required no more than limited improvements

(FY17: 92% and 88% respectively)

as at 29 October 2018

**No FRC fines** for audit work completed in the last five years and **no sanctions** against EY UK partners in respect of that period

### Internal review

**108** engagements reviewed in FY18, covering

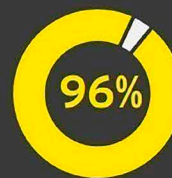
**47%** of our

**Responsible Individuals**, of

which **81%** had no improvements or minor improvements only

### Delivery

Of our people in Audit



**96%** consider delivering quality audits a priority

and

**97%** understand their role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest



The result of the FRC's most recent review of our audits showed that 82% of our FTSE 350 audits were graded as requiring no more than limited improvement, against a 90% target. Overall 67% of all EY UK's audits inspected were graded as requiring no more than limited improvements. We are proud of the progress we have made in the UK since the launch of UK Sustainable Audit Quality (SAQ) programme a few years ago. But there is still more work to be done to consider audit quality from the viewpoint of key stakeholders: investors, audit committees, companies, regulators and our people. The work we have done to model the behaviours of our highest performing teams, using cognitive psychologists, will continue. In the year ahead we will prioritise the extent and consistency of the model's adoption. We aim to transform the behaviours that feature in the model into business-as-usual activity across all of our audit teams.

As organisations become more complex, so do audits, making access to different skills and capabilities more important than ever. The traditional audit has already been transformed by the use of technology and digital platforms, and the pace of change will only accelerate. These new capabilities enable us to search, sift and sort through large quantities of data, allowing us to identify potential areas of risk and understand an organisation's performance at a more granular level. The audit process is becoming more forward looking, with a focus on anticipating future risks. Our new capabilities are also providing insights into areas that were once thought to be impossible to measure, such as culture.

This unprecedented scrutiny and demand for change, can be seen as an incredible opportunity to focus our efforts on addressing the root cause, deliver sustainable high quality audit and gain the trust and confidence in the capital markets society needs and demands.



# Find out more

## EY Club Item

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

## 2018 Budget

<https://www.gov.uk/government/news/budget-2018-24-things-you-need-to-know>

<https://www.local.gov.uk/about/news/lga-responds-budget-2018>

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-responds-to-budget-2018>

<https://www.local.gov.uk/sites/default/files/documents/Moving%20the%20conversation%20on%20-%20LGA%20Autumn%20Budget%20Submission%202018.pdf>

## CIPFA Investment Guidance

<https://www.publicfinance.co.uk/news/2018/10/cipfa-investment-guidance-will-help-councils-steer-through-challenges>

## Local Public Audit – Expectations gap

<https://www.icaew.com/about-icaew/regulation-and-the-public-interest/policy/public-sector-finances/local-public-audit-expectations-gap>

<https://www.icaew.com/-/media/corporate/files/about-icaew/policy/local-public-audit-expectation-gap.ashx?la=en>

## IFRS 9: Statutory Override

<https://www.publicfinance.co.uk/news/2018/11/ifrs-9-override-last-five-years>

## Public Sector Pension Scheme Valuation

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/738917/Technical\\_Bulletin\\_Public\\_Service\\_Pension\\_Schemes\\_Valuations.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/738917/Technical_Bulletin_Public_Service_Pension_Schemes_Valuations.pdf)

<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-09-06/HCWS945/>

## PSAA: Report on results of 2017/18 audits

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

## EY Transparency Report 2018

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/\\$File/ey-uk-2018-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/$File/ey-uk-2018-transparency-report.pdf)

## Notes



## Notes

## Notes

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**Certification of claims and returns  
annual report  
2017-18**

January 2019

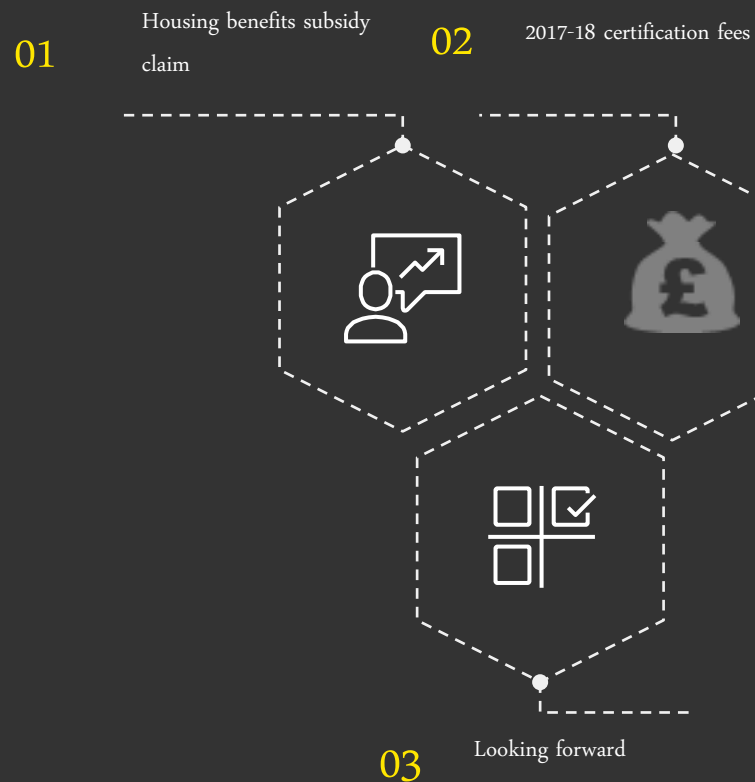
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Building a better  
working world

Agenda Item 7

# Contents



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

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

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

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





## 01 - Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£34,041,755
Amended/Not amended	Amended – subsidy increased by £10,473
Qualification letter	Yes
Fee – 2017-18	£6,772 subject to agreement by PSAA
Fee – 2016-17	£4,551

The Council administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid. The certification guidance requires reporting accountants to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the certification of previous years claims. We found errors (total value £10) in the initial sample and carried out extended testing on earned income, there were no errors found in the extended testing.

The errors found had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. The extrapolated error was £1,813 based on rent allowance expenditure of £34 million.

## 02 - Fees

Claim or return	2017-18	2017-18	2016-17
	Actual fee	Indicative fee	Actual fee
Housing benefits subsidy claim	£6,772	£7,524	£4,551

PSAA bases the indicative fee for 2017-18 on the outturn fee for 2015-16. That year the Housing Benefit team did not undertake the detailed testing on the initial sample although they did map the cases into the testing workbook. In 2017-18 the Housing Benefit team both mapped the cases and tested them. Whilst the level of testing in 2017-18 and 2016-17 was broadly similar we raised a number of issues on the completion of the 2017-18 workbooks when they were initially reviewed. The 2017-18 fee is subject to the agreement of the Service Director – Resources and PSAA.



## 03 – Looking forward

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body. We are pleased that for 2018-19 the Council has appointed us to act as reporting accountants in relation to the housing benefit scheme. We welcome this opportunity to continue undertaking this work for the Council providing a seamless quality service, drawing on vast array of experienced and knowledgeable public sector professionals in these areas, whilst realising the synergies and efficiencies that are achieved by undertaking both the audit and grant work.

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**FINANCE, AUDIT & RISK**  
29 JANUARY 2019

**PUBLIC DOCUMENT**

**TITLE OF REPORT: REVENUE BUDGET 2019/20**

REPORT OF : *SERVICE DIRECTOR- RESOURCES*  
EXECUTIVE MEMBER : COUNCILLOR JULIAN CUNNINGHAM  
COUNCIL PRIORITY : RESPONSIVE AND EFFICIENT

**1. EXECUTIVE SUMMARY**

- 1.1 To consider the draft budget for 2019/20 and the main factors which contribute to the determination of the North Hertfordshire District Council (NHDC) Council Tax level. To consider the appropriate level of Council Tax that will be recommended to the meeting of the Council on the 7 February 2019.

**2. RECOMMENDATIONS**

- 2.1 That Cabinet notes the expected Central Government funding levels.
- 2.2 That Cabinet notes the estimated position on the Collection Fund and how this will be funded.
- 2.3 That Cabinet confirms that Council Tax increases for 2019/20 should be in line with the Medium Term Financial Strategy.
- 2.4 That Cabinet notes the position relating to the General Fund balance and that due to the risks identified a minimum balance of £1.96 million is recommended.
- 2.5 That Cabinet approves the increase in the 2018/19 working budget of £116k, and to note the expected impact in 2019/20 of a £164k reduction in budget.
- 2.6 That Cabinet notes and comments on the requests for the carry-forward of budget of £41k from 2018/19 to 2019/20.
- 2.7 That Cabinet approves the inclusion of the efficiencies and investment proposals at Appendix B in the General Fund budget estimates for 2019/20.

- |     |  |
|-----|--|
| 2.8 | That Cabinet notes the savings target in future years.   |
| 2.9 | That Cabinet notes the estimated 2019/20 net expenditure of £15.1 million, as detailed in Appendix A, and recommends this budget to Council. |

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

- 3.1 To ensure that all relevant factors are taken into consideration when arriving at the proposed Council Tax precept for 2019/20.
- 3.2 To ensure that the Cabinet recommends a balanced budget to Council on 7 February 2019.

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

- 4.1 During the Autumn Political Groups were asked for savings ideas that they wanted Officers to investigate further. These have been combined with ideas generated by Officers. The total value of the ideas presented is less than the funding gap that needs to be met over 4 years. This means that currently there are not any alternative options available.

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

- 5.1 All Councillors were given opportunity to comment on the efficiency and investment proposals at the Budget Workshops.
- 5.2 The Business Rate Payers Group will be consulted on the proposals in this report in early February 2019, prior to the Council meeting. This is the only statutory consultation that is required.
- 5.3 If any savings were to have an impact on a specific area (or areas) will be referred to that Area Committee(s) during January. This is not considered to be the case for any savings included within the proposals.

### **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 19<sup>th</sup> December 2018.

## **7. BACKGROUND**

- 7.1 The Medium Term Financial Strategy (MTFS), which provides the financial background to the Corporate Business Planning process for 2019-2024, was adopted by Full Council on the 6 September 2018 following recommendation by Cabinet.
- 7.2 The MTFS included a number of assumptions, which have been updated as better information has become available. The final budget still contains some assumptions, and this is why monitoring reports are provided to Cabinet on a quarterly basis.
- 7.3 In anticipation of the decline in future funding, the Council has increased the level of general fund reserves. This allows for some cushioning in the delivery of savings.
- 7.4 Significant savings have been delivered in recent years. This means that the opportunity for savings from being more efficient have now generally all been taken. Instead the focus is now on income generation, service transformation, joint working, making best use of capital assets and justifying delivery of services above statutory levels.
- 7.5 The Council's funding is split between revenue (i.e. the day-to-day running costs) and capital (i.e. creating and improving assets). The general rule is that capital funding can not be used for revenue expenditure. However in the 2015 Spending Review, the Chancellor announced the "flexible use of Capital Receipts direction". Subject to certain conditions this allows Local Authorities to use Capital Receipts to fund the revenue costs of reform projects.

## **8. RELEVANT CONSIDERATIONS**

### **8.1 Central Government funding**

- 8.1.1 On the 29 October 2018, the Chancellor made his Budget Statement. The Budget included an update on the current state of public finances and the latest economic forecasts. None of the announcements provided details of specific impacts on the Council's funding.
- 8.1.2 The Provisional Local Government Finance Settlement was announced on 13 December 2018. The Settlement provided information on funding arrangements for the Council in 2019/20.
- 8.1.3 The Settlement confirmed that Negative Revenue Support Grant (RSG) will not be applied in 2019/20. This increases the funding available to the Council in 2019/20 by just over £1m compared to previous forecasts, which had assumed this reduction in funding. As highlighted in 8.1.6 below, this increase is assumed to be for one year only.



- 8.1.4 It was also announced in the settlement that the New Homes Bonus (NHB) baseline will be retained at 0.4%, when it had been expected to fall. The published allocation for 2019/20 of £984k represents a reduction of £280k on funding received for 2018/19, which is in part due to a smaller increase in properties than forecast. Some reduction (approx. £160k) had been expected as, unless the rate of increase in properties is higher than it has been in recent years, the funding from this source will fall as you swap a year where the baseline was not applied (for example 2015/16, allocation based on October 2013 to October 2014) for one where it is (2019/20, allocation based on October 2017 to October 2018).
- 8.1.5 With the new homes baseline remaining unchanged, a further reduction in New Homes Bonus funding is therefore now expected in 2020/21 as growth in properties for the period October 2018 to October 2019 is expected to be similar to the twelve months prior. An estimated total of £844k is included for 2020/21 in the funding estimates shown in table 1 (£1.1m was included in previous estimates). The same figure is then included for the years beyond 2020/21, with the assumption that growth in properties will offset the impact of the baseline. The latest forecast provided by Planning Services would support this as a reasonable assumption based on current information. There is a risk of significant changes to New Homes Bonus which reduce the funding that it provides.
- 8.16 From 2020/21 it is expected that 75% Business Rates Retention and a new Fair Funding Formula will be introduced. In the absence of notification from government, estimates for 2020/21 and beyond assume that the new fair funding formula will build in a reduction equivalent to the amount that the Council was due to lose through the introduction of the negative RSG. Estimates also assume that the Business Rates Baseline total and negative RSG will increase by 3% per year, which is in line with previous totals published by the Ministry for Housing, Communities and Local Government (MHCLG).

8.1.7 Based on the above, this gives the following funding estimates:

**Table 1: Estimated Non-specific Funding, excluding Council Tax (All amounts in £000)**

2018/19		2019/20	2020/21	2021/22	2022/23
0	Revenue Support Grant	0	-1,103	-1,136	-1,170
2,622	Business Rates Baseline (share of income less tariff)	2,682	2,763	2,846	2,931
<b>2,622</b>	<b>Funding Assessment</b>	<b>2,682</b>	<b>1,660</b>	<b>1,710</b>	<b>1,761</b>
1,264	New Homes Bonus	984	844	844	844
<b>3,886</b>	<b>Total non-specific funding, excluding Council Tax</b>	<b>3,666</b>	<b>2,504</b>	<b>2,554</b>	<b>2,605</b>
	Change on previous year	-5.6%	-31.7%	+2.0%	+2.0%

**8.1.8 Cabinet is asked in recommendation 2.1 to note the expected Central Government funding levels**

8.1.9 NHDC also receives grants for specific purposes. These grants are built in to service budgets and have therefore already been taken in to account when determining spend forecasts, so can not be used towards funding the base budget. These grant amounts are often uncertain, and reductions in the amount can result in spending pressures that would need to be met from the General Fund. However, as detailed in table 2 below, some of the amounts are uncertain. Therefore any reductions in the amounts received are likely to create a spending pressure that would need to be met from general base budget funding.

**Table 2: Forecasts in relation to Specific Government Grants**

	2018/19 amount £'000	Expectation for 2019/20
Housing Benefit Subsidy	32,158	Initial Estimate will be available late January 2019, so budget expectation for 2019/20 is based on the 2018/19 mid year estimate - £32.158million
Discretionary Housing Payments	260	An announcement is expected in January 2019. Expectation is that the grant level will be similar to 2018/19 - £260k.
Benefits Administration and	474	Following recent notifications received from MHCLG, total grant expected for 2019/20 is £430k

	<b>2018/19 amount £'000</b>	<b>Expectation for 2019/20</b>
Fraud Initiative		(reduction of £44k). Housing Benefit admin grant has been confirmed as £311k for 2019/20 (£350k in 2018/19), with the reduction mainly due to the change in the methodology of apportioning the grant, while MHCLG also confirmed a 5% reduction in the Council tax admin grant to a total of £118k.  This funding pressure is reflected in Appendix B.
Section 31 Grants to reimburse the impact of Business Rate reliefs and caps.	1,435	The amount received in 2019/20 will depend on the changes announced in the budget in November 2019. However the current expectation is that the level of grant will be similar to 2018/19.
Waste minimisation – HCC contribution via the Alternate Financial Model.	423	While Hertfordshire County Council (HCC) will again make a deduction of £0.33m from the total AFM funding allocation for 2019/20, as part of a planned total £1m saving over the three financial years 2017/18 – 2019/20, the actual AFM funding received depends on the annual recycling performance of NHDC relative to the corresponding performance of the other Hertfordshire waste collection authorities. The most recent estimates from HCC, based on performance in the first half of 2018/19, indicates NHDC will be eligible for a similar amount in 2019/20 to the base budget estimate of £395k.
NNDR Administration Grant	184	The cost of collection will not be known until the central government return for business rates (NNDR 1 form) is completed in January 2019. Can assume a similar level to the 2018/19 level of £184k.
Flexible homelessness support grant	141	The 2019/20 allocation for Flexible Homelessness grant is £173k.
Syrian refugee resettlement grant	174	Estimated to be £327k in 19/20, based on North Herts housing 10 families.
Homelessness	32	The 2019/20 allocation for Homelessness

	<b>2018/19 amount £'000</b>	<b>Expectation for 2019/20</b>
Reduction Act - New Burdens Funding.		Reduction Act New Burdens Funding is £37k.
<b>Total Revenue Grants</b>	<b>35,281</b>	

## **8.2 Business Rates and Council Tax**

- 8.2.1 NHDC is required to maintain a Collection Fund to account for the income received and costs of collection for Council Tax and Business Rates. Estimates of the net income are made at the start of the year and based on this money is transferred out of the Collection fund to the NHDC General Fund and other precepting bodies. The Fund is required to break even over time and any surplus or deficit is transferred to the NHDC General Fund and other precepting bodies.
- 8.2.2 The total amount of Council Tax that is collected is dependent on the actual number of properties, eligibility for paying a reduced amount (Council Tax Reduction Scheme) and the success in collecting what is owed. The amount of Business Rates that are collected is dependent on the number and type of business premises in the area, the success in collecting what is owed, eligibility for relief and the number and value of successful appeals. Assumptions on these factors are made in forecasting the level of income from Council Tax and Business Rates in future years.
- 8.2.3 Current forecasts are that the Business Rates collection fund will have a deficit at the end of the year. This is due to the level of appeals and rate reliefs. NHDC will need to fund its share of the deficit in the following financial year. The section 31 grant that NHDC receives for business rate reliefs and caps will be used for this purpose.
- 8.2.4 It is expected that the Council Tax collection fund will have a surplus recorded at the end of the year of £300k. As highlighted in the revenue monitoring report at quarter two, this total includes the accumulation of annual surpluses recorded for prior financial years. The reason for retaining an annual surplus in the Collection Fund has been that the accumulated surplus could be used to fund / offset collection deficits reported in future years. Annual surpluses have however been recorded for a number of years consecutively and so, as detailed in Appendix A, the surplus will be transferred from the Collection Fund to fund the Council's General Fund activities in 2019/20.

- 8.2.5 Cabinet is asked in recommendation 2.2 to note the estimated position on the Collection Fund and how this will be funded.**

#### **Business Rates Pilot**

- 8.2.6 It was announced in the Provisional Local Government Finance Settlement that Hertfordshire has been successful in becoming a Business Rate pilot in 2019/20. As highlighted when the application was made, this will hopefully mean that the Council is around £800k better off than the baseline position included in the budget estimates in Appendix A, and £400k better off than being part of a pool. This is dependent on the Business Rates collected in North Hertfordshire and across Hertfordshire during 2019/20. The Council will not see the additional money in the General Fund until 2020/21, so there is no direct impact on the 2019/20 budget.
- 8.2.7 If Business Rates forecasts are looking positive, then it would be possible to spend some of the additional funding in 2019/20, although this should not be planned at this stage. In the Pilot application it was stated that the extra funding would be spent to promote economic growth and stability, which could cover a broad range of new and existing spend. Some of the County-wide surplus will be transferred in to an investment fund. It is forecast that this will be around £2.3m, and the Council would be able to bid for this.

#### **Council Tax Flexibility**

- 8.2.8 The draft Council Tax Referendum Principles, published alongside the Provisional Local Government Finance Settlement, provided confirmation that for 2019/20 Local Authorities can raise Council Tax by up to the greater of 3% or £5 (band D equivalent) without the need for a local referendum. In future years (for 2020/21) onwards it is expected that the limit will return back down to the greater of 2% or £5 (band D equivalent), as the increase to 3% was based on current levels of inflation. The Medium Term Financial Strategy (agreed by Council in September) proposed that the Council should increase Council Tax by as much as it is allowed to without triggering a referendum. Therefore a 2.99% increase is used to forecast Council Tax income in 2019/20, with £5 increases in the following years (£5 is greater than a 2% increase). Table 3 shows the level of Council Tax by year and the forecast level of income to the Council. Cabinet can recommend either a lower or higher rate of Council Tax increase to Full Council. The removal of the negative RSG in 2019/20 means that the Council will be able to provide a contribution to a funding equalisation reserve, which could be used to cushion the impact of future expected funding reductions. Whilst it could be tempting to increase Council Tax by less than the maximum allowed, this would reduce the Council Tax base for future years and therefore increase the expected funding gap in those years. It is therefore not recommended.



8.2.9 The Council is required to produce a Council Tax Base estimate in November for the following year, and this has been used for the 2019/20 forecast of Council Tax income. For future years a 1% growth per year in the Council Tax Base is estimated. Based on the above, table 2 provides a forecast of future Council Tax income.

**Table 3: Forecasts of Council Tax level and income**

2018/19		2019/20	2019/20	2020/21	2021/22
223.45	Band D Council Tax (£)	230.13	235.13	240.13	245.13
2.99%	Increase as a %	2.99%	2.17%	2.12%	2.08%
49,119	Estimated Council Tax Base	49,498	49,993	50,493	50,998
1%	Increase as a %	0.8%	1%	1%	1%
10,976	Council Tax income to NHDC (£000)	11,391	11,755	12,125	12,501

8.2.7 It should be noted that this only represents the District Council element of the Council Tax bill for households. Table 3 below shows the constituent elements of the 2018/19 Council Tax bill for a Band D property (excluding any Parish precept).

**Table 4: Band D Council Tax 2018/19 (excluding Parish precepts)**

	2018/19	Share of bill
	£	
District	223.45	13.1%
County Council	1,224.67	71.7%
County Council-Social Care Precept	95.79	5.6%
Police and Crime Commissioner	164.00	9.6%
<b>Total</b>	<b>1,707.91</b>	

8.2.8 Cabinet is asked in recommendation 2.3 to confirm that Council Tax increases for 2019/20 should be in line with the Medium Term Financial Strategy.

### 8.3 Balances and Reserves

8.3.1 In setting its budget, the Council needs to consider the level of its reserves. This consideration includes specific reserves, provisions and general fund reserves. This determines the extent to which the current budget can be supported by the use of reserves, or requires a budget to be set that includes an allowance for increasing reserves. In addition to the General Fund balance, NHDC has specific reserves and provisions. Specific reserves are amounts that are set aside for a determined purpose. This purpose can arise from a choice made by the Council, or where it is felt that there is an obligation. Provisions are where there is a requirement on the Council to meet future expenditure, and a reasonable estimate can be made of the amount and timing. In determining the risks that may need to be met from the General Fund, it is important to know which risks will already be covered by amounts that are set aside as a specific reserve or provision. As shown in Appendix A, it is expected that the Council will be able to make a budgeted contribution to a funding equalisation reserve in 2019/20. This is alongside keeping other reserves and provisions at appropriate levels.

8.3.2 A full list of specific reserves and forecast balances is shown in table 5 below.

**Table 5: Specific Reserves**

	<b>Balance at 1 April 2018 £000</b>	<b>Forecast balance at 31 March 2019 £000</b>
Cemetery Mausoleum Reserve	140	140
Childrens Services Reserve	8	7
Climate Change Grant Reserve	30	29
Community Development Reserve	1	0
Community Right to Challenge Reserve	45	45
DCLG Grants Reserve *	868	1,646
DWP Additional Grants Reserve	129	180
Environmental Warranty Reserve	209	209
Growth Area Fund Reserve	53	53
Homelessness Grants Reserve	203	243
Housing & Planning Delivery Reserve	768	763
Information Technology Reserve	82	82
Insurance Reserve	34	34
Land Charges Reserve	104	94
Leisure Management Maintenance Reserve	47	47
Museum Exhibits Reserve	12	12
Neighbourhood Plan Reserve	41	41
Office Move IT Works	7	7
Paintings Conservation Reserve	11	11

	<b>Balance at 1 April 2018 £000</b>	<b>Forecast balance at 31 March 2019 £000</b>
Property Maintenance Reserve	62	72
S106 Monitoring Reserve	53	37
Special Reserve	1,720	1,657
Street Furniture	17	21
Street Name Plates	16	16
Syrian Refugee Project	87	172
Taxi Licences Reserve	13	13
Town Centre Maintenance	38	46
Traffic Regulation Orders	296	296
Waste Reserve	585	604
Waste Vehicles	0	500
<b>Total Specific Reserves</b>	<b>5,679</b>	<b>7,077</b>

*\* The DCLG Grants reserve will be used to fund the eligible amount of Business Rates levy payable for financial year 2018/19. This will reduce the current forecast reserve balance. As NHDC is a member of the Hertfordshire Business Rates Pool in 2018/19, the levy amount will be calculated by the Pool Lead authority, Hertfordshire County Council (HCC). Notification of the estimated levy amount is awaited from HCC.*

8.3.3 As at the 31 March 2018 there was a total of £1.252m held as provisions. These comprised of:

- Business Rates appeals - £1.126m - the NHDC share of outstanding business rates appeals.
- Insurance - £0.026m - covers the uninsured aspect of outstanding insurance claims.
- Restructure costs - £0.100m - set up at the end of 2017/18 for settlement costs relating to the restructure of senior management as part of the Corporate Restructure.

8.3.4 NHDC operates with a reserve balance for General Fund activities in order to provide a cushion against unexpected increases in costs, reductions in revenues and expenditure requirements. Guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) suggests that the revenue balances should be set at no less than 5% of net revenue expenditure, having taken account of the risks faced by the Authority in any particular year. As net expenditure is anticipated to be around £15.1 million, this means a minimum balance of about £750k. The minimum figure represents the cushion against totally unforeseen items. When setting the level of balances for any particular year, known risks which are not being budgeted for should be added to this figure, according to risk likelihood.

- 8.3.5 An assessment of the risks has been compiled for the coming year based on risks identified by each Service Director and cross-referenced to the risk register. The identified areas are where the financial impact is not wholly known, but an estimate can be made. Risks in relation to Brexit have been considered, although in most cases it is not possible to make an estimate of the financial impact. Other risks do include the potential impacts of Brexit where it affects the estimate (e.g. usage of bed and breakfast accommodation for homeless households). The amount allocated is based on the forecast likelihood of occurrence. Where there is a high likelihood, 50% of the estimated financial impact is allowed for. For medium likelihood, it is 25%. For low likelihood, it is 0%. Table 6 summarises the risks, the forecast impact and the risk allowance to be made. A full list of these risks is shown in Appendix C.

**Table 6: Budget risks 2019/20**

<b>Category</b>	<b>Number of risks</b>	<b>Forecast value of impact £000</b>	<b>Risk Allowance £000</b>
High	9	1,750	875
Medium	17	1,210	328
Low	19	7,499	0
<b>Total</b>	<b>45</b>	<b>10,559</b>	<b>1,203</b>

- 8.3.6 Combining the risk allowance for specific risks and unknown risks means that a General Fund balance of at least £1.96 million should be maintained. This is what is recommended by the s151 Officer (Chief Finance Officer).
- 8.3.7 **Cabinet is asked in recommendation 2.4 to note the position relating to the General Fund balance and that due to the risks identified a minimum balance of £1.96 million is recommended.**

#### **8.4 Month 8 (November) Budget Review**

- 8.4.1 A review of budgets as at the end of November has been carried out. Table 7 below provides explanations for the variances that are greater than £25k, as well as any budgets where there are carry-forward requests. All other variances are included within the 'other minor variances' line at the bottom of the table.

**Table 7- Summary of forecast variances**

<b>Budget Area</b>	<b>Working Budget £k</b>	<b>Forecast £k</b>	<b>Variance £k</b>	<b>Reason for difference</b>	<b>Carry-forward requested £k</b>	<b>2019/20 Impact £k</b>
Income from paper collected for recycling (sale & HCC recycling credit)	(559)	(476)	+83	The volume of paper collected continues to decline. 221 tons less paper was collected in April to September 2018, compared to the same period in the prior year.	0	83
Area Committee Grants	119	78	(41)	There is expected to be unspent budget following the final Area Committee meetings of the financial year in March 2019. This reflects fewer grant applications than anticipated being received and also includes grants awarded but not yet released pending evidence of certain criteria being met.	41	0
Income from Burials Service	(296)	(227)	+69	Income from the sale of burial plots and interment has been lower than anticipated. This could be a consequence of the opening of the Memoria crematorium in Holwell in June 2017. This provision, together with the Harwood Park Crematorium, has reduced the waiting times for cremation and meant that people are no longer going for full burial as their second option when waiting times have been too long for a cremation.	0	69
HCC contribution via the Alternate Financial Model.	(395)	(423)	(28)	The higher than anticipated AFM receipt follows the improved recycling performance of other Hertfordshire Authorities. This has reduced HCC waste disposal costs and increased the total AFM funding allocation distributed to waste collection authorities.	0	0



Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Carry-forward requested £k	2019/20 Impact £k
<b>Total of explained variances</b>	<b>(1,131)</b>	<b>(1,048)</b>	<b>+83</b>		<b>41</b>	<b>152</b>
Other minor variances	16,407	16,440	+33		0	12
<b>Overall total</b>	<b>15,276</b>	<b>15,392</b>	<b>+116</b>		<b>41</b>	<b>164</b>

8.4.2 This has identified a total increase in forecast net spend of £116k against the working budget, with £41k of unspent budget requested to be carried forward into 2019/20. The final column of table 6 details the forecast impact on 2019/20, which is a £164k increase in required budget. These are included in Appendix B.

8.4.3 **Cabinet is asked in recommendation 2.5 to approve the increase in the 2018/19 working budget of £116k, and to note the expected impact in 2019/20 of a £164k increase in budget.**

8.4.4 **Cabinet is asked in recommendation 2.6 to note and comment on the request for the carry-forward of £41k budget from 2018/19 to 2019/20.**

## **8.5 Savings and Investment Proposals**

8.5.1 The Medium Term Financial Strategy highlighted the need to find at least £700k of savings within 4 years. However this was dependent on future announcements on funding and also finalising estimates (e.g. Council Tax base and inflation estimates). The £700k is a net total, so any proposals for increased spend (e.g. investments) would increase the amount of savings required.

8.5.2 Budget proposals were put forward for discussion at Group workshops in November. To give the full context, these proposals included both savings and investment proposals. The comments made by the Groups were presented for consideration alongside the budget proposals at the December meeting of Cabinet.

8.5.3 At the meeting in December, Cabinet resolved to make several amendments to the savings and investment proposals. All the changes recommended by Cabinet are included and highlighted in Appendix B.

**8.5.4 Cabinet is asked at recommendation 2.7 to approve the inclusion of the efficiencies and investment proposals at Appendix B in the General Fund budget estimates for 2019/20.**

## **8.6 Overall summary**

8.6.1 Appendix A provides a summary of the forecast General Fund impact of the factors referenced in the previous sections of this report. This includes an increase in Council Tax of 2.99% in 2019/20, the change in the expectation of future New Homes Bonus Funding, confirmation of Housing Benefit and Council Tax administration grants, and the ongoing impact of variances identified in the November monitoring.

8.6.2 Appendix A also includes a forecast of the remaining savings that the Council still needs to deliver by 2022/23. Savings totalling £1.2m are estimated to be required in order for the Council to balance income and expenditure by the end of the period. Furthermore, with the proposed phasing of these savings, there would be a need to use around £600k of reserves. These amounts could also be significantly affected by a number of factors which include:

- Changes to the Fair Funding Formula, which is currently being consulted on by the Department for Communities and Local Government, with any changes likely to be implemented from 2020/21.
- Changes to the way New Homes Bonus is calculated in future years
- The successful delivery of the savings included within the budget forecasts.

**8.6.3 Cabinet is asked at recommendation 2.8 to note the savings targets for future years.**

**8.6.4 Cabinet is asked at recommendation 2.9 to note the estimated 2018/19 net expenditure of £15.1m, as detailed in Appendix A, and recommends this budget to Council.**

## **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 Cabinet's terms of reference include recommending to Council the annual budget, including the capital and revenue budgets and the level of council tax and the council tax base. Council's terms of reference include approving or adopting the budget.

9.3 Members are reminded of the duty to set a balanced budget and to maintain a prudent general fund and reserve balances.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 As outlined in the body of the report.

## **11. RISK IMPLICATIONS**

- 11.1 As outlined in the body of the report.
- 11.2 There are significant uncertainties and risks with regard to the funding of NHDC over the medium term. In particular the impact from the outcomes of the Fairer Funding review and potential future changes to how the New Homes Bonus Scheme operates.

## **12. EQUALITIES IMPLICATIONS**

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 The proposals for efficiencies within this report do not unduly disadvantage one individual group within our local community more than another, although proposals relating to the staff, their terms and conditions or future employment will need to be subject to individual equality analysis in due course, as for any organisational or service restructure.
- 12.3 For any individual proposal comprising either £50k growth or efficiency, or affecting more than two wards, an equality analysis is required to be carried out; this has either taken place or will take place following agreement of efficiencies or growth.

## **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 Where efficiency proposals directly affect staff, it is important that all affected staff are consulted and supported at the earliest opportunity and the Council's HR policies and procedures are followed.

## **15. APPENDICES**

- 15.1 Appendix A – Budget Summary 2019/20 – 2022/23.  
Appendix B – Revenue Efficiencies and Investment proposals.  
Appendix C – Budget Risks for 2019/20.

**16. CONTACT OFFICERS**

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**17. BACKGROUND PAPERS**

- 17.1 Medium Term Financial Strategy 2019-24.

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General Fund Estimates 2019/20 - 2022/23

All amounts £000	2019/20	2020/21	2021/22	2022/23
Net expenditure brought forward	14,549	15,136	14,808	14,911
Savings previously identified	-539	-85	-52	0
Savings reported after 2018/19 budget was set	-603	133	0	0
Pressures reported after 2018/19 budget was set	824	-228	63	0
Other previously agreed changes (including updates to amounts)	-134	-6	11	-5
Estimated Net Inflation	480	392	454	374
Expenditure Budget Carried Forward from 2018/19	128	-128	0	0
Provision for further revenue investments in future years	-	150	150	150
New savings proposals	-171	-9	-95	83
New revenue investments	602	-247	-28	8
Further savings tbc	-	-300	-400	-500
<b>Total gross expenditure (excluding Housing Benefit subsidy)</b>	<b>15,136</b>	<b>14,808</b>	<b>14,911</b>	<b>15,021</b>
Council Tax	-11,391	-11,755	-12,125	-12,501
Council Tax Collection Fund Accumulated Surplus	-300	0	0	0
Revenue Support Grant (negative)	0	1,103	1,136	1,170
Business Rates	-2,682	-2,763	-2,846	-2,931
New Homes Bonus	-984	-844	-844	-844
Other	39	24	24	24
Planned contribution to funding equalisation reserve	182	-182	0	0
<b>Net funding position (use of reserves)</b>	<b>0</b>	<b>391</b>	<b>256</b>	<b>-61</b>
Reserves b/f (as forecast at November 2018)	7,055	7,055	6,664	6,408
Reserves c/f	7,055	6,664	6,408	6,469

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New Efficiency Proposals for 2019/20 and beyond

Ref No	Service Directorate	Description of Proposal	Net Efficiency				
			2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	
E1	Regulatory	Deletion of Membership of Greater Cambridgeshire and Greater Peterborough LEP. The GCGP LEP ceased to operate as of 01 April 2018. The new LEP, known as The Business Board, is Cambridge and Peterborough orientated only.	Expenditure reduction	(16)	(16)	(16)	(16)
			Additional Income	-	-	-	-
			Total	(16)	(16)	(16)	(16)
E2	Regulatory	Removal of funding for Area Wide Parking Reviews in 2019/20. There is a sufficient balance in reserve to enable the works to be undertaken in 2019/20 without the need for this annual provision.  UPDATE: Cabinet 21st December 2018: efficiency proposal recommended to be extended across the medium term period as no plans for expenditure in any of the next four years.	Expenditure reduction	(65)	(65)	(65)	(65)
			Additional Income	-	-	-	-
			Total	(65)	(65)	(65)	(65)
E3	Resources	Ceasing the use of duplicate payment finder software. Additional functionality from the recent upgrade of the Council's main accounting system means that additional software to identify duplicate payments is no longer required.	Expenditure reduction	(5)	(5)	(5)	(5)
			Additional Income	-	-	-	-
			Total	(5)	(5)	(5)	(5)
E4	Resources	Savings on the cost of insurance have materialised following the tender of the Council's insurance arrangements, primarily on our property insurance. We have also decided to no longer insure against loss of revenue for the leisure facilities in the event of them being damaged. We have restricted insuring against terrorism damage to just key buildings rather than the whole of the property portfolio. The public liability excess has also increased from £5,000 to £10,000 per claim, which meant the premium was held at the previous level rather than increasing.	Expenditure reduction	(48)	(48)	(48)	(48)
			Additional Income	-	-	-	-
			Total	(48)	(48)	(48)	(48)
E5	Place	Effective procurement and management of tree maintenance arrangements has facilitated a reduction in the estimated annual provision required to deliver this service without adversely impacting the condition of the trees maintained within the district.	Expenditure reduction	(10)	(10)	(10)	(10)
			Additional Income	-	-	-	-
			Total	(10)	(10)	(10)	(10)
E6	Regulatory	Planning advertising expenditure	Expenditure reduction	(5)	(5)	(5)	(5)
			Additional Income	-	-	-	-
			Total	(5)	(5)	(5)	(5)
E7	Legal & Community	Rolling reduction in area committee grant budgets equivalent to 20% of annual provision	Expenditure reduction	(10)	(19)	(25)	(31)
			Additional Income	-	-	-	-
			Total	(10)	(19)	(25)	(31)
E8	Legal & Community	Removal of budget provision for District Council elections in 2021/22 as no elections scheduled to be held.	Expenditure reduction	-	-	(89)	-
			Additional Income	-	-	-	-
			Total	-	-	(89)	-
E9	All Directorates	Budget scrutiny savings: total of minor savings (each less than £1K in value) identified from the review of existing base budgets.	Expenditure reduction	(12)	(12)	(12)	(12)
			Additional Income	-	-	-	-
			Total	(12)	(12)	(12)	(12)
Total Net Budget Reduction from new efficiency proposals			Total Expenditure reduction	(171)	(180)	(275)	(192)
			Total Additional Income	-	-	-	-
			Total Efficiencies	(171)	(180)	(275)	(192)

New Revenue Pressures and Investment Proposals

Ref No	Service Directorate	Description of Proposal	Investment			
			2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
R1	Regulatory	Local Plan 2011-2031- Current discussions with the Inspector lead officers to believe that it should be possible to achieve a recommendation to adopt within 2018/19 subject to decisions of the Council. As such, this bid focuses on the work that will need to be undertaken post-adoption such as the review of strategies and the undertaking of studies. This bid maybe subject to change following the Inspectors interim report.	Additional Expenditure	150	-	-
			Income Reduction	-	-	-
			Total	150	-	-
R2	Regulatory	Retention of the 2018/19 parking tariff structure for 2019/20, including freezing prices for car park season tickets and residents parking permits.	Additional Expenditure	-	-	-
			Income Reduction	100	100	100
			Total	100	100	100

R3	Resources	Removal of earmarked efficiency from launch of NHDC Lottery (PE6 below). Planned efficiency values were based on the experience of the first year of the Vale Lottery. A further assessment of the options for delivering a NHDC lottery was subsequently undertaken by officers. Officers concluded that in the absence of a major driver for demand, such as the lottery being a means of supporting a local hospital, a lottery would most likely absorb significant officer resource for a relatively minor return.	Additional Expenditure	-	-	-	-
			Income Reduction	50	65	65	65
			Total	50	65	65	65
R4	Legal & Community	Removal of earmarked efficiency from replacement of area committees with a more informal alternative (PE4 below)	Additional Expenditure	50	50	50	50
			Income Reduction	-	-	-	-
			Total	50	50	50	50
R5	Regulatory	Removal of earmarked efficiency from the review of the Council's Parking Strategy (CBP 2017/18).	Additional Expenditure	-	-	-	-
			Income Reduction	100	100	100	100
			Total	100	100	100	100
R6	Regulatory	Review of Social Housing stock- On a four yearly basis, procure consultants to analyse the condition of housing stock in North Herts and/or support activity on measures aimed at resultant findings/current priorities (e.g. helping residents introduce energy efficiency measures).	Additional Expenditure	-	20	-	-
			Income Reduction	-	-	-	-
			Total	-	20	-	-
R7	Regulatory	Local housing market analysis- Appoint consultant biannually to provide information and analysis on the local housing market in order to inform the development of housing policies and strategies.	Additional Expenditure	-	8	-	8
			Income Reduction	-	-	-	-
			Total	-	8	-	8
R8	Resources	Payroll contract - One year extension of current Payroll Contract to the end of March 2020, as per published delegated decision notice 26/08/2018. Due to this annual contract price increase, a new contract will be procured and commence from 2020/21.	Additional Expenditure	12	12	12	12
			Income Reduction	-	-	-	-
			Total	12	12	12	12
R9	Legal & Community	Grant to Citizen Advice North Herts to provide advice and support to residents (1 year project).	Additional Expenditure	50	-	-	-
			Income Reduction	-	-	-	-
			Total	50	-	-	-
R10	Legal & Community	Grant to Age UK (Hertfordshire) to provide home visits to help identify and claim any currently unclaimed benefits (1 year project). Dependent on being able to confirm that grant is ring-fenced to North Herts.	Additional Expenditure	20	-	-	-
			Income Reduction	-	-	-	-
			Total	20	-	-	-
R11	Place	Tree Replacement - Replace 31 trees that died during the hot dry summer of 2018	Additional Expenditure	10	-	-	-
			Income Reduction	-	-	-	-
			Total	10	-	-	-
R12	Regulatory	Feasibility study to identify issues and their location in relation to Homes of Multiple Occupancy (HMOs)	Additional Expenditure	10	-	-	-
			Income Reduction	-	-	-	-
			Total	10	-	-	-
R13	Legal & Community	Additional budget for Health and Wellbeing team to help establish existing activities and identify models and funding opportunities for ongoing delivery.	Additional Expenditure	50	-	-	-
			Income Reduction	-	-	-	-
			Total	50	-	-	-
			Total Additional Expenditure	352	90	62	70
			Total Income Reduction	250	265	265	265
			Total Investments	602	355	327	335

**Efficiencies earmarked in 2019/20 (and/or beyond) resulting from previous decisions**

Ref No	Service Directorate	Description of Proposal	Efficiency			
			2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
PE1	Customers	Restructure of Revenues team. The use of technology means that the service can absorb these changes with no impact on service delivery.	<b>Expenditure reduction</b>	(6)	(12)	(12)
			<b>Additional Income</b>	-	-	-
			<b>Total</b>	(6)	(12)	(12)

PE2	Resources	Reduction in the number of audit days delivered by the Shared Internal Audit Service. Proposed to reduce from 400 days in 2017/18 to 360 days in 2018/19, 320 days in 2019/20 and 300 days from 2020/21 onwards. External Audit no longer place reliance on the work of Internal Audit in respect of key financial systems, hence the substantive testing element of this work is no longer required. The Council generally have good controls and therefore there is scope to reduce the time spent on service audits and still retain capacity to target any identified risk areas. The Audit Manager has advised that at 300 days, SIAS would still expect to be able to provide their annual assurance.	Expenditure reduction	(10)	(15)	(15)	(15)
			Additional Income	-	-	-	-
			Total	(10)	(15)	(15)	(15)
PE3	Resources	Centralisation of property repairs and maintenance budgets. Centralisation of these budgets will facilitate more effective planning and prioritisation of maintenance work.	Expenditure reduction	(20)	(20)	(20)	(20)
			Additional Income	-	-	-	-
			Total	(20)	(20)	(20)	(20)
PE4	Legal & Community	Replace area committees with a more informal alternative (see R4). The amount of saving of the direct administration cost of supporting Area Committees could be in the region of £50k, but would be dependent on the format and frequency of any alternative.	Expenditure reduction	(50)	(50)	(50)	(50)
			Additional Income	-	-	-	-
			Total	(50)	(50)	(50)	(50)
PE5	Place	Provision of a Crematorium at Wilbury Hills. Delivery of the crematorium and any revenue efficiency is dependent on a successful planning application. The estimated efficiency value is based on the proposed terms of the lease, with NHDC receiving an annual base rent of £10k (indexed annually by RPI) plus a percentage (up to a maximum of 10%) of the turnover generated from the Crematorium. The eligible percentage of turnover would be linked to the number of cremations that take place over a 12 month period.	Expenditure reduction	-	-	-	-
			Additional Income	-	(50)	(100)	(100)
			Total	-	(50)	(100)	(100)
PE6	Resources	The launch of an NHDC Lottery (see R3). Efficiency values are based on activity generated by the Aylesbury Vale lottery and assume 60% of the value of the tickets sold at £1 can be directed to fund activities in the NHDC area. Revenue generated could therefore be used to fund area grant awards.	Expenditure reduction	-	-	-	-
			Additional Income	(50)	(65)	(65)	(65)
			Total	(50)	(65)	(65)	(65)
PE7	Place	Reduction in cost for waste collection and street cleansing arising from the retendering of the service. Increase in efficiency from 2019/20 due to expectation of full year saving (contract commenced May 2018) and removal of initial one-off costs associated with the new contract.	Expenditure reduction	(203)	(203)	(203)	(203)
			Additional Income	-	-	-	-
			Total	(203)	(203)	(203)	(203)
PE8	Place	Full year effect of previous decision. The expected net impact of introducing garden waste charging, at £40 with a 26% take-up. Efficiency anticipated to be greater after year 1 following removal of initial one-off costs and early bird discount.	Expenditure reduction	-	-	-	-
			Additional Income	(131)	(131)	(131)	(131)
			Total	(131)	(131)	(131)	(131)
PE9	Place	Savings in staffing costs anticipated from year 2 of the contract from a joint waste client team with East Herts Council.	Expenditure reduction	(60)	(60)	(60)	(60)
			Additional Income	-	-	-	-
			Total	(60)	(60)	(60)	(60)
PE10	Legal & Community	Cease MOU and contractual payments to identified Community Groups. Baldock Town Centre Partnership. Grant ceasing at the end of 2020/21. Amounts to be paid: 2018/19 £6.8k, 2019/20 £4.6k, 2019/20 £2.3k. Hitchin British Schools Museum. Ceasing at end of 2019/20. Amounts to be paid: 2018/19 £4.5k, 2019/20 £2.2k. Sports North Herts. Ceasing at end of 2019/20. Amounts to be paid: 2018/19 £3k, 2019/20 £1.5k. Arts Council for North Herts. Ceasing at end of 2019/20. Amounts to be paid: 2018/19 £5.5k, 2019/20 £2.8k. Stevenage and North Herts Women's Resource Centre. Ceasing at end of 2019/20. Amounts to be paid: 2018/19 £0.7k, 2019/20 £0.4k.	Expenditure reduction	(9)	(18)	(20)	(20)
			Additional Income	-	-	-	-
			Total	(9)	(18)	(20)	(20)
Total Net Budget Reduction from earmarked efficiencies			Total Expenditure reduction	(358)	(378)	(380)	(380)
			Total Additional Income	(181)	(246)	(296)	(296)
			Total Efficiencies	(539)	(624)	(676)	(676)

Savings incorporated since 2018/19 Budget approved by Council in February 2018

Report	Service Directorate	Description of Saving	Saving			
			2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Q3 2017/18	Commercialisation	Increase in rental income following rent review (included within ongoing impact total relating to 'other minor balances' of Q3 2017/18 report)	Expenditure reduction	-	-	-
			Additional Income	(5)	(5)	(5)
			Total	(5)	(5)	(5)
Council 10.4.2018	Legal & Community	The Council resolution at its meeting on 10th April was that that the adopted member allowances scheme for 2017/18 should remain in place without amendment for the 2018/19 year which reduces the anticipated cost in future years. This saving is the inflation that would have been paid if the amounts had increased.	Expenditure reduction	(7)	(7)	(7)
			Additional Income	-	-	-
			Total	(7)	(7)	(7)

Q1 2018/19	Place	The original estimate of take-up of the chargeable garden waste service was based on the results of the public consultation, which indicated a 26% take up. The service has however been more popular than the consultation suggested, with currently over 50% of households registered for the service. It is currently assumed that this level of take-up will continue next year.	Expenditure reduction	-	-	-	-
			Additional Income	(235)	(235)	(235)	(235)
			Total	(235)	(235)	(235)	(235)
Q2 2018/19	All Directorates	The original staff salary cost estimate for 2018/19 was based on assumption of pay award of 3% for all pay grades. Negotiated pay offers resulted in salary increases ranging from 2% for middle to higher salary grades to 9% at the lowest pay point.	Expenditure reduction	(85)	(85)	(85)	(85)
			Additional Income	-	-	-	-
			Total	(85)	(85)	(85)	(85)
Q2 2018/19	Chief Executive	Interest on mortgage payments. The final outstanding Housing Association mortgage was redeemed early so the Council no longer has any outstanding mortgages. Saving value included in 'other minor variances' ongoing impact total in Q2 report.	Expenditure reduction	(7)	(7)	(7)	(7)
			Additional Income	-	-	-	-
			Total	(7)	(7)	(7)	(7)
Q2 2018/19	Chief Executive	Increase in anticipated level of investment interest income due to the reprofiling of the Capital Programme increasing cash balances available for investment.	Expenditure reduction	-	-	-	-
			Additional Income	(133)	-	-	-
			Total	(133)	-	-	-
Q2 2018/19	Chief Executive	Saving on anticipated cost of External Audit, based on Public Sector Audit Appointments published scale of fees. Saving value included within other minor variances ongoing impact total in Q2 report.	Expenditure reduction	(6)	(6)	(6)	(6)
			Additional Income	-	-	-	-
			Total	(6)	(6)	(6)	(6)
Q2 2018/19	Customers	Photocopying costs. The temporary relocation to Town Lodge prompted a reduction in the total number of MFD machines, with three less in operation. This reduction was then made permanent when the lease contract was renewed prior to the return to DCO. This has resulted in lower rental costs, print charges and paper costs.	Expenditure reduction	(18)	(18)	(18)	(18)
			Additional Income	-	-	-	-
			Total	(18)	(18)	(18)	(18)
Q2 2018/19	Customers	Stationery expenditure. Centralisation of stationery stock management and procurement has facilitated a further reduction in resource required (included within other minor variances ongoing impact total in Q2 report).	Expenditure reduction	(8)	(8)	(8)	(8)
			Additional Income	-	-	-	-
			Total	(8)	(8)	(8)	(8)
Q2 2018/19	Customers	Court summons fees. With effect from 20th July 2018, the fee charged by Magistrates Courts for the issue of a liability order was reduced from £3.00 to £0.50. Annual saving value based on recent levels of activity and was included within other minor variances ongoing impact total in Q2 report.	Expenditure reduction	(10)	(10)	(10)	(10)
			Additional Income	-	-	-	-
			Total	(10)	(10)	(10)	(10)
Q2 2018/19	Customers	Document Imaging contract. The prevalence of electronic invoicing and the transfer of the building control function to the trading company have contributed to a reduction in the volume of documents sent for scanning. Saving value included within other minor variances ongoing impact total in Q2 report.	Expenditure reduction	(9)	(9)	(9)	(9)
			Additional Income	-	-	-	-
			Total	(9)	(9)	(9)	(9)
Q2 2018/19	Resources	Energy management arrangements. The Council no longer pays a fixed amount to a service provider to check energy bills received and flag any potential variances in amounts billed / energy consumed. The Council appointed a new contractor to be responsible for all aspects of energy procurement and billing, with the fee charged to the Council built into the price per unit of energy. Saving value included within other minor variances ongoing impact total in Q2 report.	Expenditure reduction	(5)	(5)	(5)	(5)
			Additional Income	-	-	-	-
			Total	(5)	(5)	(5)	(5)
Q2 2018/19	Place	Garden Waste Collection. Net income from additional households registering for the service during quarter 2.	Expenditure reduction	-	-	-	-
			Additional Income	(61)	(61)	(61)	(61)
			Total	(61)	(61)	(61)	(61)
Revenue Budget Report 2019/20	Resources	Gas energy costs for DCO and Town Lodge premises. Reduction in spend on gas due to the DCO's heating being primarily electric following the refurbishment and the decant of staff from Town Lodge. Saving value included within other minor variances ongoing impact total in November monitoring within draft budget report.	Expenditure reduction	(7)	(7)	(7)	(7)
			Additional Income	-	-	-	-
			Total	(7)	(7)	(7)	(7)
Revenue Budget Report 2019/20	All Directorates	Electricity costs. While there is a trend of rising energy prices, overall net reduction in planned expenditure on electricity mainly due to the vacation of office premises at Town Lodge and Letchworth Broadway. Saving value included within other minor variances ongoing impact total in November monitoring within draft budget report.	Expenditure reduction	(7)	(7)	(7)	(7)
			Additional Income	-	-	-	-
			Total	(7)	(7)	(7)	(7)

<b>Total Savings incorporated since 2018/19 budget agreed in February 2018</b>	<b>Total Expenditure reduction</b>	<b>(169)</b>	<b>(169)</b>	<b>(169)</b>	<b>(169)</b>
	<b>Total Additional Income</b>	<b>(434)</b>	<b>(301)</b>	<b>(301)</b>	<b>(301)</b>
	<b>Total Efficiencies</b>	<b>(603)</b>	<b>(470)</b>	<b>(470)</b>	<b>(470)</b>



**Budget Pressures incorporated since 2018/19 Budget approved by Council in February 2018**

Report	Service Directorate	Description of Pressure	Pressure			
			2019/20	2020/21	2021/22	2022/23
			£'000	£'000	£'000	£'000
Outturn 2017/18	Resources	Removal of Income expectation from Herts CCTV Company. Anticipated income had been based on the original estimates prepared when the CCTV company was formed.	Additional Expenditure	-	-	-
			Income Reduction	39	39	39
			Total	39	39	39
Outturn 2017/18	Customers	Council Tax Summons Income. The increasing proportion of households paying their Council Tax by direct debit has contributed to reducing the numbers of people taken to court over non-payment. Waiting times for court dates have also increased, which has extended the period available to pay the outstanding sum prior to the court summons being issued.	Additional Expenditure	-	-	-
			Income Reduction	35	35	35
			Total	35	35	35
Outturn 2017/18	Customers	NNDR Court Summons Income	Additional Expenditure	-	-	-
			Income Reduction	11	11	11
			Total	11	11	11
Q1 2018/19	Place	Processing of comingled recyclates. China's decision to ban the import of certain categories of recycled materials from the start of the calendar year has ultimately led to a significant decline in the sale value of these materials. A fall in sale prices directly increases the processing unit cost charged to NHDC.	Additional Expenditure	130	130	130
			Income Reduction	-	-	-
			Total	130	130	130
Q1 2018/19	Customers	Government Grant Income. Notification received from Central Government of reductions to Housing Benefit administration grant (£29,300 reduction from 2017/18) and Council Tax administration grant (£9,600 reduction from 2017/18).	Additional Expenditure	-	-	-
			Income Reduction	39	39	39
			Total	39	39	39
Q3 2017/18 Outturn 17/18 Q1 2018/19	All Directorates	Total net ongoing impact of minor variances reported in quarterly monitoring reports to Cabinet since original budget was approved in February 2018. Q3 2017/18 = £2k, Q1 2018/19 = £11k	Additional Expenditure	13	13	13
			Income Reduction	-	-	-
			Total	13	13	13
Q1 2018/19	Commercialisation	Recruitment of two additional officers to the Commercial Support Team within the Commercialisation Service Directorate. The new posts will lead on the development of a housing investment company and explore new commercial opportunities, while also mapping out, supporting and developing internal services to increase commercial capacity. It is estimated that additional annual resource up to a maximum of £125k is required to meet the cost of the new positions; with maximum additional expenditure in 2018/19 of half this amount (£62.5k) should the recruitment process be successful. The Council's Senior Management Team recommended that the cost of the first two years of these posts should be funded from the Special reserve.	Additional Expenditure	-	62	125
			Income Reduction	-	-	-
			Total	-	62	125
Council 22.11.2018	Place	Waste Collection Service in North Hertfordshire. In recognition of the service received since the start of the new waste contract, which has not been of the standard we expect, the Council agrees an extension of the current 12 month payment period for green waste collection, for a further period of 3 months. The PMR deduction was reflected in the Q2 monitor and is now part of the General Fund balance. In effect this can be used as funding towards this extension.	Additional Expenditure	-	-	-
			Income Reduction	290	-	-
			Total	290	-	-
Council 22.11.2018	Chief Executive	Member Allowances Scheme 2019/20. An additional amount (£1,500) required to cover the payments to the Opposition and Third Party Leaders to cover their increased membership. Honoraria for three panel members at £500 each per year, for any year that a Panel reviews and prepares a report on Members' Allowances.	Additional Expenditure	3	3	3
			Income Reduction	-	-	-
			Total	3	3	3
Q2 2018/19	Customers	Land charges income. The response to building control related elements of personal searches, previously provided by NHDC, is now undertaken by Hertfordshire Building Control.	Additional Expenditure	-	-	-
			Income Reduction	10	10	10
			Total	10	10	10
Q2 2018/19	All Directorates	The national business rates revaluation in April 2017 resulted in significant increases to the rateable values of some of the Council's assets. Where this occurred, the authority was eligible for transitional relief, which allows the increase in rates to the higher value to be incremental over five years.	Additional Expenditure	32	32	32
			Income Reduction	-	-	-
			Total	32	32	32
Revenue Budget Report 2019/20	Place	Income from paper collected for recycling.	Additional Expenditure	-	-	-
			Income Reduction	83	83	83
			Total	83	83	83

Revenue Budget Report 2019/20	Place	Income from burials service.	Additional Expenditure	-	-	-	-
			Income Reduction	69	69	69	69
			Total	69	69	69	69
Revenue Budget Report 2019/20	Place	Street Sweeper at Letchworth Garden Square. The Letchworth Garden City Heritage Foundation no longer require the street sweeping machine - the cleansing is now undertaken by the Foundation. Pressure value included within other minor variances ongoing impact total in November monitoring within draft budget report.	Additional Expenditure	-	-	-	-
			Income Reduction	6	6	6	6
			Total	6	6	6	6
Revenue Budget Report 2019/20	All Directorates	Business Rates expenditure for Council properties. Adjustment to forecast reported at Q2 following further review. Pressure value included within other minor variances ongoing impact total in November monitoring within draft budget report.	Additional Expenditure	16	16	16	16
			Income Reduction	-	-	-	-
			Total	16	16	16	16
Revenue Budget Report 2019/20	Customers	Empty Property Review. The review looks at dwellings classified as empty to see if they actually are, or if Council Tax can be billed as the homes are inhabited. As the financial benefit from the exercise is realised in the Collection Fund position, contributions are drawn from the County Council and the Police and Crime Commissioner. Pressure value included within other minor variances ongoing impact total in November monitoring within draft budget report.	Additional Expenditure	4	4	4	4
			Income Reduction	-	-	-	-
			Total	4	4	4	4
Revenue Budget Report 2019/20	Customers	Housing Benefit and Council Tax administration grants. Notifications received from MHCLG - total grant expected for 2019/20 is £430k (reduction of £44k on 2018/19). Housing Benefit admin grant has been confirmed as £311k for 2019/20 (£350k in 2018/19), with the reduction mainly due to the change in the methodology for apportioning the grant, while MHCLG also confirmed a 5% reduction in the Council tax admin grant to a total of £118k.	Additional Expenditure	-	-	-	-
			Income Reduction	44	44	44	44
			Total	44	44	44	44

Total Net Budget Increase	Total Additional Expenditure	198	260	323	323
	Total Income Reduction	626	336	336	336
	Total Pressures Arising	824	596	659	659

**Previously agreed changes, including updates to amounts**

Reference	Service Directorate	Description	Pressure / Saving				
			2019/20	2020/21	2021/22	2022/23	
			£'000	£'000	£'000	£'000	
CBP 15/16 & CBP 16/17	Regulatory	Removal of Planning Services investment bids approved in prior years. 2015/16 CBP - Master-Planning of sites costs (part of the delivery of the Local Plan). £50k was earmarked in 2017/18 and £50k in 2018/19 (only). 2016/17 CBP - Local Plan costs - Following the Preferred Options consultation in 2015 additional work was identified as required before publication of the submission documentation. In addition the 2015 Central Bedfordshire examination identified that the current IT system did not meet the necessary legal tests. £120k earmarked in 2017/18 and £110k earmarked in 2018/19 (only).	Expenditure Impact	(160)	(160)	(160)	(160)
			Income Impact	-	-	-	-
			Total	(160)	(160)	(160)	(160)
CBP 2017/18	Customers	The original efficiency proposal, relating to the staffing restructure of the Systems & Technical Team, estimated that the saving would reduce from 2019/20 due to the requirement to renew GovTech Online Forms software.	Expenditure Impact	15	15	15	15
			Income Impact	-	-	-	-
			Total	15	15	15	15
-	Chief Executive	Reduction in annual interest payments relating to outstanding loans with Public Works Loans Board. The annual interest payments reduce as the loan principal is repaid.  UPDATE CBP 2019/20: Estimates updated and extended to 2022/23	Expenditure Impact	-	(1)	(2)	(3)
			Income Impact	-	-	-	-
			Total	-	(1)	(2)	(3)
Council 31st August 2017	Chief Executive	Annual interest (fixed at 3.5%) receivable from NHDC loan to SLL for purchase of gym and fitness equipment at Hitchin and Royston Leisure Centres, approved by Council in August 2017, decreases as the loan principal is repaid.  UPDATE CBP 2019/20: Interest income estimate extended to 2022/23	Expenditure Impact	-	-	-	-
			Income Impact	3	6	10	14
			Total	3	6	10	14
-	Chief Executive	District Wide Survey (estimated cost £16k) and Citizens' Panel (estimated cost £8k) take place in alternate years.  UPDATE CBP 2019/20: Estimates include cost of District Wide Survey in 2021/22	Expenditure Impact	8	-	8	-
			Income Impact	-	-	-	-
			Total	8	-	8	-

Total Net Budget Impact	Total Expenditure Impact	(137)	(146)	(139)	(148)
	Total Income Impact	3	6	10	14
	Total Budget Impact	(134)	(140)	(129)	(134)

**Identified Financial Risks 2019/20**

Service Directorate	Financial Risk Ref. No.	Risk	High/ Medium/ Low	Risk Value £	%	Total Risk Assessment £
Commercialisation	FR1	Further delay to the opening of the North Herts Museum and Cafe due to unanticipated incidents hinders the achievement of the operating surplus anticipated from the Community facility.	M	100,000	25%	25,000
	FR2	Adverse possession of land/buildings (litigation costs). Protection of "Village Greens". Signs/fences need to be constructed to avoid residents claiming ownership rights.	M	35,000	25%	8,750
	FR3	Contamination clear-up costs for disposal/vacant sites	L	250,000	0%	0
	FR4	Cost of energy efficiency improvements required to lower energy rated properties in order to comply with the minimum energy efficiency standards introduced by government legislation. The regulations will come into force for new lets and renewals of tenancies with effect from 1st April 2018 and for all existing tenancies on 1st April 2020.	M	50,000	25%	12,500
Customers	FR5	Fines for breaches of the EU General Data Protection Regulation by the Council or by NHDC outsourced providers when handling and storing data originally collected by NHDC	L	500,000	0%	0
	FR6	Bad Debt Provision may need to increase in light of the roll-out of Universal Credit.	M	70,000	25%	17,500
	FR7	Ransomware attack results in the write-off of IT hardware and infrastructure.	L	200,000	0%	0
	FR8	Failure to meet projected Careline sales income as a result of the loss of a corporate client or fall in the number of private clients.	H	50,000	50%	25,000
	FR9	The payment of compensation to Careline's corporate or retail customers arising from a service interruption.	L	10,000	0%	0
Legal &	FR10	District by-election	L	4,000	0%	0
	FR11	Legal team resources - requirement due to recruitment/retention issues to use temp. staff or outsource work. Additional external expertise for assistance with the delivery of key Corporate projects or Governance issues	M	100,000	25%	25,000
	FR12	Legal expertise related to employment cases	M	50,000	25%	12,500
	FR13	The Council is required to meet the cost of any award from new or ongoing judicial reviews.	H	100,000	50%	50,000

Service Directorate	Financial Risk Ref. No.	Risk	High/ Medium/ Low	Risk Value £	%	Total Risk Assessment £
Community	FR14	Possible procurement challenge. Legal costs and costs of re-tendering if necessary.	L	100,000	0%	0
	FR15	Costs incurred from an increased number of prosecutions pursued in court, for example due to persistent flytipping.	M	50,000	25%	12,500
	FR16	Domestic Homicide Review – requirement for additional resources to respond	L	15,000	0%	0
	FR17	Elections team staffing resource - requirement to deliver a parliamentary election and / or public referendum, in addition to scheduled elections, results in an increased use of temporary staff.	M	25,000	25%	6,250
Place	FR18	The council is forced to re-tender a major contract if a contractor is unable to deliver a contract for any reason .	L	300,000	0%	0
	FR19	Increase in the net cost of recycling services due to either or all of ; adverse changes in the market prices for commodities; a reduction in the volume of recyclates collected; a change in the material composition of the recyclates collected	H	100,000	50%	50,000
	FR20	Reduction in funding from third party agency agreements for contracted grounds and/or tree maintenance works.	L	50,000	0%	0
	FR21	Costs resulting from a localised flooding event that is associated with water courses within the responsibility of NHDC to maintain.	L	100,000	0%	0
	FR22	Cost of felling and destroying trees as a result of tree disease	L	75,000	0%	0
	FR23	Lack of resilience in delivering key statutory services when staff absence occurs (other than normal leave) e.g. medium/long term sickness, staff resignations, etc.	H	40,000	50%	20,000
	FR24	Usage of bed and breakfast accommodation for homeless households.	M	180,000	25%	45,000
	FR25	Dangerous structures - where the Council is unable to recover the costs incurred in making the structures safe because, for example, the owner of the property is not known or the land/building is unregistered.	M	50,000	25%	12,500
	FR26	Specialist advice required with regard to planning applications, e.g. town centre schemes and "hostile applications".	M	100,000	25%	25,000
	FR27	Costs associated with a challenge to a decision of the Council, for example an appeal against a planning decision, judicial review or threat in advance of a planning decision, Secretary of State call in or holding direction.	H	500,000	50%	250,000

Service Directorate	Financial Risk Ref. No.	Risk	High/ Medium/ Low	Risk Value £	%	Total Risk Assessment £
Regulatory	FR28	Enforcement – costs in relation to enforcement through direct action or appeal processes.	M	100,000	25%	25,000
	FR29	New duties and obligations associated with changes to government policy	L	25,000	0%	0
	FR30	Local Plan: additional costs associated with progressing the Local Plan.	H	250,000	50%	125,000
	FR31	Local Plan: costs associated with a challenge to the Local Plan either from the Council or another stakeholder/authority	H	450,000	50%	225,000
	FR32	Theft of, or damage to, parking pay & display equipment	M	20,000	25%	5,000
	FR33	Income related to planning applications is lower than the budget expectation as a result of a delay to Local Plan progress or the economic impact of Brexit.	M	250,000	25%	62,500
	FR34	Hertfordshire Home Improvement Agency fail to recover sufficient fees, based upon application throughput, resulting in additional payment requested by HCC to cover costs.	M	30,000	25%	7,500
	FR35	Termination of North Hertfordshire Housing Partnership and end of shared policy/software arrangements with settle.	L	20,000	0%	0
Resources	FR36	Assumed vacancy saving within staffing payroll budgets does not materialise as a slimmer staffing structure reduces both employee turnover and the capacity to hold posts vacant for any significant period of time.	L	300,000	0%	0
	FR37	Breach of partial-exemption calculation for VAT	L	300,000	0%	0
	FR38	The Council's compliance contractors identify exceptional repairs and maintenance required for Council properties.	M	50,000	25%	12,500
	FR39	Localisation of Business Rates – The council is now directly exposed to a range of risks including; business rates levy, safety net.	L	130,000	0%	0
	FR40	Member/Officer Indemnity Agreement is called upon	L	100,000	0%	0
	FR41	Further levy is charged through the MMI Scheme of Arrangement	L	20,000	0%	0

Service Directorate	Financial Risk Ref. No.	Risk	High/ Medium/ Low	Risk Value £	%	Total Risk Assessment £
	FR42	Treasury Management - potential default by a counter party	L	5,000,000	0%	0
	FR43	Difficulty in recruiting Facilities Assistants results in higher expenditure on agency staff	H	10,000	50%	5,000
	FR44	Employment related risks related to outsourcing, shared services and restructuring	H	250,000	50%	125,000
	FR45	Reduced staffing capacity means that the delivery of efficiency proposals or investment projects is delayed and / or additional staffing resource must be hired externally at a cost premium to the Council.	M	50,000	25%	12,500

**10,559,000**

**1,202,500**



## **FINANCE, AUDIT & RISK**

29 January 2019

### **PUBLIC DOCUMENT**

#### **TITLE OF REPORT: INVESTMENT STRATEGY (INTEGRATED CAPITAL AND TREASURY)**

REPORT OF : SERVICE DIRECTOR- RESOURCES  
EXECUTIVE MEMBER : COUNCILLOR JULIAN CUNNINGHAM  
COUNCIL PRIORITY : RESPONSIVE AND EFFICIENT

#### **1. EXECUTIVE SUMMARY**

- 1.1 The Council has produced an Investment Strategy in response to guidance from the Ministry for Housing, Communities and Local Government (MHCLG) and the Chartered Institute of Public Finance and Accountancy (CIPFA). It replaces the Capital Programme and Treasury Strategy that have previously been produced.
- 1.2 The Investment Strategy provides additional information that was not previously contained within the previous separate reports and this is explained in section 8.
- 1.3 The Investment Strategy contains the following key information:
  - A capital programme for 2019/20 of £8.213m, and £11.303m for the period 2019/20 to 2023/24.
  - Recommendations on Prudential Indicators and other Treasury Indicators that will be monitored and reported on during the year (2019/20)
  - Changes to the scope of treasury investments to be included within the strategy.

#### **2. RECOMMENDATIONS**

- 2.1 That Cabinet recommend to Council the adoption of the Investment Strategy (as attached at Appendix A), including the capital programme and prudential indicators.
- 2.2 That Cabinet recommend to Council the adoption of the four clauses in relation to the Code of Practice on Treasury Management (as detailed in paragraphs 8.17 to 8.23).

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

- 3.1 To ensure that the capital programme meets the Council's objectives and officers can plan the implementation of the approved schemes.
- 3.2 To ensure the Council's compliance with CIPFA's code of practice on Treasury Management, the Local Government Act 2003, statutory guidance from the Ministry of Housing, Communities and Local Government and the CIPFA Prudential Code. As well as determining and managing the Councils risk appetite in respect of investments.

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

- 4.1 Each proposed capital scheme is the result of consideration of options for continuous service improvement by the relevant Service Director in consultation with the relevant Executive Member.
- 4.2 The primary principle governing the Council's investment criteria is the security and liquidity of its investments. After this the return (or yield) is then considered, which provides an income source for the Council. In general, greater returns can be achieved by taking on greater risk.

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

- 5.1 All Members were given opportunity to comment on all new Capital investment proposals, as well as existing projects earmarked in future years, at the Member Budget Workshops held in November 2018. Notes of the comments and questions raised at the workshops were provided to Cabinet in December.
- 5.2 Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.
- 5.3 There is ongoing dialogue with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Link).

### **6. FORWARD PLAN**

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on 18 December 2018.

## **7. BACKGROUND**

- 7.1 On 2<sup>nd</sup> February 2018, the MHCLG published updated statutory guidance on Local Government investments. The guidance was effective from 1<sup>st</sup> April 2018, but it recognised that it had been published very late and therefore full implementation could be delayed until 2019/20. As at the date that the statutory guidance was issued, the Council's capital programme and treasury strategy has already been considered by Cabinet and recommended on to Full Council. Therefore the option was taken to defer to 2019/20.
- 7.2 Guidance issued by CIPFA is in the form of the Prudential Code (i.e. the Prudential Code for Capital Finance in Local Authorities, 2017 Edition) and the Treasury Management Code (i.e. the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition).
- 7.3 The statutory guidance issued by the MHCLG has broadened the scope of what should be covered by the treasury management principles of Security, Liquidity and Yield. This has now been extended to include capital assets that are held for financial returns, rather than just treasury investments. For these assets it has also added a requirement to consider the fair value of the asset and the risk of loss.
- 7.4 The guidance also now requires a consideration of the full costs of holding assets, including both revenue and capital maintenance. It also encourages taking a longer term view of this expenditure i.e. up to 10 years.
- 7.5 The guidance provides a revised definition of 'borrowing in advance of need'. In the past this has been determined to be borrowing before it is strictly needed and then investing the surplus cash. If the borrowing is cheap enough and it is invested in the right way then this can create a net gain. The new definition now determines that borrowing for capital investments where they are acquired purely to generate profit is also now treated as borrowing in advance of need.
- 7.6 In the past, Members have approved a capital programme and a treasury management strategy. In line with the new guidance, these are now covered within a single Investment Strategy. Whilst there was an option to retain multiple documents, it was felt that this would have resulted in duplication and something that was less coherent.
- 7.7 The Finance, Audit and Risk Committee received an early draft of the Investment Strategy in September. This gave them an opportunity to comment on the format and readability of the document. The Shared Internal Audit Service (SIAS) have also audited the document to confirm that it adheres to the statutory guidance. The Council has agreed changes in relation to all the recommendations made.

- 7.8 The Corporate Business Planning Process begins each year with consideration of policy priorities and the Council's Priorities for the District and a review of the Medium Term Financial Strategy. Finance and other resources are aligned to the strategic priorities as set out in the Corporate Plan. This requires that each proposal for additional investment is linked to one of the three priorities identified in the Priorities document.
- 7.9 Cabinet receives quarterly updates on the delivery and funding of the Council's capital programme, with the report presented at the December meeting of Cabinet providing estimates as at the end of the second quarter of 2018/19. The report advised that total expenditure of £17.823m would be required to deliver the current capital programme for 2018-2023, with £7.211m forecast to be spent in 2018/19. Table 1 below details the changes to the existing capital programme reported to Cabinet since the Capital Programme was approved by Full Council in February 2018.

**Table 1- Capital Estimates**

	<b>2018/19 £M</b>	<b>2019/20 £M</b>	<b>2020/21 to 2022/23 £M</b>
<b>Original Estimates approved by Full Council February 2018</b>	<b>12.511</b>	<b>1.828</b>	<b>2.737</b>
<b>Changes approved by Cabinet in 2017/18 Capital Outturn report (reprogramming from 2017/18)</b>	5.644	0	0
<b>Revised Capital Estimates at start of 2017/18</b>	<b>18.155</b>	<b>1.828</b>	<b>2.737</b>
<b>Changes approved by Cabinet at 1<sup>st</sup> Quarter</b>	-2.298	0.150	-1.490
<b>Addition to capital programme for lift at Town Hall / Museum</b>	0.020	0	0
<b>Changes approved by Cabinet at 2<sup>nd</sup> Quarter</b>	-8.666	6.387	1.000
<b>Current Capital Estimates</b>	<b>7.211</b>	<b>8.365</b>	<b>2.247</b>

- 7.10 Members were given opportunity to comment on all new Capital investment proposals, as well as existing projects earmarked in future years, at the Member Budget Workshops held in November 2018. Notes of the comments and questions raised at the workshops were provided to Cabinet in December.
- 7.11 The Treasury Strategy Statement for 2018/19 was approved by Council in February 2018. A mid year review of the Treasury Strategy was provided to Council in January 2018. There have been no changes made to the Strategy during the course of 2018/19.

## **8. RELEVANT CONSIDERATIONS**

- 8.1 The proposed Investment Strategy is attached at Appendix A. Council are asked to approve this strategy, which includes the following:
- New capital investment proposals totalling £0.391m
  - A total capital programme for the period of 2019/20 to 2023/24 of £11.303m
  - Adoption of a treasury strategy that covers borrowing and investment forecasts and limits, including prudential indicators
- 8.2 The following are provided as appendices to Investment Strategy, and are also appendices to this report:
- Appendix A1- A full list of planned future capital expenditure (2019/20 onwards)
  - Appendix A2- A list of new capital schemes and schemes planned to commence from 2019/20
- 8.3 The format of the Investment Strategy is described in the introduction section (pages 2 and 3). A lot of the content of the Investment Strategy is combining information previously incorporated in the capital programme and treasury strategy. The following paragraphs detail the additional information required and any changes made to policies.
- 8.4 'Skills and Culture' section on pages 5 and 6. The new guidance requires the strategy to describe the training that has been put in place to enable decision makers to have the knowledge and information they need to make decisions. The increased scope of this strategy and the increased focus of the Council on commercial opportunities, increases the importance for training to be made available and for all decision makers to take it up.
- 8.5 In table 4 on page 10, the Council is now required to assess the security, liquidity and yield of the capital assets that are owned for purposes other than service delivery (i.e. to generate income). Security, liquidity and yield considerations have previously only been applied to treasury investments, and are not easy to apply to other types of asset. All of these income generating assets have been owned by the Council for many years and have provided a stable income stream. These concepts will be more relevant to the acquisition of any new assets. Similarly, table 5 on page 11 and 12 is a new requirement to consider the fair value of assets and the risk of loss. All the Council's investment assets are revalued annually on fair value basis (i.e. what an independent third party would pay for the asset). Due to the nature of most of the leases in place the risk of loss is very low.

- 8.6 In table 6 (pages 13) there is a new requirement to consider a 10-year time horizon in respect of the costs of maintaining assets in a useable condition. The values provided for years 6 to 10 are high level estimates only and will be subject to change. There is also a new requirement to show the revenue costs of maintaining capital assets alongside the capital costs (page 13). Previously this would only have been reflected in the revenue budget. This helps to give a more complete picture in one place.
- 8.7 Tables 8 and 9 on page 15 are the equivalent of tables 4 and 5 (described above) for new planned capital assets. The only relevant assets are building or acquiring market housing. An overall summary is provided within the strategy, but the detail will depend on the exact assets and this analysis will form part of the business case for each one.
- 8.8 Table 10 provides estimates of the capital receipts that the Council estimates that it will receive from the disposal of surplus land and buildings. These are prudent estimates based on a view of the potential use for these sites. Actual values will be subject to planning and market conditions. Whilst the Council's Estates function has to fully operate within planning rules, it will do this with a commercial focus. The Council may choose to retain some of these sites for the purpose of generating revenue income. Any business case in relation to this would consider the lost capital income and the revenue implications (e.g. borrowing) of doing this.
- 8.9 Part 4 of the strategy (page 18 onwards) details the borrowing strategy of the Council. Given the estimates of capital spend and capital receipts, it is not expected that the Council will need to borrow any additional money. It will continue to hold existing borrowing due to the premiums attached to early repayment. The operational boundary (page 19) is the amount that external debt is not normally expected to exceed. Given that it is expected that the Council will not need to borrow any additional funds, this is set at £1m above the forecast of total external debt. The authorised limit is the limit beyond which external debt is prohibited without first reporting back to Full Council. This is set at around £5m above the operational boundary. This would cover the unlikely event that there is a need to borrow for cash-flow purposes.
- 8.10 Table 16 on page 26 details where the Council has provided, or plans to provide, loans that are not for treasury management purposes. The only example of an existing loan is to the Hertfordshire Building Control company, which is a jointly owned Local Authority company where the Council is also a shareholder. The potential future loan is to a wholly owned Property Company as a means to provide financing to the company. The table provides an assessment of the loan and the risks involved.
- 8.11 Part 5 of the strategy (page 25 onwards) sets out how the Council will invest its surplus cash, in terms of where and for how long. Surplus cash is generally made up of the General Fund balance, revenue reserves and provisions, s106 balances, capital receipts and set-aside receipts. Investment choices are based on applying the principles of security (how safe the underlying cash is), liquidity (how easy it is to access the cash) and yield (the interest earned), in that order.



- 8.12 No investment is completely safe and in general the yield earned is to compensate for the risk of holding that investment. The Council currently takes on greater risk than is recommended by our treasury advisors (Link Asset Services) in relation to:
- Investments in unrated UK Building Societies- this risk is partly managed by reviewing other available information and limiting the size of investments. It also reflects that Building societies are regulated to the same standards as UK banks and are prevented by law from undertaking risky financial trading. Furthermore, in the past when a building society has encountered difficulties, a merger with a stronger society has ensured that both wholesale depositors and retail savers experienced no interruption to service. There is of course no guarantee that this would continue to happen.
  - Only investing within the United Kingdom- this limits the opportunities to diversify the portfolio of investments. Diversification allows risk to be spread across a number of different institutions and/or institutions with different risk exposures.
- 8.13 The previous investment strategy set limits based on the percentage of total available cash on the day that the investment is placed. This has resulted in two minor breaches of the strategy due to errors keeping track of the limit on that day (which have been reported to Cabinet). It also means that a long-term investment (e.g. 1 year) could be made on one day but not on the following day (or vice versa), even though the risk exposure is fundamentally the same.
- 8.14 To address the issues highlighted in 8.12, the following changes are included in the new strategy:
- To continue to invest in unrated UK building societies, but to reduce the amount that can be invested in each one and also make use of KPMG reports (already being used but are in addition to the current strategy). To also reduce the maximum amount that can be invested in Building Societies and Property funds combined to 60% (previously 75%).
  - To allow investments in non-UK banks subject to both a country credit rating (as provided by Fitch) of AAA and above and an institution rating of AA- and above. These are both more stringent than are applied to UK investments (UK sovereign rating is currently AA and the minimum UK institution rating is BBB or above). Any investment would be in Sterling and therefore there would be no currency risk. The sovereign (country) limit has been deliberately set at the highest possible level, and is above the minimum level recommended by Link of AA-. As an example, this limit would not have allowed an investment in Iceland at any point preceding the crash in 2008. During the period from 2000 to 2008 the highest foreign currency rating was AA-. As at 28th December 2018, the following countries have a rating of AAA: Australia (4), Canada (5), Denmark (0), Germany (3), Netherlands (2), Singapore (3), Sweden (3), Switzerland (1) and USA (4). The numbers in brackets following each country is the number of institutions that meet the AA- institution rating criteria.

- To allow investments in any AAA rated Money Market Fund (MMF), not just UK only. The main point of MMFs is that they enable diversification, which is best achieved if the only limitation is the quality of the investments that they can invest in. It also widens the number of MMFs that the Council could invest in (currently only one meets the UK criteria), which allows diversification across MMFs. The MMF that the Council can currently invest in is only open to Local Authorities. This could be a liquidity risk if all the Councils wanted to disinvest at the same time.
- 8.15 To address the issue raised in 8.13 the new strategy takes the expected year end cash balance (as at 31st March 2020), based on budget and cash-flow forecasts. Any percentages will be applied to this total to convert it in to a £ value (rounded up to the nearest £1m) that will then be applied all year. For example, if it is expected that the year end cash balance will be £28m and 10% can be invested in any individual bank, then the limit will be £3m throughout the year.
- 8.16 The other changes that are included in the new strategy are:
- The current policy is unclear on whether there is a limit on UK Government Debt Management Office (DMO) investments. This is a short-term investment direct with the UK Government so is the safest place for the Council to put its cash. Therefore the proposal is that there is no limit on these investments.
  - The current policy is unclear on whether there is a limit on other Local Authority investments in total. This is the next safest type of investment as it is with a tax raising body. Therefore the proposal is that there is no limit on these investments in total, but limited by the amount with any individual Local Authority.
  - The current policy states that the balance in the Council's current account is excluded from any limits. The proposal is that a limit of £5m is set. This is an amount that is considered to be sufficient for cash management purposes and ensures that there is a formal control in relation to this.
  - Any investments with a term of greater of 2 years will be subject to approval by the Chief Finance Officer, which will include a consideration of how much the investment will be as a percentage of total funds at the date it matures. It will be ensured that this is less than 40% of the estimated balance.
- 8.17 The Code of Practice on Treasury Management requires that a report be submitted to Full Council setting out four clauses which should be formally passed in order to approve adoption of the code. The four clauses are detailed below, including how they are met by the Council. As recommended by CIPFA, where appropriate these are included within the Council's Constitution and Financial Regulations.
- 8.18 Clause 1 relates to creating and maintaining a Policy and practices as a cornerstone for effective treasury management.

8.19 Full Council are asked to approve the adoption of the following Treasury Management Policy Statement, which is the same as in previous years:

- *This organisation defines its treasury management activities as: “The management of the 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”.*
- *This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.*
- *This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.*

8.20 The Council has adopted treasury management practices (TMPs) which set out how the Council will carry out, manage and control the achievement of the policy above in practice. These TMPs are substantially unchanged from last year and follow the recommendations contained within the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments are minor and do not result in any material deviation from the Code’s key principles. The TMPs are operationally focused and therefore the themes covered are detailed below, rather than providing the full document. Where relevant the detail is already covered in the Investment Strategy (e.g. approved instruments):

- TMP1- Risk Management
- TMP2- Performance Measurement
- TMP3- Decision making and analysis
- TMP4- Approved instruments, methods and techniques
- TMP5- Organisation, clarity and segregation of responsibilities, and dealing arrangements
- TMP6- Reporting requirements and management information arrangements
- TMP7- Budgeting accounting and audit arrangements
- TMP8- Cash and cash-flow management
- TMP9- Money laundering
- TMP10- Staff training and qualifications
- TMP11- Use of external service providers
- TMP12- Corporate Governance

8.21 Clause 2 relates to the reporting on treasury activities. These are set out in the Investment Strategy on page 3.

- 8.22 Clause 3 relates to the delegation of responsibility for the implementation and regular monitoring of its treasury management policies. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet (Constitution 5.6.9) and for the execution and administration of treasury management decisions to the Service Director: Resources (Constitution 14.6.12 (a) (iii) and Financial Regulations section 13) who will act in accordance with the Council's policy statement and treasury management practices and the CIPFA Standard of Professional Practice on Treasury Management.
- 8.23 Clause 4 relates to the scrutiny of treasury management strategy and policies. The Council nominates the Finance, Audit and Risk Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies (Constitution 10.1.5 (c)).

## **9. LEGAL IMPLICATIONS**

- 9.1 Full Council will decide the overall capital budget (Constitution 4.3) and approve the treasury management strategy statement (Constitution 4.4.1 (dd)).
- 9.2 Cabinet will recommend to Full Council the annual capital budget (Constitution 5.6.38) and treasury management strategy statement (Constitution 5.6.39).
- 9.3 The Finance, Audit and Risk Committee will consider the Council's policy in relation to Treasury Management and make recommendations on the Annual Treasury Management and Investment Strategy, and Treasury Management Code of Practice (Constitution 10.1.5 (c)).
- 9.4 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." That officer is the Service Director- Resources.
- 9.5 The proposed Prudential Indicators contained within the Investment Strategy comply with the Local Government Act 2003. The Investment Strategy has been developed to comply with the statutory guidance from the Ministry of Housing, Communities and Local Government and the CIPFA Prudential Code.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 The financial implications are covered in section 8 of the report.

## **11. RISK IMPLICATIONS**

- 11.1 Capital investment is sometimes needed to mitigate against a risk to the Council. This is detailed to Members when a new investment comes forward. The risk implications of each individual scheme are considered in project plans as the schemes are progressed. The capital programme assumes a level of third party contributions and grants towards the cost of the schemes. There is a risk that not all the contributions are forthcoming.
- 11.2 Investment risks in relation to treasury management are covered in this report and the Investment Strategy. The TMPs (see 8.20) and Financial Regulations provide controls to manage other risks.

## **12. EQUALITIES IMPLICATIONS**

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no direct equalities implications directly arising from the adoption of the Capital Programme for 2018/19 onwards. For any individual new capital investment proposal of £50k or more, or affecting more than two wards, an equality analysis is required to be carried out. This will take place following agreement of the investment proposal.

## **13. SOCIAL VALUE IMPLICATIONS**

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

## **14. HUMAN RESOURCE IMPLICATIONS**

- 14.1 There are no direct human resources implications.

## **15. APPENDICES**

- 15.1 Appendix A: Investment Strategy (Integrated Capital and Treasury)
- 15.2 Appendix A1- A full list of planned future capital expenditure (2019/20 onwards)
- 15.3 Appendix A2- A list of new capital schemes and schemes planned to commence from 2019/20

**16. CONTACT OFFICERS**

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## **Appendix A**

### **Investment Strategy (Integrated Capital and Treasury Strategy)**



## **Part 1- Overview**

### **Introduction**

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate security and liquidity initially before considering 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 that the Council can meet its capital spending plans. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses.

The Chartered Institute of Public Finance and Accountancy (CIPFA) define treasury management 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."*

Recent changes to legislation and guidance have meant that the coverage of this strategy has been extended. First of all this strategy now provides an integrated view of capital spend and income, alongside treasury management. This is because long-term Treasury management is inextricably linked to the funding of the capital programme. Secondly, there is now a requirement to apply treasury management principles to any capital spend that is not related to service provision.

The format of this strategy is as follows:

#### **Part 2- Capital Spend**

- A summary of the Council's current capital assets. For those assets that are not held for service provision, an assessment against the principles of Security, Liquidity and Yield.
- Forecasts of the capital and revenue spend required to maintain those assets.
- Planned spend on new capital assets, with the additional assessment of risk, security, liquidity and yield for those assets that are not being acquired for service provision.
- This part of the strategy therefore gives a complete picture of forecast capital spend.

#### **Part 3- Capital balances, receipts and the Capital Financing Requirement (CFR)**

- Forecasts of expected receipts from the sale of surplus capital assets.
- Comparing capital spend forecasts with capital reserve balances and forecast future receipts gives the Capital Financing Requirement, which is the Council's need to borrow.

#### **Part 4- Borrowing Strategy and Minimum Revenue Provision (MRP)**

- This leads to the setting of a borrowing strategy which sets out how to borrow, when to borrow and for how long.
- Where the Council has a borrowing requirement, then it is required to set a policy on Minimum Revenue Provision.

## Part 5- Investment Strategy

- This is then all combined to determine the levels of cash that the Council will have available for investment. This leads to an investment strategy that determines where to invest any balances, including limits on types of investments.

## Part 6- Overall Risk considerations

- To consider the cumulative risks that the Council faces that arise from the totality of this strategy.

## Part 7- Glossary of terms

- To explain the various terms used in this strategy.

The strategy sets a number of prudential and treasury indicators. A prudential indicator is one which is required by statutory guidance, whereas a treasury indicator is one that is set locally to provide information on performance.

### Reporting requirements

Full Council will receive and approve three reports during the year:

- The Integrated Capital and Treasury strategy (this report)
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management strategy

Each of these reports will be reviewed by the Finance, Audit and Risk (FAR) Committee and Cabinet. The FAR Committee and Cabinet will also receive reports on the position as at the end of the first (to end of June) and third (to end of December) quarters. The FAR Committee undertakes an oversight role.

These reports will provide relevant updates on performance against the prudential and treasury indicators.

### Basis of Estimates

The estimates contained within this strategy are based on the best information that can reasonably be obtained. For forecasts of spend on assets (revenue maintenance, capital maintenance and capital acquisitions) this is based on a combination of previous experience, indicative quotes, condition surveys and professional advice. The estimates of capital receipts are provided by the Council's Senior Surveyor and are prudent estimates based on expected use, type of sale, market conditions and (where applicable) the status of negotiations to date.

The Council has experienced some cost increases on capital projects in the past. These have generally arisen from delays in the start of the project and subsequent inflation rather than incorrect estimates. Budget Holders have been asked to be as realistic as they can be about the timing of projects, and ensure that forecast costs are aligned to the expected timing. There will also be external factors that affect estimates, particularly the impacts of the United Kingdom's withdrawal

from the European Union. For capital projects, there is some flexibility to the extent to which they can overspend without further approval (ranging from 5% to 20% dependant on value) and this is considered in setting this overall strategy and in the quarterly monitoring.

#### Treasury Management Policy and Treasury Management Practices

In line with guidance from the Chartered Institute of Public Finance and Accountancy, the Council sets the following treasury management policy:

1. This Council defines its treasury management activities as: The management of the organisation'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. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Council also has treasury management practices (TMPs) which set out how the Council will carry out, manage and control the achievement of the policy above in practice. These TMPs follow the recommendations contained within the Code of Practice on Treasury Management (published by CIPFA), subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments are minor and do not result in any material deviation from the Code's key principles. The TMPs cover the following areas:

- TMP1- Risk Management
- TMP2- Performance Measurement
- TMP3- Decision making and analysis
- TMP4- Approved instruments, methods and techniques
- TMP5- Organisation, clarity and segregation of responsibilities, and dealing arrangements
- TMP6- Reporting requirements and management information arrangements
- TMP7- Budgeting accounting and audit arrangements
- TMP8- Cash and cash-flow management
- TMP9- Money laundering
- TMP10- Staff training and qualifications
- TMP11- Use of external service providers
- TMP12- Corporate Governance

#### Treasury Consultant

The Council has contracted with Link Asset Services to provide treasury management advice during 2018/19. It is recognised that the responsibility for treasury management decisions remains with the Council at all times and the Council will ensure that undue reliance is not placed upon Link. However there is value in employing external providers of treasury management services in order to acquire

access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented. The Council will be carrying out a re-procurement of this contract during 2018/19. . The performance of the treasury consultant is assessed through regular meetings and the justifications for the advice provided.

#### Skills and culture

It is important that decision makers are given the information that they need to make those decisions. Given that treasury and risk management can be a complex area; this should be accompanied by the availability of appropriate training. To address the availability of information, all Council, Cabinet and Committee reports include sections on both financial and risk implications. Where a decision is more financial in nature then these considerations will be detailed throughout the report. Table 1 details the key groups in relation to decision making and the training that has been made available. This strategy is required to disclose the steps that have been taken to provide training, and it is up to individual members of those groups to ensure that they take advantage of the opportunities offered.

Table 1

Group	Reason for training	Training that has been made available
Full Council (All Councillors)	Required to formally adopt this Strategy.  Required to approve any capital purchase over £2.5m.	Annual training that provides an introduction to Local Authority funding and accounting.  Training session provided by Link (the Council's treasury advisors) on risk and how it can be assessed, particularly in relation to capital investment.
Finance, Audit and Risk Committee	To review the Council's policies on Treasury, Capital and the Medium Term Financial Strategy.  To monitor the effective development and operation of risk management.	Members of the Committee (and substitutes) are encouraged to complete a skills self-assessment. This allows the targeting of specific training.  Regular reporting to the Committee on Capital, Risk and Treasury provides the opportunity to ask questions.
Chief Finance Officer and Finance Team	Responsibility for the financial management of the Council (under s151 of Local Government Act, 1972), including capital and treasury management. Provide advice to Budget Holders in respect of financial management.  Responsible for reviewing and amending the financial implications sections of reports.	Ongoing Continuing Professional Development for all qualified members of the finance team, including focused training for specific areas of responsibility.
Senior Management Team (SMT)	Individual Service Directors will be responsible for putting forward proposals.  Proposals will be reviewed by the Senior Management Team prior to taking through the Committee process.  Members of SMT are likely to be involved in negotiating commercial deals.	Training session on risk, risk appetite and assessing risk.  Regular updates on the Council's funding and finances, including significant changes in regulations.  Training on the core principles of the prudential framework.

## **Part 2- Capital Spend**

### **Current Capital Assets**

As at 31<sup>st</sup> March 2018, a summary of the capital assets owned by the Council is shown in table 2 below..

**Table 2**

<b>Asset Type</b>	<b>Asset</b>	<b>Reason for ownership</b>	<b>Value (£000)</b>
Investment Properties	Various	Retained to generate income	17,710
Surplus Land and buildings	Various	Held for future sale or development	6,738
Offices and Storage	DCO	Staff offices, customer service centre and democratic facilities	5,547
Offices and Storage	Unit 3	Off-site storage, back-up IT and emergency planning	438
Leisure Facilities	Hitchin Swim Centre / Archers	Service use	7,711
Leisure Facilities	Letchworth Outdoor Pool	Service use	2,617
Leisure Facilities	North Herts Leisure Centre	Service use	12,942
Leisure Facilities	Royston Leisure Centre	Service use	7,847
Leisure Facilities	Pavilions	Service use	2,001
Leisure Facilities	Recreation Grounds / Play Areas / Gardens	Service use	6,117
Community Centres and Halls	Various	Community facilities, generally operated by third parties	11,775
Markets	Hitchin Market	To provide a market	137
Museums and Arts	Hitchin Town Hall and District Museum	District-wide museum and community facility	11,136
Museums and Arts	Letchworth and Hitchin museums, Burymead store	Museum storage	1,465
Cemeteries	Various	Service use	1,479
Community Safety	Various CCTV cameras	Service use	62
IT	Various computer equipment and software	To enable the delivery of other services	376
Parking	Various car parks	Service use	9,448
Waste Collection	Bins	Service use	696
Public Conveniences	Various	Subject to leases/ management arrangements	610
Other	Various	Various	365
<b>Total</b>			<b>107,217</b>

Table 3 shows the capital expenditure that has been incurred during the year, or is forecast to be spent in the remainder of the year:

**Table 3**

<b>Asset Type</b>	<b>Asset</b>	<b>Reason for purchase/ expenditure</b>	<b>Value (£000)</b>
Offices and Storage	Unit 3	To provide additional storage through installation of a mezzanine floor	50
Investment Properties	Residential Housing	To generate rental income/ capital appreciation, including conversion of Harkness Court	500
IT	Various computer equipment and software	To maintain IT service and provision of equipment in the Council Chamber	287
Various	Various	Capital maintenance of Council buildings	108
Cemeteries	Wilbury Hills Cemetery, Letchworth	Construction of pathway and roadway	35
Leisure Facilities	Hitchin Swim Centre / Archers	New lift in the Swim Centre. Refurbishment of toilets and showers at outdoor pool. New fitness equipment.	222
Leisure Facilities	Letchworth Outdoor Pool	Refurbishment of toilets and showers at outdoor pool. New safety flooring.	175
Leisure Facilities	North Herts Leisure Centre	Completion of redevelopment works.	172
Leisure Facilities	Royston Leisure Centre	New fitness equipment	13
Leisure Facilities	Pavilions	Decommissioning of pavilions, using Capital Receipts direction	120
Leisure Facilities	Recreation Grounds / Play Areas / Gardens	Decommissioning of play areas, using Capital Receipts direction. Refurbishment of other retained play areas.	306
Museums and Arts	Hitchin Town Hall and District Museum	Acquisition of 14/15 Brand Street and other works.	656
Waste Collection	Vehicles	Capitalisation of vehicles related to the new contract	3,600
Waste Collection	Food waste bins	To enable the introduction of weekly food waste collection	132
Parking	Multi-storey car parks	Lighting at Letchworth Multi-storey, wall works at Lairage Car Park, Hitchin.	27
Community Centres and Halls	Various	Grants for refurbishment of community facilities. Relates to properties that are not owned by the Council (REFCUS).	448
Grants	Various	Disabled Facilities Grants and private sector housing grants (REFCUS)	360
<b>Total</b>			<b>7,211</b>



### Capitalisation Policy:

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

Expenditure, above the de-minimis level, on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) or is below the de-minimis level, is charged as an expense when it is incurred.

The Authority's de-minimis level is £20,000 for property and £10,000 for vehicles, plant and equipment.

The Council will provide grants that fund works on assets that it does not own. This expenditure can be treated as capital expenditure, even though it does not create an asset that the Council would then own or recognise. This is known as revenue expenditure allowed to be funded by capital under statute (or REFCUS).

For the assets that the Council owns (or plans to purchase in the year) that are **not** for service delivery, the security, liquidity and yield in relation to these have been considered. For these assets it is up to the Council to determine how it balances these, and this will depend on its risk appetite. This analysis is shown in Table 4. In most cases, assets are grouped together by type. Assets that are held for income generation purposes are revalued annually. This valuation is on a fair value basis. Unless detailed below the asset is considered to provide sufficient security.

### Definitions:

**Security-** In traditional treasury terms, this is the possibility that other parties fail to pay amounts due to the Authority. For commercial investments it relates to how susceptible they are to changes in value and market conditions.

**Liquidity-** This is the possibility that the Authority may not have funds available to meet its commitments to make payments. In general it relates to how easy it is to sell an asset.

**Yield-** The income return on an investment or asset, such as the interest received or rental income from holding a particular investment or asset.

**Table 4**

<b>Asset (or type of asset)</b>	<b>Security</b>	<b>Liquidity</b>	<b>Yield</b>
Ground leases- mainly of commercial premises in Royston, Letchworth and Hitchin (£14.9m by value)	Generally subject to long leases where the land has been built on. The building would become owned by the Council if there was a default on the lease agreement. Therefore, high security.	It is possible that the Council could try and sell to the leaseholder. Otherwise low liquidity in common with commercial premises.	The assets have been owned for a number of years. Valuations are based on the yield generated.
Churchgate Shopping Centre, Hitchin-ground lease (value £1.6m)	A long lease with upward only rent reviews.	On the basis that it generates a reasonable rental stream, likely to be some interest as an investment. Therefore low to medium liquidity.	Valuations are based on the yield generated.
Letchworth Town Hall (value £0.5m)	25 year lease (from 2012) where the tenant has provided significant investment.	Very low liquidity as would require someone to be interested in this type of building. Listed so would limit redevelopment.	Valuations are based on the yield generated.
Bungalow, Gernon Road, Letchworth (value £0.4m)	Not currently let as a residential premises and the Council does not want to create a Housing Revenue Account.	Medium liquidity as part of potential land sale.	None currently
Beverley Close Store, Royston (value £0.1m)	15 year lease from 2017	Low liquidity in common with commercial premises.	Valuations are based on the yield generated. Previously used as a Council store and a decision was made to retain for rental income.
Residential housing (Harkness Court)	The demand for housing is considered to be greater than an office building. Therefore the expenditure on a conversion scheme is expected to increase the security of the asset.	The asset will be more liquid with the benefit of planning permission and building regulation approval.	Not currently generating any income. The conversion will increase the capital value / enable generation of rental income.
Other assets valued at less than £0.1m (£0.2m in total)	Not fully assessed	Not fully assessed	Not fully assessed

**Definitions:**

Fair Value: The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

For each of the assets in table 4, there is also a requirement to carry out a fair value assessment that demonstrates that the underlying assets provide security for the capital invested. There is a further requirement to carry out an assessment of the risk of loss. This assessment generally relates to investments in commercial activities so includes items that may be less relevant to the majority of our assets. In total the risk assessment covers:

- Assessment of the market that competing in, including nature and level of competition, market and customer needs including how these will evolve over time, barriers to entry and exit, and ongoing investment required
- Use of external advisers and how the quality of these is monitored
- Whether credit ratings are used and how these are monitored
- Any other sources of information that are used

The assessments described above are shown in table 5. In most cases the assets are grouped together by type.

**Table 5**

<b>Asset (or type of asset)</b>	<b>Fair value assessment</b>	<b>Assessment of the risk of loss</b>
Ground leases- mainly of commercial premises in Royston, Letchworth and Hitchin (£14.9m by value)	Valued on a fair value basis. The valuation is based on rental yields.	Subject to competition from other sites within the same industrial areas and other locations. Difficult (uneconomic) for current lessees to exit due to lease terms and investment in the site. Any maintenance is the responsibility of the leaseholder.
Churchgate Shopping Centre, Hitchin-ground lease (value £1.6m)	Valued on a fair value basis. The valuation is based on rental yields.	External valuations have been commissioned in recent years. These have highlighted the difficulties that face retail and shopping centres in particular. However, the freehold that the Council has is on beneficial terms, and as a result there is a market due to investment returns. Maintenance is the responsibility of the leaseholder. Valuation reports have been checked and challenged by the Council's chartered surveyors.
Letchworth Town Hall (value £0.5m)	Valued on a fair value basis. The valuation is based on rental yields.	The building has some unique features in relation to its prominence and location. However, overall there currently an over-supply of office accommodation in Letchworth. Difficult (uneconomic) for current lessees to exit due to lease terms and investment in the building. Any maintenance during the lease term is the responsibility of the leaseholder.
Beverley Close Store, Royston (value £0.1m)	Valued on a fair value basis. The valuation is based on rental yields.	Subject to competition from other sites within the same industrial areas and other locations. Currently let to a company with significant property interest nearby. Might be difficult to re-let.

Asset (or type of asset)	Fair value assessment	Assessment of the risk of loss
Bungalow, Gernon Road, Letchworth (value £0.4m)	Valued on a fair value basis, reflecting residential property prices	<p>As a residential property, demand remains relatively good. It is competing against other residential properties on the market. There is a risk of a general down-turn in residential property prices.</p> <p>As part of a wider development, there is currently one party that is interested in a purchase. The needs of that party currently match the use of this site, and it is expected that this will remain the case up to the point of sale. Any valuation on this basis is subject to planning.</p> <p>Alternative plan would be to retain the property and let through a Council owned company, which would then generate a revenue income.</p>
Other assets valued at less than £0.1m (£0.2m in total)	Not fully assessed	Not fully assessed

Under the 'Use of Capital Receipts Direction', the Council can treat certain specified revenue spend as capital. Further details of the direction are shown below. Where this direction is used, the spend is included in the capital forecasts in tables 3, 6 and 7.

#### **Use of Capital Receipts Direction:**

The Capital Receipts direction has been used to fund the decommissioning of pavilions and play areas in 2018/19. There are no plans to make further use of the Direction in the period 2019/20 – 2023/24.

For all assets the future capital cost of maintaining those assets has been considered, and gives the following future capital spend requirements (table 6).

Table 6

Asset	Description of future capital expenditure	Forecast Capital Expenditure (£000)					
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2028/29
Existing Capital Programme-schemes 2019/20 onwards							
Various	Capital maintenance based on condition surveys	255	255	255	0	0	500
Lairage Multi-storey car park	Structural wall repairs	120	0	0	0	0	0
Computer Software & Equipment	To maintain IT services	702	119	64	450	0	1,695
Play equipment at Holroyd Cres (Baldock), King George V (Hitchin), Wilbury (Letchworth) and Howard Park (Letchworth)	Replacement and renovation	85	85	0	0	0	0
Various	Private sector housing grants (REFCUS)	60	60	60	60	60	300
New Capital Programme							
Hitchin Town Hall	Acoustic panelling	30	0	0	0	0	0
Hitchin Town Hall	Sprung floor replacement	75	0	0	0	0	0
Hitchin and Letchworth Outdoor Pools	Automatic Chemical Dosing Pumps	20	0	0	0	0	0
Various Leisure Facilities	Condition Survey enhancements	64	23	0	39	140	0
Various car parks	General capital maintenance	0	0	0	0	0	200
Reprogramming (as at Quarter 2)							
Various	Growth Fund Projects	713	0	0	0	0	0
Letchworth Multi-storey car park	Parapet walls, soffit & decoration	138	0	0	0	0	0
Various off-street car parks	Resurfacing	91	0	0	0	0	0
Lairage Multi-storey car park	Lifts refurbishment and safety improvements	399	0	0	0	0	0
St Mary’s Car Park	Replace and enhance lighting	60	0	0	0	0	0
Walsworth Common	Pitch improvements	100	0	0	0	0	0
Total		2,912	542	379	549	200	2,695

The totals for 2024/25 to 2028/29 are estimates only and could be subject change. These should be treated as early indications only, and formal approval of these amounts is not required.

The revenue maintenance of these assets has also been considered. The Council has chosen to allocate a central budget of £185k per year for this purpose. In previous years this has been sufficient. Works will be carried out as required.

## New Capital Assets

There are also proposals for the following capital expenditure on new capital assets and expenditure on existing assets that is not related to capital maintenance (table 7).

**Table 7**

Asset	Reason for capital expenditure	Forecast Capital Expenditure (£000)					
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2028/29
Existing Capital Programme-schemes 2019/20 onwards							
Residential Property	Provide Housing at Market Rents (also see below)	150	0	0	0	0	0
Royston Leisure Centre	Extension to provide a new multi-functional room and increase size of fitness room	0	0	0	0	1,000	0
Walsworth Common Pavilion	New pavilion	0	300	0	0	0	0
Community Centres and Halls (various)	Grants for refurbishment of community facilities. Relates to properties that are not owned by the Council (REFCUS) (see below)	250	120	0	0	0	0
New Capital Programme							
Hitchin Town Hall	Additional Bar facility	15	0	0	0	0	0
Reprogramming (as at Quarter 2)							
Hitchin Swim Centre	Car park extension	498	0	0	0	0	0
Community Centres and Halls (various)	Grants for refurbishment of community facilities (REFCUS)	292	0	0	0	0	0
John Barker Place	Contribution to redevelopment	1,096	0	0	0	0	0
Parking	On-street charging machines/ installations	285	0	0	0	0	0
Various	S106 projects	129	0	0	0	0	0
Baldock Town Hall	Contribution to works	66	0	0	0	0	0
Residential Property	Provide Housing at Market Rents (also see below)	2,350	0	0	0	0	0
Bancroft, Hitchin	Multi-Use Games Area	170	0	0	0	0	0
Total		5,301	420	0	0	1,000	0

Below is an estimate of the total capital expenditure to be incurred in the years 2019/20 to 2023/24. This is based on tables 6 and 7. This is a Prudential Indicator and the Council is required to set a target for it and monitor against it during the year.

**Prudential Indicator 1: Estimate of total capital expenditure to be incurred in years 2019/20 to 2023/24**

Year	£m
2019/20	8.213
2020/21	0.962
2021/22	0.379
2022/23	0.549
2023/24	1.200

A full list of planned future capital expenditure (2019/20 onwards) is provided as Appendix A1. A list of new capital schemes and schemes planned to commence from 2019/20 is provided in Appendix A2.

Where this proposed expenditure does not relate to service delivery, the security, liquidity and yield in relation to this spend has been considered (table 8).

**Table 8**

Asset (or type of asset)	Security	Liquidity	Yield
Residential Property	<p>The underlying value of residential property generally appreciates over the medium term due to the overall shortage of supply. Individual market factors will be considered prior to acquisition.</p> <p>It is likely that the property will be held through a company. The Council's interest will therefore be secured via a loan or equity holding. Any loan can be secured against property. Any equity interest does not offer the same security, but it may be required due to HMRC rules on the funding of companies.</p>	<p>Property is a medium to long-term asset due to the costs of buying and selling. However it is generally possible to sell residential property within a reasonable time-frame if priced accordingly.</p>	<p>The expected rental yield will be compared to the costs of acquisition or construction as part of the business case.</p>

For these assets, table 9, also details an assessment of the risk of loss. This covers the same factors that have been detailed previously. Where relevant, assets have been grouped together.

**Table 9**

Asset (or type of asset)	Assessment of the risk of loss
Residential Property	This will be fully assessed as part of the business case for the acquisition of any properties.



### **Part 3- Capital balances, receipts and the Capital Financing Requirement (CFR)**

#### **Capital Funding**

The Council forecasts the following additions to its capital receipts (table 10). All the planned disposals are surplus land that is being sold to generate capital receipts. The disposals will also reduce the risks and costs of holding the land. Due to the potential impact on negotiations over disposal values, individual values are not detailed.

**Table 10**

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25 to 2028/29</b>
Forecast Receipts (£000)	4,950	3,000	2,250	0	0	Tbc

The above timing and values are an estimate only. Actual timings will depend on market conditions and time taken for planning permission to be granted (where sales values are subject to planning). The Council will seek to maximise the sales values it can achieve.

As a result of planned expenditure in 2018/19 and future years, the Council forecasts the following use of funding for capital (table 11).

**Table 11**

<b>Funding Source</b>	<b>Brought forward (at 31/3/18)</b>	<b>Forecast expenditure and funding sources (£000)</b>						
		<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25 to 2028/29</b>
Capital Expenditure		7,211	8,213	962	379	549	1,200	2,695
Less: Set-aside receipts used	10,252	5,920	4,332	0	0	0	0	0
Less: Capital receipts used	3,090	572	2,507	675	379	549	1,200	2,395
Less: Grant funding used		300	763	0	0	0	0	300
Less: S106 receipts used		146	468	37	0	0	0	0
Less: Funding from revenue		0	0	0	0	0	0	0
Less: Other Capital Contributions		273	143	250	0	0	0	0
<b>Borrowing requirement</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Definitions:**

Capital receipts- money received from the sale of surplus assets.

Set-aside receipts- previously money generated from the sale of surplus assets was not defined as capital receipt. The residual funding that the Council has (which is mainly from the sale of its housing stock to North Herts Homes) is treated as a set-aside receipt. In essence these are treated in the same way as capital receipts.

The borrowing requirement is the balancing item. It is also known as the Capital Financing Requirement (CFR). This is a Prudential Indicator and the Council is required to set a target for it and monitor against it during the year.

**Prudential Indicator 2: Capital Financing Requirement**

Year	£m
As at 31 <sup>st</sup> March 2018 (actual)	-10.3
As at 31 <sup>st</sup> March 2019 (forecast)	-4.4
As at 31 <sup>st</sup> March 2020 (forecast)	0
As at 31 <sup>st</sup> March 2021 (forecast)	0
As at 31 <sup>st</sup> March 2022 (forecast)	0
As at 31 <sup>st</sup> March 2023 (forecast)	0
As at 31 <sup>st</sup> March 2024 (forecast)	0

Based on the totals in tables 10 and 11, the Council is forecasting remaining capital receipts of up to £5m as at the end of the period up to 2028/29. However this is dependent on future capital requirements (particularly beyond 2023/24), the generation of capital receipts and future schemes for investment of capital to generate income.

Where the Council has a Capital Financing Requirement (i.e. the borrowing requirement is positive) then it:

- Must make a charge to revenue for a Minimum Revenue Provision.
- Can choose whether to borrow internally or externally.

## **Part 4- Borrowing Strategy and Minimum Revenue Provision (MRP)**

### **Borrowing strategy**

#### **Definitions:**

Internal Borrowing- Even when the Council has no capital reserves, it can borrow internally against its revenue balances and reserves. This uses the cash that is available and is different to funding capital from revenue. The Council is still required to have a Minimum Revenue Provision, but does not incur any external interest costs. Interest income from investing the revenue balances and reserves would be lost.

External Borrowing- Borrowing from a third party (e.g. Public Works Loans Board, a Local Authority or a financial institution). Interest costs would be incurred, as well as having to make a Minimum Revenue Provision.

Based on Prudential Indicator 2 (page 16) the Council has a Capital Financing Requirement of zero and therefore does not have a need to borrow.

If the Council had a borrowing requirement, then in order to determine whether to borrow internally or externally, it must consider the level of revenue reserves and provisions that it has, and when it expects that these will be spent. Forecasts of the revenue budget give the following estimates (table 12). These totals are also used in determining the cash that it has available for investment.

**Table 12**

Revenue balance	Brought forward (at 31/3/18)	Forecast balance at year end						
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2028/29
General Fund <sup>1</sup>	7,403	7,055	7,055	6,664	6,408	6,469	6,469	6,469
Add back MRP	0	0	0	0	0	0	0	0
Revenue Reserves <sup>2</sup>	5,679	7,077	7,577	8,077	8,577	9,077	9,577	6,577
S106 balances	2,951	2,805	2,337	2,300	2,300	2,300	2,300	2,300
Provisions	1,252	1,252	1,252	1,252	1,252	1,252	1,252	1,252
Outstanding Debt	456	440	423	405	387	368	347	267
<b>Total</b>	<b>17,741</b>	<b>18,629</b>	<b>18,644</b>	<b>18,701</b>	<b>18,924</b>	<b>19,466</b>	<b>19,945</b>	<b>16,865</b>

1 Based on General Fund forecasts as per 'Revenue Budget 2019/20' report up to 2022/23, then assumed that net expenditure and funding will match.

2 Revenue Reserve balance as at 31/3/19 as per 'Revenue Budget 2019/20' report. Then increases in line with contributions to waste vehicle reserve at £500k per year for 7 years. At end of 7 years assumed that this funding will be used to fund new waste vehicles.

MRP is added back as it is not an outflow of cash and can be used for internal borrowing. The cash outflow happens when the borrowing is repaid.

As well as the availability of revenue funding, the Council would also need to consider the advantages and disadvantages of external borrowing. Interest rates are still at very low levels and are only expected to go up, which will increase the cost of external borrowing in the future. It may also be possible to generate higher returns from investing revenue reserves than the interest costs that would be saved. However this has to be balanced against the certainty of interest costs that will

be incurred as soon as borrowing is taken out. There is also a need for the Council to retain a certain buffer of revenue reserves as cash to manage the peaks and troughs in its cash balances. Whilst the Council can borrow for short-term cash-flow needs, this can become expensive. Whatever strategy is adopted, it should be prudent.

As the Council has no borrowing requirement, table 13 below just shows no new borrowing.

**Table 13**

	Brought forward (at 31/3/18)	Forecast amount of borrowing in year (£000)							Carried forward (at 31/3/29)
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2028/29	
Total borrowing requirement	456	0	0	0	0	0	0	0	0
Made up of:									
Internal borrowing	0	0	0	0	0	0	0	0	0
External borrowing	456	0	0	0	0	0	0	0	265

The brought forward borrowing total is made up of historic borrowing that it is not cost effective to pay off. This is because the interest that would be payable over the course of the remaining loan has to be paid upfront instead. The reduction is due to these being loans that are repaid in instalments.

#### **Definitions:**

**Operational Boundary:** This is the limit beyond which external debt is not normally expected to exceed.

**Authorised Limit:** This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

**Prudential Indicator 3: External Debt**

<b>Year</b>	<b>Forecast Borrowing £m</b>	<b>Forecast other long- term liabilities<sup>1</sup> £m</b>	<b>Forecast Total External Debt £m</b>	<b>Operational Boundary £m</b>	<b>Authorised Limit £m</b>
As at 31 <sup>st</sup> March 2018 (actual)	0.456	0.131	0.587	Set by previous strategy	
As at 31 <sup>st</sup> March 2019 (forecast)	0.440	2.628	3.068	4.1	10
As at 31 <sup>st</sup> March 2020 (forecast)	0.423	2.125	2.548	3.6	9
As at 31 <sup>st</sup> March 2021 (forecast)	0.405	1.622	2.027	3.1	9
As at 31 <sup>st</sup> March 2022 (forecast)	0.387	1.119	1.506	2.6	8
As at 31 <sup>st</sup> March 2023 (forecast)	0.367	0.616	0.983	2.0	7
As at 31 <sup>st</sup> March 2024 (forecast)	0.347	0.113	0.460	1.5	7

1 Comprises the finance lease relating to Letchworth Multi-storey car park and the forecast impact of the finance lease for waste vehicles.

The external borrowing forecast can be used to give an indication of the borrowing that may be required, which is combined with outstanding existing borrowing (table 14). The Council will also borrow for short-term cash-flow needs if required. The actual borrowing that is taken out will depend on the latest forecasts and the offers that are available at the time that it is required. There will also be a consideration of when any other borrowing becomes due, with the aim of achieving a spread of these dates. This is to try and avoid refinancing risk. The Council is required to set indicators for the maturity structure of its borrowing. Given the low level of borrowing that the Council currently has and is forecast to have, it is considered appropriate to maintain full flexibility as to the exact duration of any borrowing undertaken. This is reflected in the indicators set out as Treasury Indicator 4 below.

Table 14

Loan Type	Start date	Duration (years)	Maturity date	Amount Borrowed (£)	Balance Outstanding 31/03/19 (£)	Interest Rate (actual or forecast) (%)	Current Annual interest cost (£)
PWLb	08/01/49	80	Oct 2025	5,346	1,138	3.125	34
	16/09/49	80	Jul 2029	380	50	3.0	1
	10/05/46	80	Jan 2026	10,150	2,065	3.125	62
	12/11/48	80	Jul 2028	13,885	3,769	3.0	110
	23/09/60	60	Jul 2020	4,570	406	6.125	21
	18/08/61	60	Jul 2021	13,817	2,218	7.0	141
	28/07/64	60	Jul 2024	15,801	4,516	6.0	260
	02/03/65	60	Jan 2025	19,558	6,013	6.0	348
	01/10/65	60	Jul 2025	33,976	11,161	6.0	648
	05/07/66	60	Jan 2026	35,000	12,212	6.0	711
	02/08/66	60	Jul 2026	50,000	18,437	6.0	1,076
	18/03/68	60	Jan 2028	40,000	19,407	7.375	1,403
	03/01/69	60	Jul 2028	53,027	28,381	8.125	2,265
	06/03/70	60	Jan 2030	20,100	12,334	8.75	1,064
	24/11/70	60	Jul 2030	18,714	12,325	9.5	1,156
	26/01/71	60	Jan 2031	25,000	17,076	9.75	1,646
	05/03/71	60	Jan 2031	12,500	8,309	9.25	760
	05/03/71	60	Jan 2031	25,000	16,623	9.25	1,520
	31/05/46	80	Jan 2026	9,570	2,038	3.125	62
	28/02/47	80	Jan 2027	5,832	1,219	2.5	30
	18/10/46	80	Jul 2026	1,527	301	2.5	7
	20/02/48	80	Jan 2028	14,952	3,873	3.0	113
	22/09/50	80	Jul 2030	654	209	3.0	6
	27/08/82	60	Jul 2042	250,000	250,000	11.5	28,750
	07/12/45	80	Sep 2025	1,500	300	3.125	9
	16/09/49	80	Sep 2029	640	190	3.0	6
	20/03/53	80	Mar 2033	1,020	464	4.125	19
	23/10/53	80	Sep 2033	750	335	4.0	13
	20/11/53	80	Sep 2033	420	191	4.0	8
	25/04/52	80	Mar 2032	480	209	4.25	9
	30/01/48	80	Sep 2027	1,560	385	3.0	11
	29/06/40	80	Mar 2020	715	29	4.0	1
	20/09/45	80	Sep 2025	16,690	3,536	3.125	111
<b>Total</b>					<b>439,717</b>		

**Definitions:**

Refinancing Risk (or Maturity Risk): The risk that if all borrowing becomes due for repayment at the same time that this will be at a time when the costs out taking out new borrowing (refinancing) are very high.

To manage refinancing risk, the Council sets limits on the maturity structure of its borrowing. However these indicators are set relatively high to provide sufficient flexibility to respond to opportunities to repay or take out new debt (if it was required), while

remaining within the parameters set by the indicators. Due to the low level of existing borrowing, the under 12 months limits have a broad range to allow for cash-flow borrowing (if it was required).

#### Treasury Indicator 4: Maturity Structure of Fixed Interest Rate Borrowing

Maturity period	Lower %	Upper %
Under 12 months	0	100
12 months to 2 years	0	50
2 years to 5 years	0	60
5 years to 10 years	0	70
10 years to 20 years	0	80
20 years and above	0	100

The Council does not place any restrictions on where it can borrow from. This is because the Council will hold the money and therefore there is not a risk around the security of the funds. In practice any borrowing is likely to come from the Public Works Loan Board, UK banks, UK building societies and other Local Authorities. All borrowing will be denominated in GBP Sterling. The decision on any borrowing will be made by the Chief Finance Officer, and reflect the advice of the Council's treasury advisers.

The Council can enter in to borrowing arrangements at both fixed and variable rates. Variable rate borrowing has a greater risk and so therefore Treasury Indicator 5 limits the amount of borrowing that can be at a variable rate. To aid administration and monitoring, the limits are shown as £ values but are based on percentages of the Operational Boundary. Borrowing at fixed rates can be up to 100% (inclusive) of the Boundary, and variable rate borrowing can be up to 30% of the Boundary.

#### Definitions:

**Fixed Rate:** The rate of interest is set at the point the borrowing is taken out and remains at the same percentage rate for the full term of the loan.

**Variable Rate:** The rate of interest varies during the term of the loan and usually tracks prescribed indicator rate (e.g. Bank of England base rate)

#### Treasury Indicator 5: Fixed and Variable Borrowing Rate Exposure

Year	Operational Boundary relating to borrowing excluding long term liabilities £m	Limit on Fixed Rate borrowing £m	Limit on Variable Rate borrowing £m
2019/20	1.5	1.5	0.5
2020/21	1.5	1.5	0.5
2021/22	1.4	1.4	0.5
2022/23	1.4	1.4	0.5
2023/24	1.4	1.4	0.5
2023/24	1	1	0.3



There is a requirement for the Council to consider the proportionality of the income that it generates from its non-service (investment) assets and how this compares to any borrowing that is linked to those assets. Current and planned investment assets were detailed in table 3 and table 8. Treasury indicator 6 shows the capital value and expected income from these assets, alongside any borrowing that is attached to those assets and the expected cost of that borrowing.

**Treasury Indicator 6: Income from investment assets and the costs of associated borrowing**

Year	Capital value of investment assets £m	Expected annual income from investment assets £m	Loans linked to investment assets £m	Expected annual borrowing costs for loans linked to investment assets £m
2019/20	20.710	1.089	0	0
2020/21	20.710	1.139	0	0
2021/22	20.710	1.189	0	0
2022/23	20.710	1.189	0	0
2023/24	20.710	1.189	0	0

The Council would not borrow money at a low rate to try and reinvest that money to earn a higher interest rate, and profit from the margin between the two rates. However, the new waste contract requires the use of vehicles that are provided by the contractor. The Council has taken the view that it receives the risks and rewards of those vehicle assets. Under accounting regulations it is therefore required to treat this as a finance lease embedded within the contract. This requires the Council to recognise the vehicle assets as belonging to it, alongside a liability. The liability is effectively repaid through the contract sums over the seven years of the contract.

The extended definition of borrowing in advance of need now covers borrowing for capital investments where they are acquired purely to generate profit. The only instance where this could apply is the purchase of housing for renting at market rates. However this has been in the capital programme for a few years and is funded from capital receipts, so is not subject to this restriction.

If the Council did want to use borrowing to fund capital investment for a profit, then this can be done if it is fully explained as part of this capital strategy.

Minimum Revenue Provision

When the Council has a Capital Financing Requirement (CFR) it is required to make a charge to the General Fund (revenue budget) called a Minimum Revenue Provision (MRP). Subject to guidelines, the Council sets its MRP policy, which is detailed below:

**Minimum Revenue Provision:**

The Council is required to have a Minimum Revenue Provision (MRP) policy, and when required make charges to revenue in accordance with that policy.

The Council will use the asset life method. The MRP amount will be spread over the estimated life of the assets, in accordance with the regulations. The Council will apply one of the two approaches below based on the project(s) that the borrowing is used for and the benefits derived from the project(s).

- Equal instalments – The principal repayment made is the same each year.
- Or
- Annuity – the principal repayments increase over the life of the asset. This has the advantage of linking MRP to the benefits arising from capital expenditure, where these benefits are expected to increase over the life of the asset.

The Council does not have a need to borrow, so therefore does not currently need to apply a Minimum Revenue Provision (MRP).

There is a prudential indicator that compares the net cost of financing (i.e. borrowing costs less income generated from investments) with the net revenue budget of the Council. This will be looked at later in this document after considering investments and their forecast returns. However the indicator below considers the cost of borrowing as a % of the net revenue budget of the Council.

**Treasury Indicator 7: Cost of borrowing (interest and MRP) as a % of the net revenue budget 2019/20 to 2023/24**

Year	Estimated cost of borrowing (£m)	Forecast net revenue budget (£m)	Estimated cost of borrowing as a % of net revenue budget (%)
2019/20	0.042	15.136	0.28
2020/21	0.041	14.808	0.28
2021/22	0.040	14.911	0.27
2022/23	0.039	15.021	0.26
2023/24	0.037	15.021	0.25

## Part 5- Investment Strategy

Based on the assumptions above the following available investment balances are assumed. This includes a forecast of revenue reserves, capital reserves, capital financing requirement and external borrowing (table 15).

**Table 15**

Balances	Brought forward (at 31/3/18)	Forecast balance at year end (£000)					
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Revenue balances (including MRP added back)	17,741	18,629	18,644	18,701	18,924	19,466	19,945
Capital Receipts	3,090	2,627	5,070	7,395	9,266	8,717	7,517
Capital Grants Unapplied	954	954	954	954	954	954	954
Add: Long-term liabilities <sup>1</sup>	131	2,628	2,125	1,622	1,119	616	113
Less: Capital Financing Requirement	-10,315	-4,935	-63	-63	-63	-63	-63
Add: External Borrowing taken out	0	0	0	0	0	0	0
Less: Borrowing repayments	25	16	17	18	18	19	21
<b>Total forecast of available for investment</b>	<b>32,206</b>	<b>29,757</b>	<b>26,839</b>	<b>28,717</b>	<b>30,308</b>	<b>29,797</b>	<b>28,571</b>

1 The net position of money owed by the Council or to the Council can lead to increased or decreased cash available for investment. The short-term position is assumed to be net zero. Long-term liabilities are included as the expenditure has been assumed to have been incurred, but the cash has not yet been paid. This primarily relates to the waste vehicles.

The Council needs to consider the following in determining how long it will invest any surplus cash for:

- The period that any particular cash balance is available for. If a balance is expected to be available over a long period then it is possible to invest it over a long period.
- How much might be required to cover short term variations in cash. For example, it could be forecast that the cash at the start and end of the month will be the same. But if there is a need to pay out half that cash at the start of the month before getting an equivalent amount just before the end, then there is a need to plan.
- The risk of investing for longer periods as it increases the chance that the counterparty could have financial problems and therefore not pay back the principal invested and/ or the interest due.
- The risk of investing for longer periods as it could lead to a lost opportunity. If the investment is at a fixed rate and then there is a general rise in rates available (e.g. due to an unexpected Bank of England base rate rise) then it would not be possible to take advantage of the new improved rates until the investment matures.

Before considering where the Council will invest any surplus cash in treasury investments, it firstly needs to consider any loans that it may want to make for other purposes. A local authority can choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures. These loans can relate to service provision or to promote local economic growth. These loans may not seem prudent when considered purely in relation to security and liquidity. Table 16 details current and planned loans and shows the reasons for these loans, how their value is proportionate, the risk of loss and credit control arrangements that are in place.

**Table 16**

<b>Loan</b>	<b>Amount (£000)</b>	<b>Reason for Loan</b>	<b>Proportionality of value</b>	<b>Expected Credit Loss model and credit control</b>
Building Control	107	To support the formation of the company. The Council is also a shareholder in the company, owning 1/7 <sup>th</sup> of the shares.	Insignificant in the context of overall cash balances. Around 0.3% of total investments.	Regular monitoring of financial forecasts and business plans. The continuation of the company to provide Building Control services is more significant than the value of the loan.
Wholly owned Property Company	Tbc, up to £3m	To provide the company with finances to purchase and develop property assets. These properties will then be let or sold to generate income and profit.	Based on investment limits in table 17 below, it could be the equivalent of one investment in a bank or building society.	Any loan would be secured against the property assets of the company. Expected credit loss would be looked at in more detail in advance of any loans being granted, and linked to the planned use of those funds.

When the Council invests its surplus cash it seeks to find reliable counterparties to ensure that the amount invested (and the interest earned) is returned. The Council has decided that it is prepared to take on a higher level of risk than recommended by its treasury advisers in relation to unrated Building Societies and the duration of its investments. This risk is mitigated by reviewing published information in relation to unrated Building Societies (i.e. "Pillar 3" reports and reports by accountancy firm KPMG). Whilst the Council is fairly highly exposed to Building Societies, it is aiming to rebalance this exposure over time and make greater use of other investment types.

The following criteria are used to determine the list of counterparties:

- UK Local Authorities- as they are able to raise additional funds from taxation
- UK Government- Debt Management Office provides highly liquid investments at the lowest risk as backed by the UK Government
- UK Banks and Building Societies with a Fitch Credit rating of BBB (long-term)/ F3 (short-term) or greater- as they have been subject to UK 'stress tests' and also have a high credit rating
- Part-nationalised UK banks- as they have been subject to UK 'stress tests' and the UK government has an increased interest in not allowing them to fail.
- The Council's own banker (Lloyds) that it uses for transactional purposes. Although if its credit rating falls below BBB then any balances will be kept to a minimum (i.e. for cashflow purposes only)
- Non-UK banks with a UK subsidiary that have a Fitch Credit rating of BBB (long-term)/ F3 (short-term) or greater, and are subject to the same stress tests as UK banks
- Non-UK banks where the Country has a AAA rating and the institution has a AA-and above rating.
- Unrated UK Building Societies- as organisations have to pay to obtain a rating; most Building Societies do not get one. They do produce annual reports known as Pillar 3 reports, and these will be used to assess their credit worthiness. Furthermore the Council will only invest in Building Societies that have assets of at least £300m, which limits the potential exposure.
- Money Market funds that are AAA rated.
- Property funds that hold property within the UK.

All investments will be denominated in Sterling.

The Council will seek to appropriately diversify its investments across a range of types and counterparties. This means that if there were any security or liquidity issues with a particular type of investment or counterparty, the Council would still have access to the majority of its funds. The limits are initially based on a percentage of total funds, but are converted to actual values to make the administration of investments more efficient. The values are calculated by applying the percentages to the expected balance at the end of the year (2019/20) and then rounded up to the nearest £1m. If these limits are set too low then it limits the investment opportunities available and also increases the administration as there is then a need to find more places to invest available funds. The limits are shown in table 17 below.

**Table 17**

<b>Investment Type</b>	<b>Maximum amount in that type of investment (£m)</b>	<b>Maximum amount in group (£m)</b>	<b>Maximum amount with any individual counterparty (£m)</b>	<b>Rationale and details</b>
Debt Management Office (UK Government)	No limit			Short-term investment with UK Government that is therefore the lowest possible risk
UK Local Authorities	No limit	n/a	3	10% with any one counterparty, no limit on total with Local Authorities due to tax raising powers
UK Banks and UK subsidiaries of foreign banks that are subject to the same stress tests as UK banks (excluding Lloyds current account)- includes Deposits and Certificates of Deposit	22	5	3	Rating F3 or above (short-term) or BBB or above (long-term) and part nationalised banks. 10% with any one counterparty, 15% with institutions in the same banking group, 75% with banks in total
Lloyds Current Account		n/a	5	Used for cashflow purposes
Non-UK banks- includes deposits and Certificates of deposit		8	3	AAA Country rating and AA-and above institution rating. Maximum of 10% with any one counterparty. Maximum of 25% in non-UK banks. 75% in banks in total.
UK Building Societies- assets of £300m to £1bn	n/a	18	2	Review of Pillar 3 reports and KPMG report on comparative profits. 10% with any one counterparty subject to maximum of £2m. Maximum of 60% with UK Building Societies and Property Funds combined.
UK Building Societies- assets of over £1bn			3	As above, but £3million
Rated UK Building Societies			3	Rating F3 or above (short-term) or BBB or above (long-term). 10% with any one counterparty.
UK Property Funds	8		8	25% in any one fund or combination of funds. Maximum of 60% in Property Funds and Building Societies combined. No durational limits.
Money Market Funds	8	n/a	3	AAA rated. Maximum of 25% in MMFs and 10% with any one fund.

The Council will primarily limit its liquidity risk by only investing money until it thinks it will next need it. On top of this it will also have a general limit on investments that are greater than 1 year (365 days). This limit is based on 40% of total investments, but is again reflected as an absolute value of **£12m**, which is based on 40% of the expected level of investments at the end of the year.

Investments with a set term of greater than 2 years will be subject to approval by the Chief Finance Officer, which will include a consideration of how much the investment will be as a percentage of total funds at the date it matures. It will be ensured that this is less than 40% of the estimated balance. No investment term will exceed 5 years.

Investment funds (money market funds and property funds) do not have a set term and funds can be requested to be withdrawn at any time. Investment balances will be kept under review to ensure that they do not exceed the maximum amount set by this or subsequent treasury strategies. However there is no time limit on the period that funds can be held invested for. For property funds there are both up-front set up and exit costs. Furthermore, the capital value of these funds also fluctuates over time. So whilst in general it is possible to exit these funds at any time, there are likely to be more optimum times to do so. Therefore it is expected that the period of investment could exceed 5 years.

In general the Council will access treasury deals directly, rather than using a cash manager. In the current market, the Council is able to get the same (or very similar) rates as a cash manager and this therefore avoids the fees charged by the cash manager. However the Council will use a cash manager (Tradition) where it provides access to a better investment rate after accounting for the fees. As the actual investment will be with a counterparty, the Council will not set any limits on the number or value of deals that are accessed via Tradition.

Where the Council makes use of credit ratings these will be assessed immediately prior to placing an investment. The Council then receives alerts whenever ratings change and will monitor these alerts to see if an investment has fallen below the minimum criteria. For fixed term investments, it generally will not be possible to do anything in relation to a rating change. Although for a significant drop, enquiries will be made as to the exit costs involved. If these are not significant then the Council will end the investment early. For open term investments, the Council will seek to disinvest, although it will consider any exit costs (e.g. in relation to property funds).

The Council maintains a treasury risk on its risk register.

There is some link between the interest rates that the Council can expect to achieve on its investments and the Bank of England base rate. Our treasury advisors (Link) have provided the following forecasts of base rates over the next 5 years. Using this and the investment limits above, we have estimated an average interest rate that the Council will achieve on its investments in each year.

**Table 18**

<b>Year</b>	<b>Forecast of Bank of England Base Rate as at end of the year (%)</b>	<b>Forecast of average interest earned on investments (%)</b>
2018/19	0.75	
2019/20	1.25	1.20
2020/21	2.00	1.50
2021/22	2.00	1.75
2022/23	2.00	1.75
2023/24	2.25	2.00

Combining these average interest rates with expected balances, gives a forecast of the interest that will be earned in each year.

**Table 19**

	2019/20	2020/21	2021/22	2022/23	2023/24
Forecast of average balance available for investment (£m)	28.3	27.8	29.5	30.05	29.2
Forecast of average interest earned on investments (%)	1.2	1.5	1.75	1.75	2.0
Forecast of interest earned (£m)*	0.340	0.417	0.516	0.526	0.584
Current interest assumed in the revenue budget.	0.300	0.167	0.167	0.167	0.167

\*Due to current economic uncertainty Interest estimates in the revenue budget are lower than those forecast from multiplying the average balance by forecast interest rates. These will be reassessed each year.

The Council is required to set a prudential indicator that estimates financing costs (cost of borrowing less income from investments) as a percentage of its net revenue budget.

**Prudential Indicator 8: Forecast of Financing Costs as a percentage of net revenue budget**

Year	Cost of borrowing £m	Less: Forecast of interest earned £m	Net Financing costs £m	Net Revenue Budget £m	Financing Costs as a % of Net Revenue Budget £m
2019/20	0.042	0.340	-0.298	15.136	-1.969
2020/21	0.041	0.417	-0.376	14.808	-2.539
2021/22	0.040	0.516	-0.476	14.911	-3.192
2022/23	0.039	0.526	-0.487	15.021	-3.242
2023/24	0.037	0.584	-0.547	15.021	-3.642



## **Part 6- Overall Risk Considerations**

The risk exposures for each of the elements of this strategy are generally independent, and therefore can be considered in isolation.

The Council's investments assets generally comprise of ground leases on commercial properties that are all within North Hertfordshire. The main exception to this is the freehold of the Churchgate Shopping Centre in Hitchin. A property fund generally invests in building (and land) assets that provide higher yields, and also diversifies across the United Kingdom. They also currently tend to focus on industrial, warehouses and office buildings. This means that there is limited cross-over in risk exposure, and before investing in a property fund (current investments are zero) the Council would review the current investments of the selected fund. Furthermore this strategy limits any investment in a property fund to a maximum of £8m.

The capital programme includes an allocation of £3m for investments in market housing within North Hertfordshire. This will expose the Council to a similar risk to Building Society investments, in that they will both be influenced by the UK housing market. This is part of the rationale for reducing the amounts that can be invested in Building Societies. In general, Building Societies will have a much more diversified risk exposure e.g. by location and number of properties.

## **Part 7- Glossary**

A number of definitions are included in the strategy when they are first referenced. These are not duplicated here. This part provides list of other terms used in this report, as well as those used in the statutory guidance.

**Borrowing-** a written or oral agreement where the Council temporarily receives cash from a third party (e.g. a Bank, the Public Works Loan Board or another Local Authority) and promises to return it according to the terms of the agreement, normally with interest.

**Investment:** This covers all of the financial assets of the Council as well as other non-financial assets that the Council holds primarily or partially to generate a profit; for example, investment property portfolios. This will include investments that are not managed as part of normal treasury management processes or under treasury management delegations. Furthermore, it also covers loans made by the Council to one of its wholly-owned companies or associates, to a joint venture, or to a third party. The term does not include pension funds or trust fund investments, which are subject to separate regulatory regimes.

Within this strategy, the term investment is used in the following contexts:

- Capital investment- expenditure to acquire or improve a capital asset.
- Investment properties- assets that are held for the purpose of generating an income.
- Cash/ treasury investments- the cash that the Council has, which is made up of revenue reserves, capital reserves and the effects of cashflow timings. These amounts are invested to manage the risks of holding cash and to generate investment income.

**Financial investments:** These are made up of Cash/ Treasury investments and loans. This term is defined within the statutory guidance (as specified investments, loans and unspecified investments) but has not been directly used in this strategy. Part 5 of the Strategy is focused on these investments.

**Specified Investment:** These are essentially short-term Cash/ Treasury investments. To be a specified investment, it needs to meet the following criteria:

- The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling.
- The investment is not a long term investment. This means that the local authority has contractual right to repayment within 12 months, either because that is the expiry term of the investment or through a non-conditional option.
- It is not capital expenditure.
- The investment is considered to be high quality or is with the UK Government , another Local Authority or a Parish/ Community Council.

**High Quality investment:** These are investments (specified and non-specified) which are assessed on the priority basis of security, liquidity and yield. Where relevant they make use of relevant additional information, such as credit ratings. The investments set out in part 5 are considered by the Council to be 'high quality'.

- The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling.
- The investment is a long term investment. This means that the local authority has contractual right to repayment in greater than 12 months.
- It is not capital expenditure.

- The investment is considered to be high quality or is with the UK Government , another Local Authority or a Parish/ Community Council.

**Unspecified investment:** In the statutory guidance, these are financial assets that are not specified investments or loans. This creates a circular definition. The Council considers that they meet the following definition:

**Loan:** a written or oral agreement where the Council temporarily transfers cash to a third party, joint venture, subsidiary or associate who promises to return it according to the terms of the agreement, normally with interest. This definition does not include a loan to another local authority, which is classified as a specified investment. The Council will meet the following conditions when providing such loans:

- Total financial exposure to these type of loans is proportionate;
- An allowed “expected credit loss” model has been used as set out in Accounting Standards
- Appropriate credit control arrangements are in place to recover overdue repayments in place; and
- The total level of loans by type is in accordance with the limits set out in this Strategy.

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Priority	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £	2022/23 Estimate £	2023/24 Estimate £	2024/25 - 28/29 Estimate £
<b>Advances &amp; Cash Incentives</b>							
John Barker Place, Hitchin	0	1,096,000	0	0	0	0	0
<b>Advances &amp; Cash Incentives Total</b>	<b>0</b>	<b>1,096,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Asset Management</b>							
Storage Facilities	50,000	0	0	0	0	0	0
Provide housing at market rents.	500,000	2,500,000	0	0	0	0	0
Council property improvements following condition surveys	100,000	255,000	255,000	255,000	0	0	500,000
Energy efficiency measures	8,500	0	0	0	0	0	0
<b>Asset Management Total</b>	<b>658,500</b>	<b>2,755,000</b>	<b>255,000</b>	<b>255,000</b>	<b>0</b>	<b>0</b>	<b>500,000</b>
<b>Community Services</b>							
Baldock Town Hall project	9,000	66,300	0	0	0	0	0
Refurbishment and improvement of community facilities	378,500	542,100	120,000	0	0	0	0
S106 Projects	60,000	128,800	0	0	0	0	0
<b>Community Services Total</b>	<b>447,500</b>	<b>737,200</b>	<b>120,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Computer Software and Equipment</b>							
40 KVA UPS Device or Battery Replacement	0	7,000	0	0	0	0	30,000
Additional PC's - Support Home Working/OAP	0	13,000	0	0	0	0	90,000
Additional Storage	12,000	13,000	0	0	0	0	28,000
Alternative to safeword tokens for staff/members working remotely	0	8,000	0	0	0	0	0
Back-up Diesel 40 KVA Generator (DCO)	0	20,000	0	0	0	0	72,500
Back-up Storage	0	0	0	0	0	0	42,000
Cabinet Switches - 4 Floors	0	0	0	18,000	0	0	0
Cadcorp Local Knowledge & Notice Board Software	13,500	0	0	0	0	0	0
Channel shift - processing of housing register applications	40,000	0	0	0	0	0	0
Core Backbone Switch	0	20,000	0	0	0	0	60,000
Customer Self Serve Module	3,000	0	0	0	0	0	0
Cyber Attacks - Events Monitoring Software Solution	30,000	0	0	0	0	0	0
Data Switch Upgrade	0	0	0	0	0	0	20,000
Dell Servers	0	65,000	0	0	0	0	75,000
DR Set-up	47,400	25,000	0	0	0	0	0
DR Hardware Refresh Inc UPS Battery Pk	0	0	0	0	0	0	60,000
EA Agreement (MS EA) TN agreed funded within 4571 Account	0	358,000	0	0	450,000	0	710,000
Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract	0	0	39,000	0	0	0	0
Email Encryption Software Solution	0	0	45,000	0	0	0	0
IT	0	0	0	0	0	0	0
Laptops - Refresh Programme	6,000	0	6,000	0	0	0	15,500
New Blade Enclosure	0	32,000	0	0	0	0	52,000
PC's - Refresh Programme	14,000	17,000	17,000	17,000	0	0	130,000
Recording of Council Meetings	80,800	0	0	0	0	0	0
Replacement SAN	0	110,000	0	0	0	0	120,000
Security - Firewalls	14,000	0	0	14,000	0	0	51,000
Security - Tokens, Encryption	0	0	0	0	0	0	50,000
Software for personalised bills and annual billing.	6,000	0	0	0	0	0	0
Tablets - Android Devices	10,000	14,000	12,000	15,000	0	0	89,000
Telephony system	10,600	0	0	0	0	0	0
<b>Computer Software and Equipment Total</b>	<b>287,300</b>	<b>702,000</b>	<b>119,000</b>	<b>64,000</b>	<b>450,000</b>	<b>0</b>	<b>1,695,000</b>
<b>Growth Fund Projects</b>							
Cycle Strategy implementation (GAF)	0	278,000	0	0	0	0	0
Green Infrastructure implementation (GAF)	0	185,000	0	0	0	0	0
Transport Plans implementation (GAF)	0	250,000	0	0	0	0	0
<b>Growth Fund Projects Total</b>	<b>0</b>	<b>713,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Leisure Facilities</b>							
Construction of pathway and roadway, Wilbury Hills Cemetery, Letchworth	35,000	0	0	0	0	0	0
Hitchin Outdoor Pool Showers and Toilets	101,200	0	0	0	0	0	0
Hitchin Swimming Centre Lift	84,300	0	0	0	0	0	0
Hitchin Swimming Pool Car Park extension	0	497,700	0	0	0	0	0
Relay concrete slabs that surround the Hitchin outdoor pool.	1,500	0	0	0	0	0	0
Letchworth Outdoor Pool safety surface	56,500	0	0	0	0	0	0
Letchworth Outdoor Pool Showers and Toilets	97,000	0	0	0	0	0	0
North Herts Leisure Centre Development	171,700	0	0	0	0	0	0
Decommissioning of Pavilions	120,000	0	0	0	0	0	0
Walsworth Common Pavilion - contribution to scheme	0	0	300,000	0	0	0	0
Bancroft Gardens Play Area	5,600	0	0	0	0	0	0
Bancroft Recreation Ground, Hitchin, Multi Use Games Area (MUGA)	0	170,000	0	0	0	0	0
Decommissioning of Play Areas	130,000	0	0	0	0	0	0
Norton Common Wheeled Sports improvements	26,900	0	0	0	0	0	0
Renew pathways at Bancroft Recreation Ground, Hitchin	23,100	0	0	0	0	0	0
Renovate play area Howard Park, Letchworth	0	0	75,000	0	0	0	0
Renovate play area King George V Recreation Ground, Hitchin	0	75,000	0	0	0	0	0
Renovate play area, District Park, Gt. Ashby	75,000	0	0	0	0	0	0
Replace items of play equipment Holroyd Cres, Baldock	0	0	10,000	0	0	0	0
Replace items of play equipment Wilbury Recreation Ground, Letchworth	0	10,000	0	0	0	0	0

Priority	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £	2022/23 Estimate £	2023/24 Estimate £	2024/25 - 28/29 Estimate £
Replace items of play equipment, Chiltern Road, Baldock	10,000	0	0	0	0	0	0
Replacement of Walsworth Common Access Bridge	3,000	0	0	0	0	0	0
Walsworth Common Pitch Improvements	2,700	100,300	0	0	0	0	0
Walsworth Common Reconstruction of Car Park	30,000	0	0	0	0	0	0
Royston Leisure Centre extension	0	0	0	0	0	1,000,000	0
Hitchin & Royston Fitness Equipment	26,700	0	0	0	0	0	0
Hitchin & Letchworth Outdoor Pool Automatic Chemical Dosing Pumps	0	20,000	0	0	0	0	0
Ultra Violet water disinfection system	42,900	0	0	0	0	0	0
Leisure Condition Survey Enhancements	0	64,000	23,000	0	39,000	140,000	0
<b>Leisure Facilities Total</b>	<b>1,043,100</b>	<b>937,000</b>	<b>408,000</b>	<b>0</b>	<b>39,000</b>	<b>1,140,000</b>	<b>0</b>
<b>Museum &amp; Arts</b>							
Hitchin Town Hall Acoustic Panelling	0	30,000	0	0	0	0	0
Hitchin Town Hall Additional Bar Facility	0	15,000	0	0	0	0	0
Hitchin Town Hall Sprung Floor Replacement	0	75,000	0	0	0	0	0
NH Museum & Community Facility	105,900	0	0	0	0	0	0
Purchase of 14 & 15 Brand Street	550,000	0	0	0	0	0	0
<b>Museum &amp; Arts Total</b>	<b>655,900</b>	<b>120,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Parking</b>							
Hitchin Multi Storey Safety and Equalities Act improvements	0	39,300	0	0	0	0	0
Installation of trial on-street charging (GAF)	0	50,000	0	0	0	0	0
Lairage Multi-Storey Car Par - Structural wall repairs	4,000	120,000	0	0	0	0	0
Letchworth Multi_storey Car Park - parapet walls, soffit & decoration	0	137,600	0	0	0	0	0
Letchworth multi-storey car park - lighting	22,700	0	0	0	0	0	0
Off Street Car Parks resurfacing and enhancement	0	91,200	0	0	0	0	0
Parking	0	0	0	0	0	0	200,000
Refurbishment of lifts at Lairage Car Park	0	360,000	0	0	0	0	0
Replace and enhance lighting at St Mary's Car Park	0	60,000	0	0	0	0	0
Town Centre pay & display machines for on-street charging	0	235,000	0	0	0	0	0
<b>Parking Total</b>	<b>26,700</b>	<b>1,093,100</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>200,000</b>
<b>Renovation &amp; Reinstatement Grant Expenditure</b>							
Mandatory Disabled Facility Grants	300,000	0	0	0	0	0	0
Private Sector Grants	60,000	60,000	60,000	60,000	60,000	60,000	300,000
<b>Renovation &amp; Reinstatement Grant Expenditure Total</b>	<b>360,000</b>	<b>60,000</b>	<b>60,000</b>	<b>60,000</b>	<b>60,000</b>	<b>60,000</b>	<b>300,000</b>
<b>Waste collection</b>							
Food Waste Caddies	132,000	0	0	0	0	0	0
Waste and Street Cleansing Vehicles	3,600,000	0	0	0	0	0	0
<b>Waste collection Total</b>	<b>3,732,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Grand Total</b>	<b>7,211,000</b>	<b>8,213,300</b>	<b>962,000</b>	<b>379,000</b>	<b>549,000</b>	<b>1,200,000</b>	<b>2,695,000</b>

## Capital Investment Porposals

## Appendix A2

Ref No	Service	Responsible Service Director	Description of Proposal	Corporate Priority	Total Project Investment 2019/20 onwards	Total Anticipated Funding from Grants or Other Contributions	Proposed Investment in 2019/20	Proposed Investment in 2020/21	Proposed Investment in 2021/22	Proposed Investment in 2022/23	Proposed Investment in 2023/24	Revenue Implication	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation/Revenue Budget etc)
					£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Projects and / or values highlighted in yellow indicate new proposals or proposed revision(s) to existing proposals. Revision to existing proposals are clarified in the accompanying commentary.													
Invest To Save Proposals													
ECP3	Estates	Service Director - Resources	Provide housing at market rents.	Prosper & Protect	2,500	-	2,500	0	0	0	0	tbc	This project follows on from the revenue investment proposal that explores the feasibility. This is an "invest to earn" proposal to utilise NHDC capital and land to generate revenue income. Under this scheme, the land and properties would remain in NHDC ownership. Phase 1 (as dealt with by the revenue investment bid): form investment mechanism to own houses built for market rent. Phase 2: identify appropriate partnership model to achieve build and/or purchase. Phase 3: contract with a property management company. Phase 4: acquire/build properties. Phase 5 (beyond scope of this bid): identify other sites where this model could be applied. Planned investment in 2018/19 of £2.850million.
Sub-Total: Invest to Save:					2,500	-	2,500	-	-	-	-	-	
Other Asset Management													
Page 149 ECP4	Property Services	Service Director - Resources	Council property improvements following condition surveys	Attractive & Thriving	765	-	255	255	255	0	0	0	Condition surveys have been carried out on a substantial number of the Authority's premises (substantially consists of Community Centres and Pavilions). This bid relates to 29 of those premises which are not currently subject to separate plans or review. The surveys have identified necessary works within priority bands required to ensure the continued use of the premises and to maintain premises in a reasonable condition. Enhancement works of this nature will reduce reliance on reactive maintenance repairs. The level of 'backlog' maintenance is also proposed as a national performance indicator by Central Government. An amount of £150k was approved to undertake the urgent works in 2014/15, based upon surveys carried out to date. In following years a full 5 year programme will be applied, based upon completed condition surveys or the whole estate. this is complementary to the Community Halls strategy (CHS), although covers a larger number of properties than those subject to CHS, i.e., it puts in place funds to allow works to be done that may assist in progressing that strategy (e.g. full repairing/partial repair leases).  UPDATE CBP 2019/20: To help ensure that this project can be delivered in the timeframe estimated within the Capital Programme, it is requested that the £775k resource, originally earmarked entirely in 2019/20, instead be allotted over the next three years with an annual capital allocation of £255k (revised total investment of £765k).
Sub-Total: Other Asset Management					765	-	255	255	255	-	-	-	
Grants to Third Parties													
ECP1	Housing Services	Service Director - Regulatory	Private Sector Grants	Responsive & Efficient	240	-	60	60	60	60	60	0	HRAGs are a discretionary form of assistance specifically designed to provide practical help through a grant for small-scale works. This grant provides cash limited assistance up to £5K within any three-year period, for minor works for owner / occupiers and private tenants who meet certain criteria. HRAGs are means tested and help to eradicate CAT1 Hazards, such as excess cold. In February 2015 Council approved an increase in the level of funding from £35k to £60k per annum for 2015/6 and future years.  UPDATE 2019/20 CBP: Investment proposed to be extended to 2023/24
ECP5	Estates	Service Director - Resources	Refurbishment and improvement of community facilities	Responsive & Efficient	370	-	250	120	0	0	0	0	To provide a five year fund from 2016/17 towards the refurbishment and improvement of community facilities in both rural and urban areas of North Hertfordshire. £165k spend in 2017/18 and planned spend of £671k in 2018/19 means a total capital allocation of £1.206m
Sub-Total: Grants to Third Parties					610	-	310	180	60	60	60	-	

## Capital Investment Porposals

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					£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Parking Related Proposals													
ECP6	Property Services	Service Director - Resources	Lairage Multi-Storey Car Par - Structural wall repairs	Attractive & Thriving	120	-	120	0	0	0	0	0	Works to preserve this income generating asset in usable condition. Works necessary to protect surface following experience at Letchworth multi-storey.
Sub-Total: Parking					120	-	120	-	-	-	-	-	
Community and Cultural Related Proposals													
NCP1	Hitchin Town Hall Community Facility	Service Director - Commercialisation	Hitchin Town Hall Acoustic Panelling	Prosper & Protect	30	-	30	0	0	0	0	0	There has been heavy criticism in local publications over the sound quality and acoustics at Hitchin Town Hall. A sound engineer has been brought in to advise on the cost of introducing some tasteful acoustic panelling, which would allow the hall to become a much more appropriate venue for spoken word events.
NCP2	Hitchin Town Hall Community Facility	Service Director - Commercialisation	Additional Bar Facility at Hitchin Town Hall	Prosper & Protect	15	-	15	0	0	0	0	0	Hitchin Town Hall can host up to 350 people in its main hall. The bar area however is very small and only has two fridges. Service can therefore be slow during busy events, with the lack of fridge space meaning drinks are often not chilled due to the high rate of turnover. Whilst the turnover of stock in the fridges is high, this is only in the context of the fridge space available. It is highly likely that a faster service and more adequate chilling of the products should result in higher sales. If the Council invested in a second bar on the other side of the hall, additional till systems and more fridge space, there is every likelihood that a higher return could be achieved. Although two bars will require more staff, it is expected that any increased outlay on staff would be offset by the return of higher income at the bars. If we wish to position the venue as a go-to live entertainment venue then this sort of investment is necessary.
NCP3	Hitchin Town Hall Community Facility	Service Director - Commercialisation	Hitchin Town Hall Sprung Floor Replacement	Prosper & Protect	75	-	75	0	0	0	0	0	It has been reported to the Council that the Sprung Floor in the Mountford Hall at Hitchin Town Hall is coming to the end of its life. The sprung floor is one of very few in the local area and is a selling point of the Town Hall (which is grade ii listed). In the meantime, we can attempt to prolong the life of the flooring through replacing boards as and when they are damaged and through regular waxing we can create a protective layer. However this will incur increased operational expenses and it is not clear how long this will extend the life of the floor for. Additional investigations are hoped to be carried out this financial year to gain a clearer understanding of the remaining lifespan for the current floor boards.
Sub-Total: Community and Cultural					120	-	120	-	-	-	-	-	
Leisure Related Proposals													
NCP4	Leisure Facilities	Service Director - Place	Hitchin and Letchworth Outdoor Pool Automatic Chemical Dosing Pumps	Attractive & Thriving	20	-	20	0	0	0	0	0	Introducing the automatic dosing system at the outdoor pools will ensure the same pool water control mechanisms as in operation at the indoor swimming pools.
NCP5	Leisure Facilities	Service Director - Place	Leisure Condition Survey Enhancements	Attractive & Thriving	126	-	64	23	0	39	140	0	A physical condition survey has been carried out at all four leisure facilities. The survey identified all works that are needed and/ or will become necessary over the next five financial years.



## Capital Investment Proposals

## Appendix A2

Ref No	Service	Responsible Service Director	Description of Proposal	Corporate Priority	Total Project Investment 2019/20 onwards	Total Anticipated Funding from Grants or Other Contributions	Proposed Investment in 2019/20	Proposed Investment in 2020/21	Proposed Investment in 2021/22	Proposed Investment in 2022/23	Proposed Investment in 2023/24	Revenue Implication	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation/Revenue Budget etc)
					£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
ECP29	Leisure Facilities	Service Director - Place	Royston Leisure Centre extension	Attractive & Thriving	-	-	0	0	0	0	1,000	0	To extend the front of the Royston Leisure Centre. This will provide a new multi functional room and increase the size of the fitness room. The gym membership at Royston Leisure Centre is close to capacity and a recent latent demand survey demonstrated there is a demand to increase the size of this facility. By undertaking the capital work the Council will renegotiate the Leisure Management contract and SLL will increase their management fee to the Council.  UPDATE 2019/20 CBP: Proposed to earmark this investment in 2023/24.
Sub-Total: Leisure					146	-	84	23	-	39	1,140	-	
Green Space Strategy - Baldock													
ECP22	Parks & Countryside Development	Service Director - Place	Replace items of play equipment Holroyd Cres, Baldock	Responsive & Efficient	10	-	0	10	0	0	0	0	Listed as a project for 2020/21 in the Council's adopted Green Space Management Strategy 2017 - 2021. Holroyd Cres is a large play area serving a large housing development. Some items of equipment have been identified as nearing end of life and in need of replacement.
Sub-Total: Green Space Strategy - Baldock:					10	-	-	10	-	-	-	-	
Green Space Strategy - Hitchin													
ECP14	Parks & Countryside Development	Service Director - Place	Renovate play area King George V Recreation Ground, Hitchin	Responsive & Efficient	75	-	75	0	0	0	0	0	Listed as a project for 2019/20 in the Council's adopted Green Space Management Strategy 2017 - 2021. The play area King George V Recreation Ground is one of the main neighbourhood play areas in Hitchin, serving a large housing estate. The play area is in need of refurbishment.
ECP25	Parks & Countryside Development	Service Director - Place	Walsworth Common Pavilion - contribution to scheme	Attractive & Thriving	300	287	0	300	0	0	0	0	This project was originally listed as a project for 2016/17 in the Council's adopted Green Space Management Strategy 2014 - 2019. The project was slipped into 2017/18 pending the outcome of the Green Space Strategy review. Following the review, this project is now earmarked for 2020/21 in the Council's adopted Green Space Management Strategy 2017 - 2021. The project is dependent on securing section 106 contributions and/or external grants. In the review, the pavilion was identified as being beyond economic repair.
Sub-Total: Green Space Strategy - Hitchin:					375	287	75	300	-	-	-	-	
Green Space Strategy - Letchworth													
ECP15	Parks & Countryside Development	Service Director - Place	Replace items of play equipment Wilbury Recreation Ground, Letchworth	Responsive & Efficient	10	-	10	0	0	0	0	0	Listed as a project for 2019/20 in the Council's adopted Green Space Management Strategy 2017 - 2021. The recreation ground has a good catchment area with a range of equipment for all ages. Some items of equipment are however nearing end of life and in need of replacement.
ECP21	Parks & Countryside Development	Service Director - Place	Renovate play area Howard Park, Letchworth	Responsive & Efficient	75	-	0	75	0	0	0	0	Listed as a project for 2020/21 in the Council's adopted Green Space Management Strategy 2017 - 2021. Situated in a town centre location, the high level of usage causes wear on equipment.
Sub-Total: Green Space Strategy - Letchworth:					85	-	10	75	-	-	-	-	
IT Schemes:													
ECP20	IT	Service Director - Customers	Core Backbone Switch	Responsive & Efficient	20	-	20	0	0	0	0	0	Dual processor switch, which links the virtual servers to the SAN.
ECP2	IT	Service Director - Customers	PC's - Refresh Programme	Responsive & Efficient	51	-	17	17	17	0	0	0	PC's identified as having reached their end of useful life as part of the annual refresh programme. The assets have been used well past their original end of life because of the introduction of the citrix thin client technology.

## Capital Investment Porposals

## Appendix A2

Ref No	Service	Responsible Service Director	Description of Proposal	Corporate Priority	Total Project Investment 2019/20 onwards	Total Anticipated Funding from Grants or Other Contributions	Proposed Investment in 2019/20	Proposed Investment in 2020/21	Proposed Investment in 2021/22	Proposed Investment in 2022/23	Proposed Investment in 2023/24	Revenue Implication	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation/Revenue Budget etc)
					£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
ECP9	IT	Service Director - Customers	Tablets - Android Devices	Responsive & Efficient	41	-	14	12	15	0	0	0	<p>As part of the IT Strategy and supporting the channel migration programme, the tablets are required to continue the roll-out to identified officers who would benefit from having mobile devices to be more efficient and productive. It is becoming increasingly important for those staff who are mobile working that they have the correct tools to view emails and documents whilst on the move.</p> <p>UPDATE CBP 2019/20: To facilitate paperless Committee Meetings, it is requested that existing provision of £8k in each of the next three financial years be increased to £14k in 2019/20, £12K in 2020/2021 and £15K in 2021/2022.</p>
ECP28	IT	Service Director - Customers	Security - Firewalls	Responsive & Efficient	14	-	0	0	14	0	0	0	<p>Firewalls are one of the most important pieces of hardware between the NHDC Network and the outside world and it is this equipment that stops cyber attacks from penetrating NHDC systems and data. There is a need to ensure this hardware is kept as current and up to date as possible to ensure the Council's networks and data are kept secure.</p>
ECP27	IT	Service Director - Customers	Cabinet Switches - 4 Floors	Responsive & Efficient	18	-	0	0	18	0	0	0	<p>This hardware connects each floor across the DCO to each other and back to the IT Data Centre on the ground floor. This hardware is the essential piece of kit that routes the traffic from desktops to the data servers and hence keeping this technology up to date and modern is essential to ensure data speeds are maintained.</p>
ECP10	IT	Service Director - Customers	Dell Servers	Responsive & Efficient	65	-	65	0	0	0	0	0	<p>In 2015/16 the authority upgraded the Server Estate with 10 Physical high level Dell Servers which have 179 virtual servers running within them. The hardware has a 5 year shelf life before coming unsupported.</p>
ECP11	IT	Service Director - Customers	New Blade Enclosure	Responsive & Efficient	32	-	32	0	0	0	0	0	<p>The Blades are an integral part of the Servers and go hand in hand. These formed part of the hardware refresh programme in 2015/16 and have a shelf life of 5 years.</p>
ECP12	IT	Service Director - Customers	Replacement SAN	Responsive & Efficient	110	-	110	0	0	0	0	0	<p>The Storage Area Network (SAN) is used to compliment the data storage and backups across the infrastructure estate. These are a critical element of the data infrastructure network as they also move the data traffic around the servers. The authority replaced the current SAN in 2015/16 and the life of this hardware is 5 years.</p>
ECP13	IT	Service Director - Customers	Back-up Diesel 40 KVA Generator (DCO)	Responsive & Efficient	20	-	20	0	0	0	0	0	<p>As part of Business Continuity and improving services, the authority purchased a Diesel Generator in 2015/16. The operation life of this hardware is 5 years.</p>
ECP16	IT	Service Director - Customers	40 KVA UPS Device or Battery Replacement	Responsive & Efficient	7	-	7	0	0	0	0	0	<p>The operation life of the batteries within the UPS Systems is 3 years and they need to be replaced. The authority has got 3 40 KVA UPS Systems which have varying battery sizes installed.</p>
ECP17	IT	Service Director - Customers	Additional PC's - Support Home Working/OAP	Responsive & Efficient	13	-	13	0	0	0	0	0	<p>The authority has a large PC/Monitor estate which as part of the ICT Service Plan annual requires refreshing. In recent years Microsoft stopped supporting Windows XP and we are soon to be given notice of de-support on Windows 7.</p>
ECP26	IT	Service Director - Customers	Laptops - Refresh Programme	Responsive & Efficient	6	-	0	6	0	0	0	0	<p>Over the past 3 years IT have reduced the laptop estate from 149 devices down to only having 48 still in use. The small budget provision is to ensure we have funds to replace these devices when Windows 7 becomes de-supported or they have reached their end of life as part of the refresh programme.</p>

Capital Investment Porposals

Appendix A2

Ref No	Service	Responsible Service Director	Description of Proposal	Corporate Priority	Total Project Investment 2019/20 onwards	Total Anticipated Funding from Grants or Other Contributions	Proposed Investment in 2019/20	Proposed Investment in 2020/21	Proposed Investment in 2021/22	Proposed Investment in 2022/23	Proposed Investment in 2023/24	Revenue Implication	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation/Revenue Budget etc)
					£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
ECP7	IT	Service Director - Customers	Additional Storage	Responsive & Efficient	13	-	13	0	0	0	0	0	As part of the day to day collection and storage of data within the Information@Works (I@W) which is the Corporate Document Management solution, the amount of data that is being scanned and captured via the Doc's on-line contract provided by Northgate is increasing by the day. There has been a huge push over the past year to work towards enabling every department to have access to I@W as this compliments Home Working.
ECP8	IT	Service Director - Customers	Disaster Recovery Set-up	Responsive & Efficient	25	-	25	0	0	0	0	0	Back in late 2016 NHDC launched its own Disaster Recovery Data Centre and this budget is requested to ensure we keep the hardware and security up to date to ensure it is fit for purpose and secure from cyber attacks.
ECP18	IT	Service Director - Customers	Alternative to safeword tokens for staff/members working remotely	Responsive & Efficient	8	-	8	0	0	0	0	0	The technology has changed considerably since we first starting using the Safeword Tokens 7-8 years ago. With the changes in personal technology such as Smart/IOS Phones there are now products on the market that are PSN approved for getting Access Keys delivered for 2 Layer Authentication such as Texts or App's on Smart Phones etc. This enables Members, Staff and Support Agencies to gain access to the remote login site from anywhere with no need to have a physical hardware device to hand
ECP19	IT	Service Director - Customers	Microsoft Enterprise Agreement	Responsive & Efficient	808	-	358	0	0	450	0	0	NHDC entered into a 3 year Contract for the use of Microsoft Licences for which 2018/19 represents year 3 of 3. There is the option within the contract to extend by a further 2 years. It is essential NHDC has the correct Microsoft Licences to ensure we do not fall foul of F.A.S.T (Fraud Against Software Threat) regulations.  UPDATE CBP 2019/20 : The option of extending the original 3 year contract by two years is no longer available. Microsoft are offering authorities, including NHDC, where their contract expires early next year, an early commitment price of £112k per annum in year 1 (£123k per annum in years 2 and 3), which includes all licences required to ensure there is no breach of any F.A.S.T rules. The new three year contract will still start from 1st April 2019. It is therefore requested that the capital provision in 2019/20 by increased by £158k to a total of £358k and that the original £450k capital allocation in 2021/22 now be earmarked in 2022/23.
ECP23	IT	Service Director - Customers	Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract	Responsive & Efficient	39	-	0	39	0	0	0	0	Replacement of the current Cygnia Web Filtering (Bloxx) Software Solution and Clearswift Email Secure Gateway Software Solution. This contract for the software licenses is due for renewal in July 2020.
ECP24	IT	Service Director - Customers	Email Encryption Software Solution	Responsive & Efficient	45	-	0	45	0	0	0	0	Replacement of the Egress Email Encryption Software Solution, which was on a 3 year contract. North Herts have been using the Egress Email Encryption solution to ensure any Data above the protective marker of restricted is encrypted before leaving the Email Exchange Solution. The current three year software contract expires on the 31 March 2020.
Sub-Total: IT					1,335	-	702	119	64	450	-	-	
TOTAL					6,066	287	4,176	962	379	549	1,200	0	

TOTAL CONSISTS OF:													
PROPOSALS ALREADY IN THE CAPITAL PROGRAMME:					5,800	287	3,972	939	379	510	1,060	0	
NEW PROPOSALS IN THE 2019/20 PROCESS					266	0	204	23	0	39	140	0	
Reprofiling reported to Cabinet in the 2nd Qrt monitoring report					0	0	4,037	0	0	0	0	0	
TOTAL CONSISTS OF:					6,066	287	8,213	962	379	549	1,200	0	

These totals exclude those capital projects planned to complete in 2018/19.

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