

NORTH HERTFORDSHIRE DISTRICT COUNCIL



23 May 2019

Our Ref Finance, Audit and Risk
Committee

Your Ref.

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To: Members of the Committee: Councillors Kate Aspinwall (Chairman), Sam North (Vice-Chairman), Steve Deakin-Davies, Morgan Derbyshire, Steve Jarvis, Kay Tart and Michael Weeks

Substitutes: Councillors: Sam Collins, George Davies, Ian Moody and Adem Ruggiero-Cakir

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, 3RD JUNE, 2019 AT 7.30 PM

****MEMBERS PLEASE ENSURE THAT YOU DOWNLOAD ALL
AGENDAS AND REPORTS VIA THE MOD.GOV APPLICATION
ON YOUR TABLET BEFORE ATTENDING THE MEETING****

Yours sincerely,

Jeanette Thompson
Service Director – Legal and Community

Agenda **Part I**

Item	Page
1. APOLOGIES FOR ABSENCE	
2. MINUTES - 21 MARCH 2019 To take as read and approve as a true record the minutes of the meeting of this Committee held on the 21 March 2019.	(Pages 5 - 14)
3. NOTIFICATION OF OTHER BUSINESS Members should notify the Chairman of other business which they wish to be discussed by the Committee at the end of the business set out in the agenda. They must state the circumstances which they consider justify the business being considered as a matter of urgency. The Chairman will decide whether any item(s) raised will be considered.	
4. CHAIRMAN'S ANNOUNCEMENTS Members are reminded that any declarations of interest in respect of any business set out in the agenda, should be declared as either a Disclosable Pecuniary Interest or Declarable Interest and are required to notify the Chairman of the nature of any interest declared at the commencement of the relevant item on the agenda. Members declaring a Disclosable Pecuniary Interest must withdraw from the meeting for the duration of the item. Members declaring a Declarable Interest, 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.	
5. PUBLIC PARTICIPATION To receive petitions and presentations from members of the public.	
6. SIAS ANNUAL ASSURANCE OPINION AND ANNUAL REPORT REPORT OF THE SHARED INTERNAL AUDIT SERVICE To receive the Annual Assurance Opinion and Annual Report.	(Pages 15 - 38)
7. SIAS PROGRESS REPORT REPORT OF THE SHARED INTERNAL AUDIT SERVICE To receive the Progress Report.	(Pages 39 - 54)
8. DRAFT ANNUAL GOVERNANCE STATEMENT REPORT OF THE POLICY AND COMMUNITY ENGAGEMENT MANAGER For the Finance, Audit & Risk Committee to review the draft Annual Governance Statement (AGS) including Action Plan for the year 2018/19.	(Pages 55 - 68)

- 9. FINANCE, AUDIT AND RISK ANNUAL REPORT** (Pages
REPORT OF THE SERVICE DIRECTOR – RESOURCES 69 - 74)
- To receive the Finance, Audit and Risk Annual Report.
- 10. REVENUE BUDGET OUTTURN 2018/19** (Pages
REPORT OF THE SERVICE DIRECTOR – RESOURCES 75 - 90)
- To consider the summary position on General Fund income and expenditure as at the end of the financial year 2018/19.
- 11. CAPITAL PROGRAMME OUTTURN 2018/19** (Pages
REPORT OF THE SERVICE DIRECTOR – RESOURCES 91 - 110)
- To consider the Capital Programme Outturn 2018/19.
- 12. ANNUAL TREASURY MANAGEMENT REVIEW 2018/19** (Pages
REPORT OF THE SERVICE DIRECTOR – RESOURCES 111 -
126)
- To consider the Annual Treasury Management Review 2018/2019.
- 13. FUTURE MEETINGS - POSSIBLE AGENDA ITEMS**
Introduced by the Chairman.

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Public Document Pack 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 THURSDAY, 21ST MARCH, 2019 AT 7.30 PM

MINUTES

Present: *Councillors Terry Hone (Chairman), Simon Harwood (Vice-Chairman), Kate Aspinwall, Jim McNally and Helen Oliver (In place of Ian Albert)*

In Attendance: *Ian Couper (Service Director - Resources), Antonio Ciampa (Accountancy Manager) and Hilary Dineen (Committee, Member and Scrutiny Manager)*

68 APOLOGIES FOR ABSENCE

Audio Recording – Start of Item – 10 seconds

Apologies for absence were received from Councillors Ian Albert, Ian Moody and Terry Tyler.

Having given due notice Councillor Helen Oliver advised that she would be substituting for Councillor Ian Albert.

69 MINUTES - 28 JANUARY 2019

Audio Recording – Start of Item – 35 seconds

The Chairman allowed time for the Minutes of the meeting held on 28 January 2019 to be read.

It was noted that at Minute 63 - External Audit Plan Councillor Oliver's name had been used throughout instead of Kay Storey, Ernst and Young

RESOLVED:

- (1) That, subject to the changes below regarding Minute 63, the Minutes of the Meeting of the Committee held on 28 January 2019 be approved as a true record of the proceedings and be signed by the Chairman.
- (2) That, in respect of (1) above Kay Storey, Ernst and Young replace all mention of Councillor Helen Oliver.

70 NOTIFICATION OF OTHER BUSINESS

Audio Recording – Start of Item – 2 minutes 56 seconds

There was no other business notified.

71 CHAIRMAN'S ANNOUNCEMENTS

- (1) The Chairman advised that members of the public and the press may use their devices to film/photograph, or do a sound recording of the meeting. He asked that flash not be used and that any beeps or other sound notifications that may emit from devices be disabled.
- (2) The Chairman advised that the meeting was being audio recorded.
- (3) 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 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, wishing 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.

72 PUBLIC PARTICIPATION

Audio Recording – Start of Item – 4 minutes 4 seconds

There were no presentations by members of the public.

73 NHDC SIAS PROGRESS REPORT - MARCH 2019

Audio Recording – Start of Item – 4 minutes 10 seconds

The Head of Shared Internal Audit Service advised that the Client Audit Manager offered his apologies for not being able to attend this meeting.

The Head of Shared Internal Audit Service presented the report entitled NHDC SIAS Progress Report – March 2019 and drew attention to the following:

Paragraph 2.4 – High Priority Recommendations

There was one new high priority recommendation as a consequence of the work undertaken in the audits. This related to the Museum Services, details were in Appendix B.

Paragraph 2.5

There were no proposed amendments to the Annual Audit Plan.

The following Members took part in the debate or asked questions:

- Councillor Simon Harwood

In response to questions the Service Director – Resources advised that, in respect of King George V Playing fields, the audit undertaken was of the accounts only. If there were concerns about any other aspect, Members should discuss them with the Officers.

In respect of Museum storage, all storage requirements both current and future were to be considered in response to the audit recommendation.

The Head of SIAS advised that high priority items would be followed up by his team and reported back to this Committee.

RESOLVED:

- (1) That the Internal Audit Progress Report for the period to 1 March 2019 be noted;
- (2) That the proposed amendments to the 2018/19 Annual Audit Plan be noted;
- (3) That the implementation status of high priority recommendations be noted.

REASON FOR DECISION: To enable the Finance, Audit and Risk Committee to consider the report entitled NHDC SIAS Progress Report.

74 NHDC SIAS 2019-20 INTERNAL AUDIT PLAN REPORT - MARCH 2019

Audio Recording – Start of Item – 10 minutes 24 seconds

The Head of Shared Internal Audit Service presented the report entitled NHDC SIAS 2019-20 Internal Audit Plan Report.

He advised that this report dealt with the process regarding audit planning and drew attention to the following:

Paragraph 1.1 of the report should read:

“To provide Members with the proposed North Herts District Council (the Council) 2019/20 Internal Audit Plan.

- In line with good practice this had been shared with the Finance, Audit and Risk Committee Chairman;
- The number of audit days had been reduced from 360 to 340 ;
- The Plan is based on identifying key issues from SIAS knowledge and discussions with Service Directors;
- External Audit no longer place reliance on Internal Audit work, which changes the scope of Key Financial System audits and reduces the number of days;
- Key performance indicators were detailed in Paragraph 3.3 of the report;
- The proposed NHDC audit plan 2019/20 was presented as Appendix A. It detailed the owner and where the audit was initiated.
- The reserve list was presented at Appendix B
- Appendix C – audit start dates agreed with management.

The following Members took part in the debate or asked questions:

- Councillor Terry Hone;
- Councillor Simon Harwood

In response to question the Head of Shared Internal Audit Service advised:

- A 10 percent reduction in the number of days had been agreed for all partners in 2018/19 (400 days down to 360 days), with further reductions in following years;
- 300 days was generally considered the right level for Councils the size of NHDC however it was for the Authority to judge the level needed;

The Service Director – Resources advised:

- That if the number of days was reduced, there was a saving for NHDC. This had been agreed by Full Council and was reflected in the budget;
- The number of days must be appropriate to balance risks;
- The number of days was reducing over time;
- In respect of Trade Waste there were plans to consider how to work better with East Herts District Council and this would be audited in quarter 3 2019/20

RESOLVED: That the proposed North Herts District Council Internal Audit Plan for 2019/20 be approved.

REASON FOR DECISION: To enable the Finance, Audit and Risk Committee to consider the report entitled NHDC SIAS 2019-20 internal audit plan report.

75 SHARED ANTI-FRAUD SERVICE (SAFS) - SAFS/NHDC ANTI-FRAUD ACTION PLAN

Audio Recording – Start of Item – 22 minutes 17 seconds

The Assistant Manager, Shared Internal Audit Service advised that the Head of Counter Fraud offered his apologies for not being able to attend this meeting.

The Assistant Manager, Shared Anti Fraud Service presented the report entitled Shared Anti-Fraud Service (SAFS) - SAFS/NHDC Anti-Fraud Action Plan and drew attention to the following:

- The Plan had been reviewed by senior officers;
- The Plan, attached at Appendix B explained the risks and threats;
- A Councillor Workbook on Bribery and Fraud Prevention was attached at Appendix A;
- The Plan at Appendix B set detailed the principals and set out the goals;
- The Key Performance Indicators for 2019/2020 were set out in Appendix B.

The following Members took part in the debate or asked questions:

- Councillor Simon Harwood;
- Councillor Kate Aspinwall;
- Councillor Jim McNally;
- Councillor Helen Oliver.

In response to questions the Assistant Manager SAFS advised:

- That Authorities were very different and therefore was difficult to compare requirements and performance;
- That in respect of data release, the Housing Team had tools that they could use to determine when it should be used. The data can also be used to assist an applicant;
- That most training was regarding new methods of working and new staff.

The Service Director – Resources advised that training would be offered as appropriate.

Members agreed that the Bribery and Fraud Protection Workbook should be circulated to all Members and included in the New Councillor Induction Pack.

In respect of training Members asked that KPI 4D be amended to read:

“5 targeted Fraud training events for staff/Members in year”.

RESOLVED:

- (1) That the SAFS/NHDC Anti-Fraud Plan 2019/2020 be approved;
- (2) That the LGA Councillors Workbook on Fraud and Bribery Prevention 2017 be circulated to all Members and included in the New Councillor Induction Pack;
- (3) That Key Performance Indicator 4D be amended to read:
“5 targeted Fraud training events for staff/Members in year”.

REASON FOR DECISION: To enable the Finance, Audit and Risk Committee to consider the report entitled Shared Anti-Fraud Service (SAFS) - SAFS/NHDC Anti-Fraud Action Plan.

76 LOCAL CODE OF GOVERNANCE STATEMENT (AGS) ACTION PLAN (2017/18) UPDATE

Audio Recording – Start of Item – 48 minutes 37 seconds

The Senior Communities Officer presented the report entitled Local Code of Corporate Governance and Annual Governance Statement Actions (Plan 2017/18) Update and drew attention to the following:

- It was recommended good practice for the Local Code of Corporate Governance to be reviewed annually’
- The Code was last updated in March 2017;
- If the Code is approved by this Committee, it would be placed on the NHDC Corporate Governance internet page and be provided to Members through the MIS process and to employees via the Insight monthly staff briefing;
- The 7 framework principals for governance were detailed in Appendix A
- The Action Plan at Appendix B showed that 10 actions had been completed and 5 remained outstanding.

The following Members took part in the debate or asked questions:

- Councillor Jim McNally;
- Councillor Simon Harwood;
- Councillor Terry Hone.

In response to questions the Senior Policy Officer advised that he would investigate why 27 Members were not detailed as registered as Data Controllers and inform the Committee of his findings;

It was noted that Recommendation 2.1 was ambiguous and therefore should read:
“That the Committee approves the Local Code of Corporate Governance 2018/19 (Appendix A)”

RESOLVED:

- (1) That the Local Code of Corporate Governance 2018/19 (Appendix A) be approved;
- (2) That the current position with the AGS Action Plan (Appendix B) be noted;
- (3) That the Senior Policy Officer be requested to investigate why 27 Members were not detailed in the report as registered as Data Controllers and inform the Committee of his findings.

REASONS FOR DECISION:

- (1) It is recommended practice to review the Local Code of Corporate Governance each year to ensure it remains up to date and relevant;
- (2) Reviewing the AGS Action Plan during 2018/19 provides the Committee with assurances that NHDC is following through with recommended changes and/or improvements to its governance arrangements.

77 RISK AND OPPORTUNITIES MANAGEMENT UPDATE

Audio Recording – Start of Item – 59 minutes 50 seconds

The Service Director – Resources presented the report entitled Risk Management Update and drew attention to the following:

- Risks were reviewed on a quarterly basis by the Risk Management Group;
- It was proposed that the risk score regarding Hitchin Town Hall be reduced from a 9 to a 3. This was to reflect completion of the purchase of 14 and 15 Brand Street and the fact that the rest of the project was now under full NHDC control;
- A new Corporate risk was proposed for Brexit, as detailed at Appendix B. The proposed score for this risk was 9 to reflect the current level of uncertainty.

Detailed debate was undertaken in respect of the new risk for Brexit. The following Members took part:

- Councillor Simon Harwood;
- Councillor Helen Oliver;
- Councillor Kate Aspinwall;
- Councillor Terry Hone;
- Councillor Julian Cunningham (at the invitation of the Chairman).

The Service Director – Resources advised that they were looking at all of the potential implications and would be taking proportionate actions based on likelihood and potential impact.

He advised that, at the moment NHDC did not have any EU funding, but it had to be noted that a proportion of LEP funds were from EU grants.

RESOLVED: That the Committee note the changes to the Corporate risks for the Quarter.

RECOMMENDED TO CABINET: That Cabinet approve the changes to the Corporate risks for the Quarter namely:

- North Hertfordshire Museum and Hitchin Town Hall Project to be reduced from a 9 to a 3 on the risk matrix.
- New Brexit Corporate risk to be introduced with a score of 9 on the risk matrix.

REASON FOR DECISION:

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

78 THIRD QUARTER REVENUE MONITORING 2018/19

Audio Recording – Start of Item – 1 hour 19 minutes 14 seconds

The Accountancy Manager presented the substantive and addendum reports entitled Third Quarter Revenue Monitoring 2018/19 and drew attention to the following:

- The forecast was for a £211k decrease in the revenue budget, with an ongoing impact of a £25k increase in expenditure and which includes the request to carry forward £87k of budget from 2018/19 to 2019/20;
- Table 3 itemised the more significant variances to the forecast;
- Paragraph 1.3 (should be 8.4), page 116 gave details of carry forward budgets;
- Paragraph 1.4, page 117 (should be 8.5) detailed the 4 key corporate 'financial health' indicators;
- Table 5 (page 118) detailed the General Fund impact;
- Table 6 (page 119) gave details of the Known financial risks.

The following Members took part in the debate or asked questions:

- Councillor Terry Hone;
- Councillor Helen Oliver;
- Councillor Simon Harwood;
- Councillor Kate Aspinwall.

In response to questions the Service Director – Resources advised that:

- A consultant had given a quote regarding their fee for a Planning Appeal in relation to the proposed Crematorium, which confirmed that the Council has a good basis for an appeal;
- The vacancy control reflected the natural time taken to fill vacancy rather than a budget saving mechanism. It was for managers to decide how to cover their service.

Members were concerned that vacancy control should be reflected in the HR implications of the report.

RESOLVED: That the Service Director - Resources be requested to ensure that where there is a vacancy control target, HR implications are stated.

RECOMMENDED TO CABINET:

- (1) That Cabinet note the substantive and addendum reports;
- (2) That Cabinet approves the changes to the 2018/19 General Fund budget, as identified in table 3 and paragraph 8.2, a £211k decrease in net expenditure;
- (3) That Cabinet approves the changes to the 2019/20 General Fund budget, as identified in table 3 of the substantive report and paragraph 8.3 of the addendum report, a £25k increase in net expenditure.

REASON FOR DECISION: Members are able to monitor, make adjustments within the overall budgetary framework and request appropriate action of Services who do not meet the budget targets set as part of the Corporate Business Planning process.

79 THIRD QUARTER CAPITAL MONITORING 2018/19

Audio Recording – start of Item – 1 hour 32 minutes 14 seconds

The Accountancy Manager presented the report entitled Third Quarter Capital Monitoring 2018/19 and drew attention to the following:

- The current estimate was a decrease in spend in 2018/19 of £0.475million and an increase in spend in future years of £0.466 million.
- Table 2 itemised and explained the more significant changes:

RECOMMENDED TO CABINET:

- (1) That Cabinet notes the forecast expenditure of **£6.736million** in 2018/19 on the capital programme, paragraph 8.2 refers, and approves the adjustments detailed in table 3 which result in a net decrease on the working estimate of **£0.022million**;
- (2) That Cabinet approves the adjustments to the capital programme for 2018/19 onwards as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in future years 2019/20 by **£0.466million**;
- (3) That Cabinet notes the position of the availability of capital resources, as detailed in table 4, and the requirement to keep the capital programme under review for affordability.

REASONS FOR RECOMMENDATIONS

- (1) Cabinet is required to approve revisions to the capital programme;

Cabinet is required to ensure that the capital programme is fully funded.

80 TREASURY MANAGEMENT THIRD QUARTER 2018/19

Audio Recording – Start of Item – 1 hour 34 minutes 5 seconds

The Service Director –Resources presented the report entitled Treasury Management Third Quarter 2018/19 and drew attention to the following:

- That NHDC operated under the current Treasury Management Strategy for the last quarter;
- Due to the delays in Capital spend there had been additional funds available to invest, therefore the income from these investments was increased.

Members noted that the new Treasury Management Strategy would commence on 1 April 2019.

RECOMMENDED TO CABINET: That Cabinet note the position of Treasury Management activity as at the end of December 2018.

REASON FOR DECISION: To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

81 FUTURE MEETINGS - POSSIBLE AGENDA ITEMS

No discussion took place regarding future meetings

82 THE ROLE OF THE EXECUTIVE MEMBER AND THANKS

Audio Recording – Start of Item – 1 hour 35 minutes 43 seconds

A discussion was held regarding the role of the Executive Member when attending the Finance, Audit and Risk Committee meetings.

The Chairman advised that the Committee had statutory functions and had a role to hold the Executive to account and therefore it was not appropriate for the Executive Member to sit on the Committee.

The Service Director – Resources advised that audit was a statutory duty that sat outside of the Executive.

The Chairman thanked the Members of the Committee for their work over the last 12 months.

The meeting closed at 9.10 pm

Chairman

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North Herts District Council
2018/19 Annual Assurance Statement
and
Internal Audit Annual Report

3 June 2019

Recommendations

Members are recommended to:

Note the Annual Assurance Statement and Internal Audit Annual Report

Note the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP)

Accept the SIAS Audit Charter

Seek management assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2018/19

Contents

1. Purpose and Background
 - 1.1 Purpose
 - 1.2 Background
2. Annual Assurance Statement for 2018/19
 - 2.1 Scope of Responsibility
 - 2.2 Control Environment
 - 2.4 Review of Effectiveness - compliance with the PSIAS and QAIP
 - 2.10 Confirmation of independence of internal audit and assurance on limitations
 - 2.11 Assurance Opinion on Internal Control
 - 2.12 Assurance Opinion on Corporate Governance and Risk Management
3. Overview of Internal Audit Activity at the Council in 2018/19
4. Performance of the Internal Audit Service in 2018/19
 - 4.1 Performance Indicators
 - 4.2 Service Developments
5. Audit Charter 2019/20

Appendices

- A Final position against the Council's 2018/19 Audit Plan
- B Definitions of Assurance Levels and Priority of Recommendations
- C Position against Public Sector Internal Audit Standards as at May 2019
- D Internal Audit Charter 2019/20

1. Purpose and Background

Purpose of Report

1.1 This report:

- Details the Shared Internal Audit Service's (SIAS) overall opinion on the adequacy and effectiveness of North Herts District Council's (the Council) control environment. Reference is made to significant matters and key themes.
- Summarises the audit work that informs this opinion.
- Shows the outcomes of the self-assessment against the Public Sector Internal Audit standards (PSIAS) incorporating the requirements of the Quality Assurance and Improvement Programme (QAIP).
- Shows SIAS's performance in respect of delivering the Council's audit plan.
- Presents the 2019/20 Audit Charter.

Background

- 1.2 A key duty of the Head of Assurance is to provide an annual opinion on the Council's internal control environment. This opinion informs the conclusions of the Council's Annual Governance Statement.
- 1.3 The assurance opinion in this report is based on 2018/19 internal audit work which was planned and amended to give sufficient assurance on the Council's management of its key risks.
- 1.4 SIAS is grateful for the co-operation and support it has received from client officers during 2018/19.

2. Annual Assurance Statement 2018/19

Context

Scope of Responsibility

- 2.1 Council managers are responsible for ensuring Council business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. They are also responsible for ensuring internal controls are robust and risk management arrangements are appropriate.

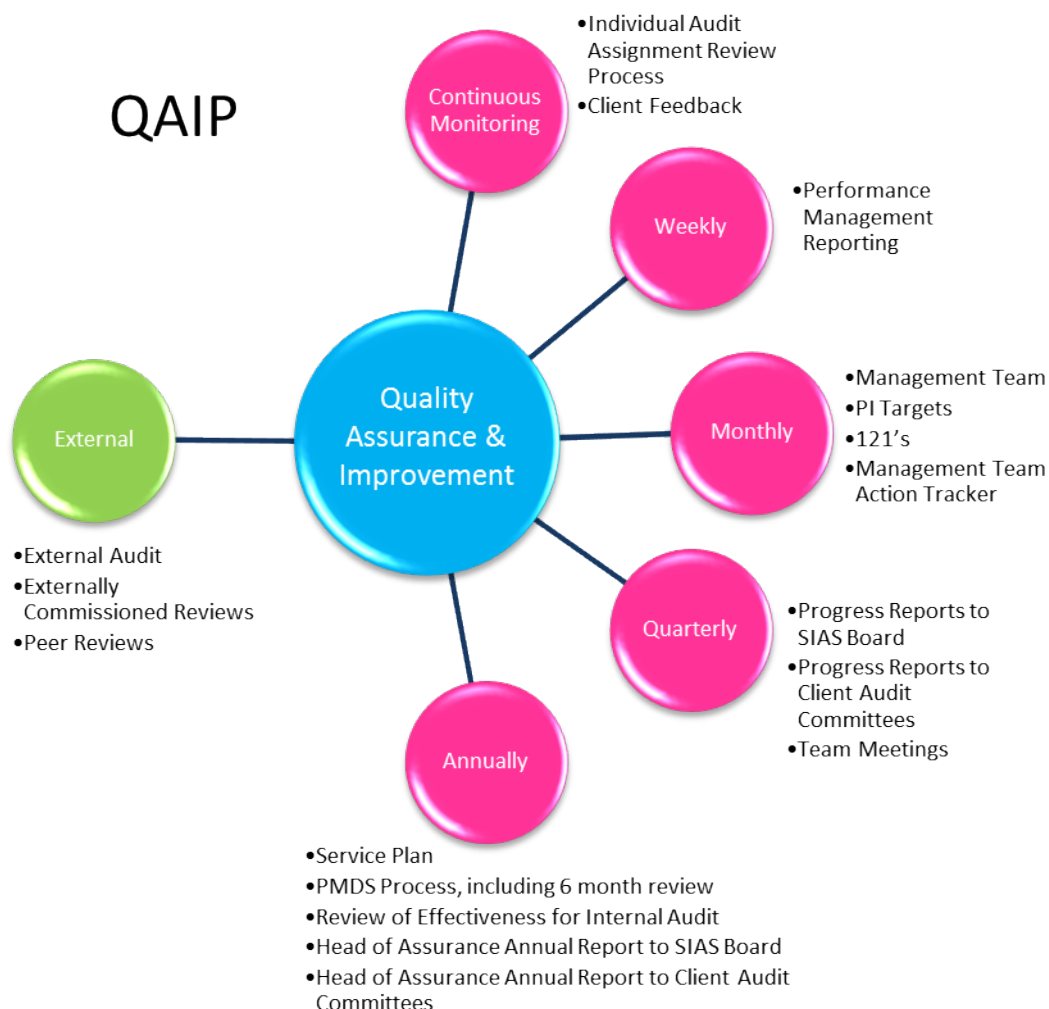
Control Environment

- 2.2 The control environment comprises three key areas: internal control, governance, and risk management. Together these aim to manage risk to an acceptable level but not to eliminate it.

- 2.3 A robust control environment helps ensure that the Council's policies, priorities and objectives are achieved.

Review of Effectiveness

- 2.4 The Head of Assurance must confirm annually that the internal audit function is suitably qualified to carry out the work that informs the assurance opinion.
- 2.5 As part of a QAIP, a self-assessment was conducted against the Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF). They promote professionalism, quality, consistency and effectiveness of internal audit across the public sector. They highlight the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances needed to support them in both managing the organisation and producing the Annual Governance Statement.
- 2.6 The 2018/19 self-assessment identified 2 areas of agreed non-conformance. These are detailed in Appendix A. There are no significant deviations from Standards which warrant inclusion in the Council's Annual Governance Statement.
- 2.7 The Head of Assurance has concluded, therefore, that SIAS 'generally conforms' to the PSIAS, including the Definitions of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. 'Generally conforms' is the highest rating and means that SIAS has a charter, policies and processes assessed as conformant to the Standards and is consequently effective.
- 2.8 The SIAS QAIP includes both internal and external monitoring and reporting to assess the efficiency and effectiveness of internal audit activity and identify opportunities for improvement. The diagram below details the methods used to monitor and report on these. Detailed information outlining activity in each area is contained in the SIAS Audit Manual.
- 2.9 The Head of Assurance confirms that during 2018/19 SIAS operated according to its QAIP with evidence available within the service to support the achievement of each QAIP element.



Confirmation of independence of internal audit and assurance on limitations

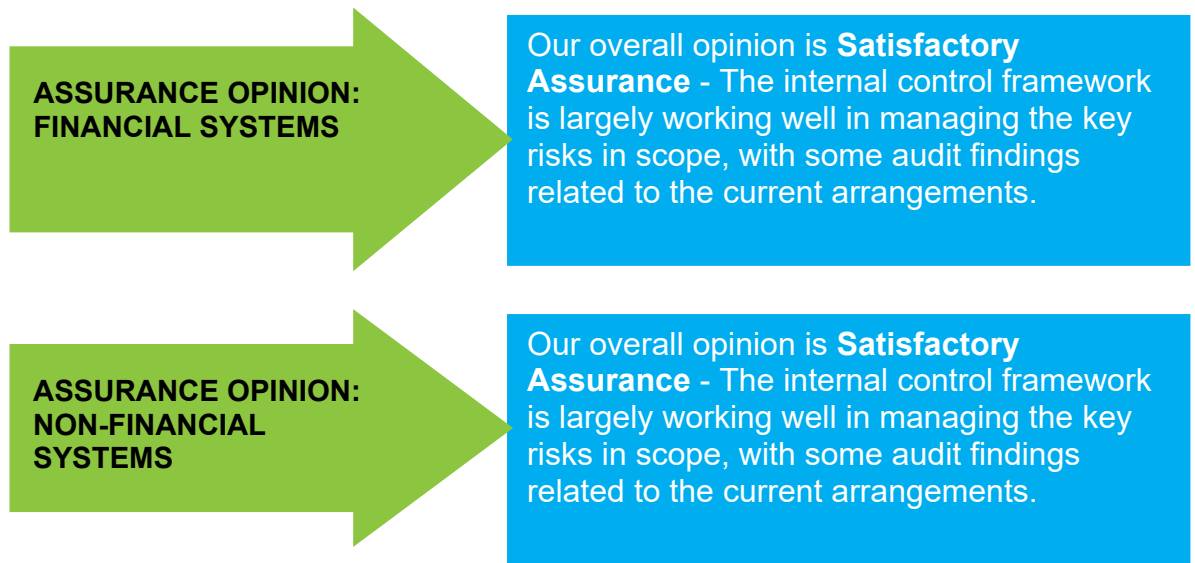
2.10 The Head of Assurance confirms that during the year that:

- No matters threatened SIAS's independence, and
- SIAS was not subject to any inappropriate scope or resource limitations.

Annual Assurance Statement for 2018/19

Assurance opinion on internal control

2.11 Based on the internal audit work undertaken at the Council in 2018/19, SIAS can provide the following opinion on the adequacy and effectiveness of the Council's control environment, broken down between financial and non-financial systems.



Assurance opinion on Corporate Governance and Risk Management

- 2.12 SIAS has concluded that the corporate governance and risk management frameworks substantially comply with the CIPFA/SOLACE best practice guidance on corporate governance. This conclusion is based on the work undertaken by the Council and reported in its Annual Governance Statement for 2018/19. Corporate governance arrangements post senior management restructure have also been considered during the delivery of an individual audit assignment.

**Head of Assurance for the Shared Internal Audit Service
May 2019**

3. Overview of Internal Audit Activity at the Council in 2018/19

- 3.1 This section summarises work undertaken at the Council by SIAS in 2018/19. It highlights any significant internal control matters and opportunities for improvement.
- 3.2 Appendix A shows the final position against the agreed revised audit plan, assurance levels and the number of recommendations made. A summary of assurance levels and recommendations priority is shown in the tables below.

Assurance Level	Number of reports 2018/19	Percentage of reports 2018/19
Good	13	37%
Satisfactory	11	33%
Limited	3	9%
No	0	0%
Not Applicable	4	12%
Not finalised	2	9%
Total	33	100%

Recommendation Priority Level	Number of recommendations 2018/19	Percentage of recommendations made 2018/19
Critical	0	0%
High	3*	4%
Medium	35	50%
Low	32	46%
Total	70	100%

** excludes high priority recommendations relating to CCTV, as per September 2018 SIAS Progress Report.*

- 3.3 **The satisfactory assurance opinion overall on financial systems** has been concluded from the seven financial systems audits finalised and where an opinion has been given. Five received good assurance, one received satisfactory assurance and one received limited assurance. Two high priority recommendations were made in the limited assurance audit.
- 3.4 The limited assurance opinion related to the Corporate Debt Management audit. This was primarily due to the two high priority findings raised that impacted on the design and effectiveness of the controls in operation. The recommendations related to training and guidance, and oversight of corporate debt management across the Council. We have considered the impact of the limited opinion and the high priority findings and we have concluded that proportionately this does not reduce the overall opinion of financial system to

limited. Therefore we are providing an overall opinion of satisfactory assurance on financial systems.

- 3.5 **The satisfactory assurance opinion overall on non-financial systems** has been concluded from the 20 final audits where an opinion has been given. Eight received good assurance, ten satisfactory assurance, and two limited assurance.
- 3.6 In arriving at our overall opinion for non-financial systems, we highlight that the vast majority of opinions from final audit reports issued for individual assignments were good or satisfactory. This demonstrates that the Council has sound internal control environments across a wide of range of key service areas.
- 3.7 A limited assurance opinion was provided in the Museum Services audit. This was due to the high priority recommendation raised relating to the long term arrangements for artefact storage and the fitness for purpose of the current stores. The limited assurance opinion in this audit has contributed to the overall satisfactory opinion as has the high priority recommendation that was made resulting from our work. We have determined that the issue affecting the Museum Service is isolated and does not represent a weakness in the overall control environment of the Council. It has therefore not reduced the overall opinion to limited.
- 3.8 The CCTV audit was included as a full audit in the 2018/19 Annual Audit Plan for Stevenage Borough Council (SBC) as the lead authority, with a supporting contribution of days from Hertsmere Borough Council (HBC), East Herts Council (EHC) and North Herts District Council ('the Council') as members of the CCTV Partnership. Nine high priority recommendations were made, and these are owned and monitored by SBC and reported to the Joint Executive Committee of the CCTV Partnership and to the partner Audit Committees. While these nine high priority recommendations are not included in the recommendations count for the Council, it nonetheless remains jointly accountable as a member of the CCTV partnership.
- 3.9 When determining our overall assurance opinion for non-financial systems, we also considered that two audits currently in draft contain proposed assurance opinion of limited assurance, these being the Waste Contract and Herts Home Improvement Agency. These audits remain under consultation and discussion, and it should be recognised that there is the possibility of amendment to the draft audit report.
- 3.10 Our opinion has taken into consideration the risks and impacts associated with any control weaknesses in those areas receiving limited assurance, both in draft and final. While we have decided not to reduce our overall assurance opinion for non-financial systems, we have nonetheless identified that all, but the Museum Service, relate to partnership arrangements to deliver Council services. There is a common theme within the high priority findings in these reports, especially around partnership governance and performance. Looking

forward, given that the Council has a number of inter-authority partnerships, consideration should be given to the ongoing risk assessment, internal control and governance arrangements in place for all partnerships to learn lessons from the audits that have been undertaken in 2018/19.

Changes to Assurance Opinion Definitions and Recommendation Priorities in 2018/19

- 3.11 At the start of the financial year, SIAS changed the range of definitions used for providing our assurance opinions for individual audits, moving from a five-tier scale to a four-tier scale.
- 3.12 SIAS also added an additional priority level for recommendations made at the start of 2018/19, this being “critical”. This change was to allow SIAS to differentiate between recommendations that were ‘critical’ to the organisation as opposed to those that are of importance (classified as ‘high’ priority) to a particular service.

4. Performance of the Internal Audit Service in 2018/19

Performance indicators

- 4.1 The table below compares SIAS’s performance at the Council against the 2018/19 targets set by the SIAS Board.

Indicator	Target 2018/19	Actual to 31 March 2018
1 SIAS Planned Days – percentage of actual billable days delivered against planned billable days (excluding contingency)	95%	97% (349 / 359.5)
2 SIAS Planned Projects – actual completed projects to draft report stage against planned completed projects	95%	94% (31 / 33 audit projects)
3 SIAS Annual Plan – presented to the March Audit Committee or the first meeting of the financial year should a March committee not meet.	Deadline met	Yes
4 Client Satisfaction - client satisfaction questionnaires returned at ‘satisfactory overall’ level (minimum of 39/65 overall)	100%	100% (15/23 returned)
5 Head of Assurance’s Annual Report – presented at the first Audit	Deadline met	Yes

Committee meeting of the financial year.		
6 Number of High Priority Audit Recommendations agreed	95%	100%

Service Developments

4.2 During 2018/19 the development activities for SIAS included:

- Recruitment of two new trainee auditors forming a key part of our 'grow your own' strategy, given known industry difficulties in recruiting at the senior auditor level.
- Tendering for our co-sourced audit delivery partner to provide service resilience and access to audit specialists, saw the re-appointment of BDO for a second term.
- Hosting a Commercialism and Local Authority Trading workshop for our SIAS partners in January 2019.
- Continued review of key business processes, including work allocation, the Audit Manual and performance dashboards, to reduce administrative overheads and improve efficiency in delivering the audit plan.
- Designed a new self and management assessed training and skills matrix to supplement the appraisal process and personal development plans for each auditor. This is an important part of our Quality Assurance and Improvement Programme (QAIP) required by the professional standards. Analysis of the results will inform a training programme in 2019/20.

5. Audit Charter 2019/20

- 5.1 The PSIAS require a local authority to formally adopt an Audit Charter which covers the authority and responsibility for an internal audit function.
- 5.2 The SIAS Audit Charter sets out the framework within which it discharges its internal audit responsibilities to those charged with governance in the partner councils. It details the permanent arrangements for internal audit and key governance roles and responsibilities to ensure the effectiveness of internal audit provision.
- 5.3 The Audit Charter is reviewed annually. The review in April 2019 did not result in any fundamental changes and the 2019/20 Charter is attached at Appendix D.

APPENDIX A – FINAL POSITION FOR THE 2018/19 AUDIT PLAN FOLLOWING APPROVED PLAN CHANGES

2018/19 North Herts District Council Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L			
Key Financial Systems								
Integra 2 – General Ledger, Debtors and Creditors	Satisfactory	0	0	1	2	25	25	Final Report Issued
Corporate Debt Management	Limited	0	2	2	3	15	15	Final Report Issued
Treasury Management	Good	0	0	0	0	6	6	Final Report Issued
Council Tax	Good	0	0	0	2	10	10	Final Report Issued
NDR	Good	0	0	0	2	10	10	Final Report Issued
Benefits & Rent Allowances	Good	0	0	0	0	10	10	Final Report Issued
Payroll	Good	0	0	0	2	8	7.5	Final Report Issued*
Operational Audits								
Green Space Strategy Management	Good	0	0	0	2	10	9.5	Final Report Issued*
2006	Satisfactory	0	0	2	0	11	11	Final Report Issued
Crematorium	Satisfactory	0	0	2	0	10	10	Final Report Issued
Museum Services	Limited	0	1	0	2	10	10	Final Report Issued
Learning Management System	Satisfactory	0	0	2	0	10	10	Final Report Issued
Overtime and Expenses	Satisfactory	0	0	4	0	13	13	Final Report Issued
Apprenticeship Levy	Satisfactory	0	0	2	0	10	10	Final Report Issued
Homelessness Reduction Act	Satisfactory	0	0	2	0	12	12	Final Report Issued
General Data Protection Regulations	Satisfactory	0	0	4	0	15	15	Final Report Issued
Careline Alarm Receiving Centre Relocation	Good	0	0	0	2	6	6	Final Report Issued
Home Improvement Agency						2	2	Draft Report Issued
Original Documentation –	Not Assessed	0	0	0	0	2.5	2.5	Final Report Issued

APPENDIX A – FINAL POSITION FOR THE 2018/19 AUDIT PLAN FOLLOWING APPROVED PLAN CHANGES

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L			
Consultancy Review								
Capital Programme	Satisfactory	0	0	5	3	10	10	Final Report Issued
Health and Safety	Good	0	0	0	1	6	6	Final Report Issued
CCTV	Limited	0	9^	0	0	2	2	Final Report Issued
Procurement / Contracts								
Waste Contract – Client Services						16	15.5	Draft Report Issued
Markets – Contract Management	Good	0	0	0	1	5	5	Final Report Issued
Outbound Mail Contract	Good	0	0	0	2	10	9.5	Final Report Issued*
Property Compliance Contract	Good	0	0	0	2	10	10	Final Report Issued
Procurement	Satisfactory	0	0	8	2	10	9.5	Final Report Issued*
Corporate Governance								
Corporate Governance	Good	0	0	0	2	12	5	Final Report Issued**
IP Audits								
Software Licence Management	Good	0	0	0	0	12	12	Final Report Issued
PSN Accreditation	Satisfactory	0	0	1	2	12	11	Final Report Issued**
Shared Learning and Joint Reviews								
Joint Reviews						2	2	Complete
Shared Learning						3	3	Complete
Contingency & Ad Hoc Activity								
Contingency						0.5		As Required
Election Support						0		Cancelled
Review of FAR	Not Assessed	0	0	0	0	3	3	Final Report Issued
DFG Grant certification	Not Assessed	0	0	0	0	2	2	Final Report Issued
King George V Playing Fields	Not Assessed	0	0	0	0	1	1	Final Report Issued

APPENDIX A – FINAL POSITION FOR THE 2018/19 AUDIT PLAN FOLLOWING APPROVED PLAN CHANGES

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L			
Strategic Support								
Head of Internal Audit Opinion 2018/19						3	3	Complete
Audit Committee						10	10	Complete
Client Meetings						8	8	Complete
Liaison with External Audit						1	1	Complete
Progress Monitoring						10	10	Complete
SIAS Development						5	5	Complete
2019/20 Audit Planning						6	6	Complete
2018/19 Projects requiring completion								
Commercialisation						1	1	Cancelled
Waste Contract – Green Waste Charging						3	3	Cancelled – merged with Waste Contract audit
Finalisation of Projects						1	1	Complete
Total - North Herts D.C.		0	3	35	32	360	349	

* At Draft Report stage at 31 March 2019, Final Report issued after year end.

** Draft Report and Final Report issued after 31 March 2019

^ High priority have not been included in the overall total number of recommendations as these are owned by Stevenage Borough Council (lead authority for the audit) and are monitored by the CCTV Committee.





Key to Assurance Level and Recommendation Priority Levels:

N/A = Not Applicable

C = Critical; H = High priority recommendations; M = Medium priority recommendations; L = Low priority recommendations

APPENDIX B – DEFINITIONS OF ASSURANCE AND PRIORITY LEVELS OF RECOMMENDATIONS

Assurance Level	Definition
Good	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
Satisfactory	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
Limited	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
No	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Priority Level			Definition
Corporate	Critical	 Red	Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
	High	 Amber	Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
Service	Medium	 Yellow	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low / Advisory	 Green	Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.

APPENDIX C - PROGRESS AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT APRIL 2019 – ACTION PLAN

Section A: Conformance - During 2018/19 all areas apart from those identified in Section B below are conforming.

Section B: Intentional Non-Conformance

Ref	Area of Non-Conformance with the Standard	Commentary	
3.1a	Purpose, Authority and Responsibility Does the board (defined as the Audit Committee) approve decisions relating to the appointment and removal of the Chief Audit Executive (CAE) (Head of Assurance)?	The Director of Resources, Hertfordshire County Council (HCC), in consultation with the Board of the Shared Internal Audit Services approves decisions relating to the appointment and removal of the CAE. This is as provided for in the governance of the Shared Internal Audit Service.	Non-conformance No further action proposed. The current arrangements are considered effective given the shared nature of SIAS.
3.1c	Purpose, Authority and Responsibility Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?	The performance appraisal is carried out by the Director of Resources (HCC).	Non-conformance No further action proposed. The appraisal process was carried out by the Director of Resources (HCC) with input from all partner chief finance officers. The current arrangements are considered effective given the shared nature of SIAS.



Audit Charter 2019/20

1. Introduction and Purpose

- 1.1. Internal auditing is an independent and objective assurance and consulting activity. It is guided by a philosophy of adding value to the operations of an organisation. It assists a council in achieving its objectives and ultimately provides assurance to the public by systematically evaluating and improving the effectiveness and efficiency of risk management, control and governance processes.

2. Scope

- 2.1. This Charter applies to all clients of Shared Internal Audit Service (SIAS).

3. Statutory Basis of Internal Audit

- 3.1. Local government is statutorily required to have an internal audit function. The Accounts and Audit Regulations 2015 require that 'a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 3.2. In addition, a council's Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To fulfil this requirement, the S151 officer relies, amongst other sources, upon the work of internal audit.

4. Role

- 4.1. SIAS internal audit activity is overseen by each client council's committee charged with fulfilling audit committee responsibilities herewith referred to as the Audit Committee. As part of its oversight role, the Audit Committee is responsible for defining the responsibilities of SIAS via this Charter.

- 4.2. SIAS may undertake additional consultancy activity requested by management. The Head of Assurance will determine such activity on a case by case basis assessing the skills and resources available. Significant additional consultancy activity not already included in the Internal Audit Plan will only be accepted and carried out following consultation with the SIAS Board.

5. Professionalism

- 5.1. SIAS governs itself by adherence to the Public Sector Internal Audit Standards (PSIAS). These standards include the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (IPPF). They set out the fundamental requirements for the professional practice of internal auditing and the evaluation of the effectiveness of an internal audit function's performance.
- 5.2. SIAS also recognise the Mission of Internal Audit as identified within the IPPF, 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight' and the Core Principles for the Professional Practice of Internal Auditing, which demonstrate an effective internal audit function, achieving internal audit's mission.
- 5.3. SIAS's operations are guided by its operating procedures manual as well as applicable, Chartered Institute of Internal Auditors (CIIA) Position Papers, Practice Advisories and Guides, and relevant council policies and procedures, including compliance with the Bribery Act 2010.
- 5.4. Should non-conformance with the PSIAS be identified, the Head of Assurance will investigate and disclose, in advance if possible, the exact nature of the non-conformance, the reasons for it and, if applicable, its impact on a specific engagement or engagement outcome.

6. Authority and Confidentiality

- 6.1. Internal auditors are authorised full, free, and unrestricted access to any and all of a client's records, physical properties, and personnel as required to carry out an engagement. All client employees are requested to assist SIAS in fulfilling its roles and responsibilities. Information obtained during the course of an engagement is safeguarded and confidentiality respected.
- 6.2. Internal auditors will only use information obtained to complete an engagement. It will not be used in a manner that would be contrary to the law, for personal gain, or detrimental to the legitimate and ethical objectives of the client organisation(s). Internal auditors will disclose all material facts known which if not disclosed, could distort a report or conceal unlawful practice.

7. Organisation

- 7.1. The Head of Assurance and their representatives have free and unrestricted direct access to Senior Management, the Audit Committee, the Chief Executive, the Chair of the Audit Committee and the External Auditor. The Head of Assurance will communicate with any and all of the above parties at both committee meetings and between meetings as appropriate.
- 7.2. The Chairman of the Audit Committee has free and unrestricted direct access to both the Head of Internal Audit, and the Council's External Auditor.
- 7.3. The Head of Assurance is line managed by the Director of Resources at Hertfordshire County Council (HCC), who approves all decisions regarding the performance evaluation, appointment, or removal of the Head of Assurance, in consultation with the SIAS Board. Each partner's Section 151 Officer is asked to contribute to the annual appraisal of the Head of Assurance.

8. Stakeholders

The following groups are defined as stakeholders of SIAS:

- 8.1. The Head of Assurance and the Head of the Shared Internal Audit Service, both suitably experienced and qualified (CCAB and / or CMIIA), are responsible for:
 - hiring, appraising and developing SIAS staff in accordance with the host authority's HR guidance
 - maintaining up-to-date job descriptions which reflect the roles, responsibilities, skills, qualifications, and attributes required of SIAS staff
 - ensuring that together, SIAS staff possess or obtain the skills, knowledge and competencies (including ethical practice) needed to effectively perform SIAS engagements
- 8.2. The Audit Committee is responsible for overseeing the effectiveness of SIAS and holding the Head of Assurance to account for delivery. This is achieved through the approval of the annual audit plan, approval of performance targets set by the SIAS Board and receipt of regular reports.
- 8.3. The Audit Committee is also responsible for the effectiveness of the governance, risk and control environment within the Council, holding managers to account for delivery. The Audit Committee may also ensure that there is appropriate communication of, and liaison with internal audit matters as required from the wider publicly elected Member body.
- 8.4. Senior Management, defined as the Head of Paid Service, Chief Officers and their direct reports, are responsible for helping shape the programme of assurance work. This is achieved through analysis and review of key risks to achieving the Council's objectives and priorities.
- 8.5. The SIAS Board is the governance group charged with monitoring and reviewing the overall operation of SIAS, including:

- resourcing and financial performance
- operational effectiveness through the monitoring performance indicators
- the overall strategic direction of the shared service

9. Independence and Objectivity

- 9.1. No element in the organisation should interfere with audit selection, scope, procedures, frequency, timing, or report content. This is necessary to ensure that internal audit maintains the necessary level of independence and objectivity.
- 9.2. As well as being impartial and unbiased, internal auditors will have no direct operational responsibility or authority over any activity audited. They will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that might impair their judgment.
- 9.3. When asked to undertake any additional roles/responsibilities outside internal auditing, the Head of Assurance will highlight to the Audit Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the PSIAS Code of Ethics as well as any relevant requirements set out in other professional bodies to which the CAE may belong. The Audit committee will approve and periodically review any safeguards put in place to limit any impairments to independence and objectivity.
- 9.4. The Head of Assurance will confirm to the Audit Committee, at least annually, the organisational independence of SIAS.

10. Conflicts of Interest

- 10.1. Internal auditors will exhibit clear professional objectivity when gathering, evaluating, and communicating engagement information. When forming judgments, they will make a balanced assessment of all relevant circumstances and not be influenced by their own interests or the views and interests of others.
- 10.2. Each auditor will comply with the ethical requirements of his/her professional body and proactively declare any potential conflict of interest, whether actual or apparent, prior to the start of an engagement.
- 10.3. All auditors sign an annual declaration of interest to ensure that the allocation of work avoids conflict of interest. Auditors who undertake consultancy work or are new to the team will be prohibited from auditing in those areas where they have worked in the past year. Audits are rotated within the team to avoid over-familiarity and complacency.
- 10.4. SIAS procures an arrangement with an external partner to provide additional internal audit days on request. The external partner will be used to deliver

engagements as directed by the Head of Assurance in particular providing advice and assistance where SIAS staff lack the required skills or knowledge.

- 10.5. In the event of a real or apparent impairment of independence or objectivity, (acceptance of gifts, hospitality, inducements or other benefits) the Head of Assurance will investigate and report on the matter to appropriate parties.

11. Responsibility and Scope

- 11.1. The scope of SIAS encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes (as they relate to the organisation's priorities and objectives) and the promotion of appropriate ethics and values.
- 11.2. Internal control and risk management objectives considered by internal audit extend to the organisation's entire control and risk management environment and include:
- consistency of operations or programs with established objectives and goals, and effective performance
 - effectiveness and efficiency of governance, operations and employment of resources
 - compliance with significant policies, plans, procedures, laws, and regulations
 - design, reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information
 - safeguarding of assets
- 11.3. SIAS is well placed to provide advice and support on emerging risks and controls and will, if requested, deliver consulting and advisory services or evaluate specific operations.
- 11.4. SIAS is responsible for reporting to the Audit Committee and senior management, significant risk exposures (including those to fraud addressed in conjunction with the Shared Anti-Fraud Service), control and governance issues and other matters that emerge from an engagement.
- 11.5. Engagements are allocated to (an) internal auditor(s) with the appropriate skills, experience and competence. The auditor is then responsible for carrying out the work in accordance with the SIAS Operating Procedures Manual, and must consider the relevant elements of internal control, the needs and expectations of clients, the extent of work required to meet the engagement's objectives, its cost effectiveness, and the probability of significant error or non-compliance.

12. Role in Anti-Fraud

- 12.1. The SIAS work programme, designed in consultation with Senior Management, the Audit Committee and, where applicable, the Shared Anti-Fraud Service, seeks to help deter fraud and corruption.
- 12.2. In conjunction with the Shared Anti-Fraud Service SIAS shares information with relevant partners to increase the likelihood of detecting fraudulent activity and reducing the risk of fraud to all.
- 12.3. The Head of Assurance should be notified of all suspected or detected fraud, corruption or impropriety so that the impact upon control arrangements can be evaluated.

13. Internal Audit Plan

- 13.1. Following discussion with appropriate senior management, the Head of Assurance will submit a risk-based plan to the Audit Committee for review and approval. This will occur at least annually. The plan sets out the engagements agreed and demonstrates the priorities of both SIAS (the need to produce an annual internal audit opinion) and those of the organisation. Also included will be any relevant declarations of interest.
- 13.2. The plan will be accompanied by details of the risk assessment approach used and will take into account the organisation's assurance framework. Also shown will be the timing of an engagement, its budget in days, details of any contingency for new or changed risks, time for planning and reporting and a contribution to the development of SIAS.
- 13.3. The plan will be subject to regular review in year, and may be modified in response to changes in the organisation's business, risks, operations, programmes, systems and controls. All significant changes to the approved internal audit plan will be communicated in the quarterly update reports.

14. Reporting and Monitoring

- 14.1. A draft written Terms of Reference will be prepared and issued to appropriate personnel at the start of an engagement. It will cover the intended objectives, scope and reporting mechanism and will be agreed with the client. Changes to the terms of reference during the course of the engagement may occur and will be agreed following consultation with the client.
- 14.2. A report will be issued on completion of an engagement. It will include a reasoned opinion, details of the time period and scope within which it was prepared, management's responses to specific risk prioritised findings and recommendations made and a timescale within which corrective action will be / has been taken. If recommended action is not to be taken, an explanation for this will also be included.
- 14.3. SIAS will follow-up the implementation of agreed recommendations in line with the protocol at each client. As appropriate, the outcomes of this work will be reported to the audit committee and may be used to inform the risk-based

planning of future audit work. Should follow-up activity identify any significant error or omission, this will be communicated by the Head of Assurance to all relevant parties. A revised internal audit opinion may be issued on the basis of follow-up activity.

- 14.4. In consultation with senior management, the Head of Assurance will consider, on a risk-basis, any request made by external stakeholders for sight of an internal audit report.
- 14.5. Quarterly update reports to the Audit Committee will detail the results of each engagement, including significant risk exposures and control issues. In addition, an annual report will be produced giving an opinion on the overall control, governance, and risk management environment (and any other issues judged relevant to the preparation of the Annual Governance Statement), with a summary of the work that supports the opinion. The Head of Assurance will also make a statement of conformance with PSIAS, and detail the nature and reasons for any impairments, qualifications or restrictions in scope for which the Committee should seek reassurances from management.

15. Periodic Assessment

- 15.1. PSIAS require the Head of Assurance and the SIAS Board to make arrangements for an independent review of the effectiveness of internal audit undertaken by a suitably knowledgeable, qualified and competent individual or organisation. This should occur at least every five years.
- 15.2. The Head of Assurance will ensure that continuous efforts are made to improve the efficiency, effectiveness, and quality of SIAS. These will include the Quality Assurance and Improvement Programme, client feedback, appraisals and shared learning with the external audit partner as well as coaching, supervision, and documented review.
- 15.3. A single review will be carried out to provide assurance to all SIAS partners with the outcomes included in the partner's Annual Report.

16. Review of the Audit Charter

- 16.1. The Head of Assurance will review this charter annually and will present, to the first audit committee meeting of each financial year, any changes for approval.
- 16.2. The Head of Assurance reviewed this Audit Charter in April 2019. It will next be reviewed in April 2020.

Glossary of Terms

Audit Committee	The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.
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Management	Operational officers of the Council responsible for creating corporate policy and organising, planning, controlling, and directing resources in order to achieve the objectives of that policy. Senior management is defined as the Head of Paid Service, Chief Officers and their direct reports.
The SIAS Board	The Board that comprises officer representatives from the client authorities and that is responsible for the governance of the SIAS partnership
The Audit Plan	The programme of risk based work carried out by the Shared Internal Audit Service on behalf of its clients
The Public Sector Internal Audit Standards	These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide stakeholders with the key assurances they need to support them both in managing and overseeing the organisation and in producing the annual governance statement.

Note:

For readability, the term 'internal audit activity' as used in the PSIAS guidance has been replaced with 'SIAS' in this Charter.

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North Herts District Council Audit Committee Progress Report

3 June 2019

Recommendations

Members are recommended to:

- Note the Internal Audit Progress Report for the period to 17 May 2019,
- Note the proposed amendments to the 2019/20 Annual Audit Plan, and
- Note the implementation status of high priority recommendations.

Contents

- 1 Introduction and Background
 - 1.1 Purpose
 - 1.2 Background
- 2 Audit Plan Update
 - 2.1 Delivery of Audit Plan and Key Findings
 - 2.5 High Priority Recommendations
 - 2.8 Proposed Amendments to the 2019/20 Annual Audit Plan
 - 2.9 Performance Management

Appendices

- A Progress against the 2019/20 Audit Plan
- B Implementation Status of High Priority Recommendations
- C 2019/20 Audit Plan Start Dates Agreed with Management
- D Assurance and Finding Definitions 2019/20

1. Introduction and Background

Purpose of Report

1.1 This report details:

- a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Audit Plan for 2019/20 as at 17 May 2019.
- b) Implementation status of previously agreed high priority audit recommendations and request to agree removal of completed actions.
- c) Proposed amendments to the 2019/20 Annual Audit report
- d) An update on performance management information as at 17 May 2019.

Background

- 1.2 The 2019/20 Annual Audit Plan was approved by the Finance, Audit and Risk Committee (the FAR Committee) on 21 March 2019.
- 1.3 The Committee receives periodic updates of progress against the Annual Internal Audit Plan. This is the first report giving feedback on the delivery of the 2019/20 Internal Audit Plan.
- 1.4 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 17 May 2019, 12% of the 2019/20 Audit Plan days had been delivered.
- 2.2 The following 2018/19 final reports have been issued since 1 March 2019 (cut-off date for the SIAS Update Report for 21 March 2019 FAR Committee):

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Corporate Debt Management	March 2019	Limited	2 High, 2 Medium, 3 Low
Property Compliance Contract	March 2019	Good	2 Low
Learning Management System	March 2019	Satisfactory	2 Medium
Markets – Contract Management	March 2019	Good	1 Low
Green Space Strategy	April 2019	Satisfactory	1 Medium

Management			
Outbound Mail Contract	April 2019	Good	2 Low
Payroll	April 2019	Good	2 Low
Procurement	April 2019	Satisfactory	8 Medium, 2 Low
Corporate Governance	May 2019	Satisfactory	1 Medium, 2 Low
PSN Accreditation	May 2019	Good	2 Low

2.3 We have not issued any final reports relating to the 2019/20 audit plan up to 17 May 2019.

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

High Priority Recommendations

2.5 Members will be aware that a Final Audit Report is issued when it has been agreed by management; this includes an agreement to implement the recommendations that have been made. It is SIAS's responsibility to bring to Members' attention the implementation status of high priority recommendations; it is the responsibility of Officers to implement the recommendations by the agreed date.

2.6 We have made two high priority recommendations as a consequence of the work undertaken in the audits detailed in paragraph 2.2 above. These relate to the Corporate Debt Management audit completed. Further details can be found in Appendix B.

2.7 The standard template schedule attached at Appendix B shows the management response, target implementation date and the implementation status of the agreed high priority audit recommendations that are currently not implemented.

Proposed Amendments

2.8 The Committee should note that a further 4 days has been returned to contingency as a result of the delivery of 97% billable days for 2018/19. Originally, we planned 15 days for carry forward work from 2018/19 and this has now been reduced to 11 days. Therefore, contingency in the 2019/20 Annual Audit Plan for the Council currently stands at 7 days.

Performance Management

Reporting of Audit Plan Delivery Progress

2.9 To help the Committee assess the current situation in terms of progress against the projects in the audit plan, we have provided an overall progress update at Appendix C. The table below shows that summary of performance based in the latest performance information reported at Appendix A.

Summary – 4 June 2018			
Status	No of Audits at this Stage	% of Total Audits (25)	Profile to date
Draft / Final Report Issued	0	0%	(1/25)
In Fieldwork / Quality Review	3	12%	(3/25)
Terms of Reference Issued / In Planning	4	16%	(2/25)
Yet to be planned	18	72%	(19/25)

Deferred	0
Cancelled	0

- 2.10 Annual performance indicators and associated targets were approved by the SIAS Board in March 2019.
- 2.11 As at 17 May 2019, actual performance for North Herts District Council against the targets that can be monitored in year was as shown in the table below:

Performance Indicator	Annual Target	Profiled Target to 17 May 2019	Actual to 17 May 2019
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	15% (50 / 333 days)	12% (41.5 / 333 days)
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	4% (1 / 25 projects)	0% (0 / 25 projects)
3. Client Satisfaction with Conduct of the Audit – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	N/A – No surveys returned
4. Number of High Priority Audit Recommendations agreed	95%	95%	N/A – No high priority recommendations made

- 2.12 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2019/20 Head of Assurance's Annual Report:

- **5. Annual Plan** – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the financial year.
- **6. Head of Assurance's Annual Report** – presented at the Audit Committee's first meeting of the civic year.

APPENDIX A – PROGRESS AGAINST THE 2019/20 AUDIT PLAN AS AT 17 MAY 2019

2019/20 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
Key Financial Systems									
Integra 2 – General Ledger, Debtors and Creditors					14	Yes	0	Allocated	
Treasury Management					8	Yes	0	Allocated	
Expenses					10	Yes	0	Allocated	
Budgetary Control					10	Yes	0	Allocated	
Revenues					15	Yes	0	Allocated	
Benefits					10	Yes	0	Allocated	
Corporate Audits									
Data Quality of Performance Information					15	Yes	0	Allocated	
Workforce Planning and Development					20	Yes	2.5	In Planning	
Corporate Resilience					15	Yes	0	Allocated	
Corporate Change Management					15	Yes	0	Allocated	
Operational Audits									
Trade Waste					15	Yes	0	Allocated	
Temporary Accommodation					12	Yes	0	Allocated	
Time Recording System					12	Yes	10.5	In Fieldwork	
Members Expenses Benchmarking					8	Yes	0	Allocated	
Parking Strategy and Enforcement					15	Yes	0	Allocated	

APPENDIX A – PROGRESS AGAINST THE 2019/20 AUDIT PLAN AS AT 17 MAY 2019

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
Transparency Code					12	Yes	2	In Fieldwork
Equality and Diversity					10	Yes	0	Allocated
Herts Home Improvement Agency					2	Yes	0	Allocated
Review of FAR					3	Yes	2	In Fieldwork
King George V Playing Fields					1	Yes	0	Allocated
Procurement / Contracts								
Financial Resilience of Suppliers					15	Yes	0	Allocated
IT Audits								
General Data Protection Regulations					10	Yes	0.5	ToR Issued
Cyber Risk					15	Yes	0.5	ToR Issued
Systems Access – Passwords					12	Yes	0	Allocated
Anti-Fraud								
SAFS Review					2	Yes	0	In Planning
Shared Learning and Joint Reviews								
Joint Reviews					2	Yes	0	Allocated
Shared Learning					3	Yes	0	Through Year
Contingency & Ad Hoc Activity								
Contingency & Ad Hoc Activity					7	Yes	0	As Required
Strategic Support								
Head of Internal Audit Opinion 2018/19					3	Yes	3	Complete

APPENDIX A – PROGRESS AGAINST THE 2019/20 AUDIT PLAN AS AT 17 MAY 2019

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
Audit Committee					8	Yes	2	Through Year
Client Meetings					8	Yes	2	Through Year
Liaison with External Audit					1	Yes	0	Through Year
Progress Monitoring					10	Yes	2.5	Through Year
SIAS Development					5	Yes	5	Through Year
2020/21 Audit Planning					6	Yes	0	Through Year
2018/19 Projects requiring completion								
Finalisation of Projects					11	Yes	9	As Required
Total - North Herts D.C.					340		41.5	

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	SIAS Comment May 2019	Status of Progress
1.	Corporate Debt Management (March 2018)	<p>We recommend that the Council undertakes training with all officers responsible for debt management and recovery. Within this training and in lieu of a corporate policy, clear procedures should be outlined and documented to provide clear direction and consistent approach to debt management and recovery in all directorates.</p> <p>The training and procedures should set out the entire standard corporate debt recovery process, from start to finish, in writing and through illustration (via a summary flowchart), so that the automated and manual intervention stages, actions and timings are all clearly defined.</p>	To take place once new revised format of aged debt complete.	Controls, Risk and Performance Manager / Revenues Manager	31 October 2019	Not applicable.	No comment – too early to assess.	Not implemented

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	SIAS Comment May 2019	Status of Progress
		<p>The roles, responsibilities and delegations of corporate finance, corporate recovery and services in regard to monitoring, pursuing and writing off overdue sales invoices should be fully explained to all officers and accurately reflect the Financial Regulations.</p> <p>The Council should initially focus on getting the basic debt recovery steps implemented in practice. Once this is in place, the Council should review the impact on overall debt levels and assess the capacity and resources available to pursue debts robustly.</p>						

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	SIAS Comment May 2019	Status of Progress
2.	Corporate Debt Management (March 2018)	<p>We recommend that the Council establish a corporate debt management group, responsible for providing unified oversight of the debt management actions and improve recovery of higher risk / value types of sundry debts.</p> <p>The group's membership should include representation from relevant service areas as well as legal and finance to provide advice and expertise on process and good practice.</p> <p>Initially, we recommend that the group meets on a monthly basis until management is satisfied that recovery is consistent and more effective than found to be at the present time. Thereafter,</p>	<p>Report to SMT on establishing group and agree remit, membership and approach.</p> <p>Set up group.</p>	Controls, Risk & Performance Manager / Revenues Manager	<p>30 April 2019</p> <p>31 May 2019</p>	<p>A report has been to SMT and we have approval for the corporate debt management group to be set up. We have established the scope/remit of the group and set up a formal document. Controls, Risk and Performance Manager will now be organising the first meeting and the rest of the actions will follow on from that.</p>	No comment – too early to assess.	Partially Implemented

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	SIAS Comment May 2019	Status of Progress
		consideration could be given to reducing the frequency of meetings. This is an approach to corporate debt management taken by another SIAS Partner.						
3.	Museum Services (February 2019)	<p>We recommend that the Council implements a plan to address the future storage that it will face.</p> <p>There are several options to consider:</p> <p>a) Invest in a new storage facility that is larger and has greater capacity to house an expanding range of artefacts;</p> <p>b) Purchase additional space to handle the overflow from the current storage facility; or</p>	The Council is aware that the long term storage requirements need to be investigated and will undertake an options appraisal to identify the best approach to try and resolve this.	Service Director (Commercial)	30 April 2020	Not applicable	No comment – too early to assess	Not implemented

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	SIAS Comment May 2019	Status of Progress
		<p>c) Invest resources to undertake rationalisation of the current artefacts in storage.</p> <p>All of the above have cost implications, both time and financial costs, therefore a cost benefit analysis should be completed to support the management decision.</p>						





APPENDIX C – 2019/20 AUDIT PLAN START DATES AGREED WITH MANAGEMENT

April	May	June	July	August	September
Time Recording System In Fieldwork	Workforce Planning and Development In Planning		Corporate Resilience	General Data Protection Regulations ToR Issued	Temporary Accommodation
Review of FAR In Fieldwork	Cyber Risks ToR Issued		Equality and Diversity	Data Quality of Performance Information	Members Expenses Benchmarking
2018/19 Carry Forward Projects	Transparency Code In Fieldwork		SAFS Review In Planning		
October	November	December	January	February	March
Integra 2	Budgetary Control		Corporate Change Management	Parking Strategy and Enforcement	
Treasury Management	Revenues		Trade Waste		
Expenses	Benefits		Financial Resilience of Suppliers		
	Systems Access (Passwords)		King George V Playing Fields		

Herts Home Improvement Agency – this is a joint review with the other partner authorities and a start month has not yet been agreed.

APPENDIX D – ASSURANCE AND FINDINGS DEFINITIONS 2019/20

Assurance Level	Definition
Good	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
Satisfactory	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
Limited	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
No	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Priority Level			Definition
Corporate	Critical		Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
	High		Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
Service	Medium		Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low		Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.

FINANCE, AUDIT & RISK COMMITTEE
3 June 2019

PUBLIC DOCUMENT

TITLE OF REPORT: DRAFT ANNUAL GOVERNANCE STATEMENT

REPORT OF: POLICY AND COMMUNITY ENGAGEMENT MANAGER

EXECUTIVE MEMBER: [NON-EXECUTIVE FUNCTION]

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 For the Finance, Audit & Risk Committee to review the draft Annual Governance Statement (AGS) including Action Plan for the year 2018/19.

2. RECOMMENDATIONS

- 2.1 That the Committee is recommended to review and comment on the draft AGS Action Plan in order for it to be finalised for approval (in July 2019).

3. REASONS FOR RECOMMENDATIONS

- 3.1 The Committee is the legal body with responsibility for approval of the AGS. Reporting the draft AGS and Action Plan at this stage provides an opportunity for the Committee to assess and comment on the draft, before it is finalised and brought back for approval in July 2019.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 There are no alternative options to be considered.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 No prior consultation has taken place, although a copy of the draft AGS will be sent to the Shared Internal Audit Service (SIAS), Ernst & Young (External Auditors) and the Shared Anti-Fraud Service. Account will be taken of any comments made by them and this Committee on the draft AGS before it is finalised for the July Committee approval process.

6. FORWARD PLAN

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

7. BACKGROUND

- 7.1 The Local Audit and Accountability Act 2014 ('LAAA 2014') and the Accounts and Audit Regulations 2015/234 ('AAR 2015' made under the LAAA 2014) place a requirement on NHDC, as a relevant authority, to conduct an annual review of the effectiveness of the system of internal controls and prepare an AGS.
- 7.2 This must be considered by Members of this Committee and the AGS approved under Regulation 6(4)(a) AAR 2015 in advance of the relevant authority approving the Statement of Accounts (in accordance with Regulation 9(2)(b)). The review should be undertaken as against the relevant CIPFA/ SOLACE Framework, which is the *Delivering good governance in Local Government Framework 2016 Edition* and any CIPFA/ SOLACE guidance¹.
- 7.3 The draft AGS has been prepared following an in-depth review/ input and scoring of arrangements by SMT against the Framework 2016 Principles (in accordance with the guidance²). SMT has reviewed and provided details of systems and examples that met the 2016 Principles and scored the arrangements on the assurance level basis:
- Full: There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
 - Substantial: Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
 - Moderate: Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
 - Limited: There are significant weaknesses in key control areas, which put the system objectives at risk.
 - No: Control is weak, leaving the system open to material error or abuse.
- 7.4 In terms of format of the AGS, CIPFA indicate that the AGS should be a '*meaningful but brief communication*'; there is no requirement to repeat all the arrangements that have been comprehensively assessed. Nevertheless, the AGS should draw out a few key areas with reference to the 2016 Principles, identify any actions and include an overall conclusion on the arrangements.

¹ CIPFA/SOLACE Delivering good governance in Local Government Guidance Notes for English Authorities 2016 Edition.

² As above (*ibid*)

- 7.5 Members will note at this stage, that a key element of the review of effectiveness, detailed in the draft AGS, includes the Head of Internal Audit's Annual report/ Opinion on arrangements. This report will be presented to the June 2019 meeting and therefore any relevant details/ links will need to be incorporated into the AGS before being finalised. However, at the point of drafting the report, there is no indication that the overall conclusions detailed in the draft AGS will be adversely affected or changed by this.
- 7.6 Members are reminded that the AGS must be approved before the Statement of Accounts and it should accompany them. The Council will include the 2018/19 AGS with the Statement of Accounts (as it has in previous years).

8. RELEVANT CONSIDERATIONS

- 8.1 The SMT AGS self-assessment, external organisation and Committee's review of the draft AGS (in preparation for finalising the AGS) provides the Council with an opportunity to consider the robustness of its governance and internal control arrangements. It highlights areas where governance can be further reinforced.
- 8.2 The draft AGS for 2018/19 is attached as Appendix A for review and comment. The SMT AGS self-assessment will be available on the Corporate Governance page after all comments have been received as per paragraph 5.2 as detailed under background documents.
- 8.3 Updates on the AGS Action Plan will be reported to this Committee twice a year at the September and March meetings.
- 8.4 Overwhelmingly following on from the process as outlined at 7.3, SMT concluded that the assurance level as assessed against the 2016 Principles were Substantial. Actions were included to address any perceived weaknesses and these have been detailed in the draft AGS Action Plan (final page to Appendix A). The detailed (97 page) self-assessment document has not been appended. It will, however, following comments from SIAS and advice from CIPFA be loaded on the Council's Corporate Governance internet pages.

9. LEGAL IMPLICATIONS

- 9.1 Under the LAAA 2014/ AAR 2015 Regulations the 2016/17 AGS must be approved by this Committee by 31 July. Otherwise the legal implications are set out under section 7 above.
- 9.2 The Terms of Reference of this Committee under 10.1.5(i) are: "*To ensure that an annual review of the effectiveness of internal controls (accounting records, supporting records and financial) systems is undertaken and this review considered before approving the Annual Governance Statement.*" This review of the draft AGS therefore falls within the Committee's remit.

10. FINANCIAL IMPLICATIONS

- 10.1 The final AGS is to be approved and accompany the Statement of Accounts. By presenting the draft AGS to this Committee before the audit of the accounts is concluded, the Committee has time to raise any points that may need to be addressed. Other than this there are no financial implications arising from this report.

11. RISK IMPLICATIONS

- 11.1 The process of assessing the Council's governance arrangement enables any areas of weakness to be identified and improvement actions put in place.

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no direct equality implications of this report or the AGS. Where relevant the Council's arrangements have been assessed against the 2016 Framework Principles. In respect of those arrangements, the SMT AGS self-assessment identifies the procedures in place and any outcomes. Council reports include any equality implications and are assessed by the Policy and Community Engagement Manager. Where appropriate an impact assessment will be undertaken and mitigation measures identified. The Policy and Community Engagement Manager/ Trainee Policy Officer undertakes an Annual Cumulative Equality Impact Assessment of these and publishes them on the internet.

13. SOCIAL VALUE IMPLICATIONS

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

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource implications relating to this matter.

15. APPENDICES

- 15.1 Appendix A –Draft AGS for 2018/19

16. CONTACT OFFICERS

- 16.1 Reuben Ayavoo, 01462 474212. Policy and Community Engagement Manager:
reuben.ayavoo@north-herts.gov.uk

17. BACKGROUND PAPERS

The SMT AGS self-assessment will be placed on the Corporate Governance Page following the process in 8.4: <https://www.north-herts.gov.uk/home/council-performance-and-data/corporate-governance>. This will also contains links to relevant background documents, reports, Policies and Guidance. The draft AGS also contains links to relevant documents.

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NHDC ANNUAL GOVERNANCE STATEMENT 2018-2019

Introduction

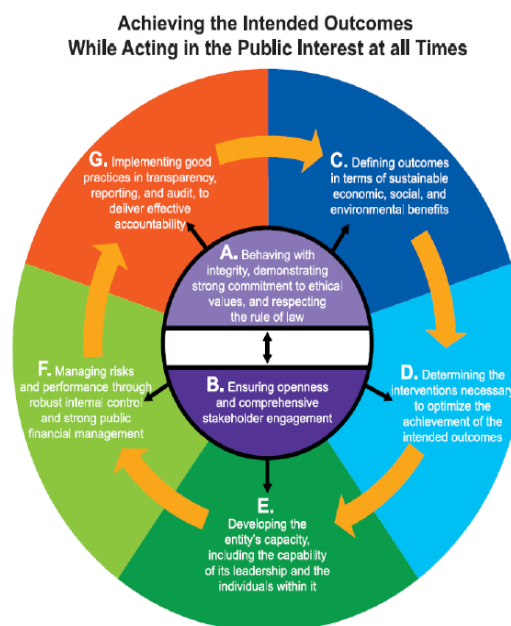
North Hertfordshire District Council (NHDC) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

NHDC also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, NHDC should have proper arrangements for the governance of its affairs in place. It is legally required¹ to review arrangements and prepare an Annual Governance Statement ('AGS'). It should prepare this Statement in accordance with proper practices set out in the Chartered Institute of Public Finance and Accountancy (CIPFA)/ the Society of Local Authority Chief Executives and Senior Managers (SOLACE) Delivering Good Governance in Local Government: Framework 2016. This AGS explains how NHDC has complied with these requirements. The Finance, Audit & Risk (FAR) Committee Members have been informed of progress on producing this AGS and will review it and evaluate the robustness of the underlying assurance statements and evidence. FAR Committee approves the final AGS and monitors the actions identified.

Delivering good governance in Local Government:

The Governance Framework comprises of systems, processes, culture and values, by which the authority is directed and controlled. It enables NHDC to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money. The new Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) applies to AGS' prepared for the 2016/17 financial year onwards. The Principles are further supported by examples of what good governance looks like in practice. The Principles are set out in the diagram below:



www.cipfa.org/services/networks/better-governance-forum

Key Elements of the Governance Framework:

- ❖ Council, Cabinet and Stronger Leader model that provides leadership, develops and sets policy.
- ❖ A decision making process that is open to the public and decisions are recorded / available on the NHDC website.
- ❖ An established Shared Internal Audit Service (SIAS) that undertakes detailed reviews.
- ❖ Risk Management and performance procedures that enable risks to be identified and these to be monitored by Senior Management Team (SMT) and Members on a quarterly basis.
- ❖ Overview & Scrutiny (O&S) Committee reviewing performance and policies.
- ❖ An effective FAR Committee as the Council's Audit Committee that reviews governance and financial arrangements.
- ❖ A SMT, which includes the statutory officers and provides effective corporate management.
- ❖ Following a restructure in June 2018, a strategic officer leadership team has been established, which includes the Chief Executive, Deputy Chief Executive and the six Directors (which again includes all statutory officers).

How NHDC complies with the 2016 Governance Framework

NHDC has approved and adopted:

- ❖ a [Local Code of Corporate Governance](#) in March 2019 which incorporate the Framework 2016 Principles.
- ❖ a number of specific strategies and processes for strengthening corporate governance

Set out below is a summary of *some of the central ways* that NHDC complies with the 2016 Framework Principles. The detailed arrangements, and examples are described / links provided in the SMT AGS self-assessment document on the Corporate Governance page: <https://www.north-herts.gov.uk/home/council-performance-and-data/corporate-governance> or can be obtained from, NHDC, District Council offices, Gernon Road, Letchworth Garden City SG6 3JF.

¹ Local Audit and Accountability Act 2014 and The Accounts and Audit Regulations 2015.

NHDC ANNUAL GOVERNANCE STATEMENT 2018-2019

NHDC ANNUAL GOVERNANCE STATEMENT 2018-2019

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
What NHDC has or does:

- ❖ Operates Codes of Conduct for Members and Employees, maintaining arrangements for sign off of those, awareness of key policies and reporting / investigating any allegations of breaching those Codes.
- ❖ Complaints concerning employees are dealt with according to the Managing Misconduct Policy, and/ or Employment Procedure rules for officer (for relevant officers will also potentially involve the Independent Person Panel, Employment Committee and Full Council).
- ❖ A Standards Committee which oversees and promotes high standards of Member conduct. It is composed 12 Councillors and 2 non-voting co-opted Parish Councillors. The IPs are invited to attend the meetings of the Standards Committee. The Committee oversees the Complaints Handling Procedure and Final Determination Hearings through a Sub-Committee. The Chairman of Standards Committee provides an annual report to Full Council in May. This is designed to promote shared values with Members, employees, the community and partners.
- ❖ The Council's Constitution includes a scheme of delegation and terms of reference for each of the Council's Committees and decision making practices are outlined. The Council's Constitution is reviewed annually.
- ❖ The Council's Anti-Fraud and Corruption Policy, which includes the Anti-Money Laundering Policy, Anti-Bribery, Employee Personal Conflicts of Interest, Benefits Anti-Fraud, and Whistleblowing Policies and Fraud Plans, have been reviewed and are available on the internet.² Contract Procedure Rules in Section 20 of the Constitution underpin the

Council's approach to Procurement. Standard Contracts include an obligation to adhere to the requirements of the Bribery Act 2010 and the Councils' requirements as set out in the Councils' Anti-Bribery Policy.

- ❖ The Council also has Policies and procedures for Members and Employees to declare interests, including Organisational ones. Members are obliged to comply with such arrangements under their Code of Conduct and employees sign an Annual Declaration Letter to ensure that they are aware of and will comply with key governance policies.

❖ The Council has a Monitoring Officer (MO) whose role is to ensure that decisions are taken lawfully, in a fair manner and procedures followed. After consulting the Chief Executive and Chief Finance Officer (CFO) the MO has a statutory duty/powers to report any proposal, decision or omission that he/she considers would give rise to unlawfulness or any decision or omission that has given rise to maladministration ("Section 5 report"). The MO is responsible for providing advice on ethics and governance to the Standards Committee and to the Members of this Council. A Legal advisor attends Full Council, Cabinet and regulatory Committees – such as Planning, Licensing and Standards to be on hand to provide advice. A Finance Officer attends Full Council, Cabinet and FAR Committee. Legal services/The MO maintain records of advice provided.

❖ The Council's CFO (s151 Officer) has a duty to the Council's taxpayers to ensure that public money is being appropriately spent and managed, and reports directly to the Chief Executive. The CFO ensures that appropriate advice is given on all financial matters, is responsible for keeping proper financial records and accounts and for maintaining an effective system of internal control.

❖ All Committee reports and delegated decision templates have required areas for legal advice (as well as Finance, Social Value Act 2012 and equality requirement); part 1 reports are published and available for inspection as per the statutory requirements. Committee and Member Services

provide support to the Council, Councillors and the democratic processes of the Council. The team organise the civic calendar of Committee meetings dates, the Forward Plan of Executive Decisions, prepare and despatch agendas and reports in advance of the meetings and take and despatch minutes and decision sheets after the meetings. Delegated decisions are retained by them and they provide support for Councillor Surgeries.

Principle B: Ensuring openness and comprehensive stakeholder engagement.
What NHDC has or does:

❖ The Council's vision is one created by all partners of the North Herts Partnership and this and relevant documents are made available on the Council's website with Service Plans that show how the Objectives will be delivered in practical terms [[Corporate Objectives page](#)].

❖ Open Data is published on the NHDC website, and is available to re-use through the terms of the Open Government Licence [[Open Data page](#)]. Data Sets on NNDR (Full list and monthly credit balances) are also available [[Published Data Sets](#)].

❖ An Annual Monitoring Report is produced containing indicators and targets across the District to aid with future planning decisions and identification of local priorities [[Annual Monitoring Report 2017-2018](#)]. A revised version will be available in the summer of 2019.

❖ There is a Committee administration process in places so that all Council meeting agendas, reports, minutes are available for inspection, and these, together with public meeting recordings, are available online and through the Modern.gov system [[Council meetings page](#)].

❖ There is a presumption of openness and transparency, with reports (or confidential parts of reports) only being exempt so long as statutory exemption requirements³ apply. Report authors

² <http://www.north-herts.gov.uk/home/council-performance-and-data/policies/anti-fraud-and-corruption-policy>

³ Under the Local Government Act 1972 Schedule 12A, and/ or Local Government Act 2000/ The Local Authorities (Executive Arrangements) (Meetings and Access to

NHDC ANNUAL GOVERNANCE STATEMENT 2018-2019

consider such matters with the designated Constitutional “Proper Officer”. Meetings are open to the press and public (unless an exemption applies).

❖ There is a Council and Democracy page on the NHDC website. This links to information about the Council, Councillors, MPs, Council meetings, Council departments, Forward Plan of Key Decisions, Petitions, Notices of Part 2 (exempt) decisions that the Council intends to take in the near future, delegated decisions, recordings/ the right to record Council meetings and Notices of Urgent Decisions [[Council and Democracy](#)]. Public Registers and Delegated Decisions are available on the NHDC website for [Environmental Health](#), Licensing [[Public Registers and Delegated Decisions](#)] and Planning applications/ decisions [[View Planning Applications](#)]. Delegated Executive and Non-Executive decisions⁴ are on the Council's website [[Delegated Decisions](#)].

❖ The Constitution also sets out what information is available to the public and how to engage with the Council [[Constitution](#)].

❖ The Council has a 5 year Consultation Strategy for 2016-2020 [[Consultation Strategy 2016-2020](#)] that sets out the methods that will be used to consult and practical considerations for doing so. This entails various approaches to consultation. A Statement of Community Involvement sets out how the Council will involve the community in preparing the Local Plan and in considering planning applications [[Statement of Community Involvement - Adopted September 2015](#)].

❖ The Council conducts a District Wide Survey every two years [[2017 District Wide Survey - Key Findings Report](#)]. Residents who take part in the District Wide Survey are invited to join the Council's Citizens Panel, which is used for consultation.

❖ The Council also has an internal Staff Consultation Forum, a Joint Staff Consultative Committee (JSCC) and a Staff Consultation Policy [[Staff Consultation Policy](#)].

❖ The Council's Customer Care Standards aims to put people first [[Customer Care Standards](#)]. The Communications Strategy and action plan [[Communications Strategy page](#)] set out the approach to communicating with residents, partners and the media. The Council has a multi-media approach to communication – on line, in person, by phone, by post, and social media sites (on Facebook, Twitter and Instagram). The use of social media sites and text alerts is geared towards engagement with the IT adept and/ or younger residents.

❖ The Council is also part of the [Hertfordshire Local Enterprise Partnership](#) which aims to ensure a prosperous economy for the District's residents and businesses. It also works with Town Centres in Partnership to co-ordinate and progress the work in the town, tackle growth and development challenges. It has assisted with the renewals of the 3 Business Improvement Districts (Hitchin, Letchworth and Royston) which will be in place for another 4 years

Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

What NHDC has or does:

❖ The Council has a Corporate Objectives and Plan approval / review process and its vision is based on partnership aspirations. The Objectives provide the foundations for the Service planning process. Delivery is monitored through detailed Senior Management, Committee and Executive Member / Member procedures.

❖ The Corporate Equality Strategy contains equality objectives and contributes towards the Council's vision of equality and diversity [[Corporate Equality page](#)]. These issues are monitored through the report / decision making process and Annual [Cumulative Equality Impact Assessment 2018-19](#)

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

What NHDC has or does:

❖ Decision making is effectively delegated through the Constitution (to Council, Committees, Cabinet, Executive Members and Officer). The Council has a set report / delegated decision template and guidance on how to complete these, which include standard areas such as an ‘options’ appraisal called “Alternative options considered” and risk analysis assists with optimising outcomes.

❖ The Corporate business planning programme is used to assess projects against criteria including the Council's agreed Policy, its priorities, the outcomes of public consultation, demonstration of continuous improvement and changing legislative need.

❖ The Council has a Project Management Framework, and Service Managers have to identify threats to service delivery/performance in their own areas, when undertaking projects, letting contracts, formulating or introducing new policies and engaging in partnership working. This is part of the [Risk & Opportunities Management Strategy 2017-20](#). These are recorded on the Risk Register and monitored through the Council's Pentana performance/risk management system. Project management lessons are logged and detailed in a Corporate Lessons Log, which is available on the intranet.

❖ The Council's Financial Regulations [[Constitution PART B Section 19 Financial Regulations](#)] are an essential part of risk management / resource control for delivery of services (whether internally, externally or in partnership). The Medium Term Financial Strategy (MTFS) is reviewed annually to set an indicative 5 year financial plan for the longer term strategic vision as well as a detailed one year budget. The MTFS and annual budget are prepared in line with the agreed Objectives and Corporate Plan/ business planning process. Budget workshops are provided to Political groups prior to budget setting/ budget approval and these help to optimise achievements.

Information) (England) Regulations 2012/2089

⁴ Made under The Openness of Local Government Bodies Regulations 2014/2095

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Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

What NHDC has or does:

❖ The Council recognises the importance of employees, planning recruitment and development. The People Strategy incorporates the Workforce Development Plan [[People Strategy 2015-2020; Workforce profile](#)] and was developed with the Corporate Objectives (Priorities as was), Corporate Projects and workforce demands anticipated. A vacancy management process provides a corporate overview of vacancy management and to ensure compliance with proper recruitment practices. The Council promotes ILM Leadership & Management qualifications and has Investors in People accreditation.

❖ Members and employees engage in various groups and benchmarking initiatives. These assist the Council in analysing/ improving its capability, such as the County Benchmarking LG Futures, HR Salary benchmarking, Sport England's National Benchmarking service and Customer Services.

❖ Service area employees attend / are part of groups – such as Legal PLP and Herts First where good practice can be shared.

❖ The Council also considers and participates in Shared Service/ commercial ventures to develop services and resilience, such as the CCTV Partnership, the Local-Authority Building Control Company, 'Hertfordshire Building Control, and has been a Lead authority developing the Herts Home Improvement Agency and shared Waste service with East Hertfordshire District Council.

❖ The Leader is part of Herts Leaders Group and East of England Leaders Group, has weekly Chief Executive/ Leader Briefings. Political Liaison Board (PLB) meetings are held and opposition Member/ shadow Member briefings provided by the Chief Executive/ Service Directors and other senior officers.

❖ Bi-monthly SMT meetings are held where Policy, Projects, Performance and Risk are (amongst other things) monitored. The Council encourages close working liaison between Senior Officers and Executive Members. A strategic officer leadership team has been established, which meets to discuss corporate strategic issues.

❖ Statutory officers meet regularly with political leaders where relevant standard issues are raised. Service directors convene monthly briefings with relevant Executive Members

❖ Following the recently published Gender Pay Gap report, NHDC officers will take actions to implement the recommendations of the report.

Principle F: Managing risks and performance through robust internal control and strong public financial management

What NHDC has or does:

❖ The Council has extensive mechanisms in place to manage risk and performance, for example, through the Risk Management Team/Group/Member Champion and the Risk & Opportunities Management Strategy 2017-20 and [Risk & Opportunities Management Policy Statement 2017-20](#). The Pentana system supports the logging/monitoring process by identifying performance indicators, individual risks and relevant 'ownership'. These are reported to SMT, FAR (risk) and O&S (performance) Committees and Cabinet for transparency and in Cabinet's case, overall management purposes. The Risk Management framework is embedded across all service areas and helps to inform decision making. The Annual Report on Risk Management (April 2018-March 2019) also proposes an action plan for 2019/20 to maintain the Council's effective and strong risk management processes.

❖ SIAS' reviews of Risk Management and Financial systems during 2018/19 provided an overall Substantial assurance.

Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

What NHDC has or does:

❖ The Council's 'Outlook' Magazine is provided to all households in the District and is available on the Council's website. It contains information about the Council's services and events. The Autumn Outlook– Annual Residents Report contains a review of the previous financial year and summarises key achievements against priorities / expenditure and is a useful accountability mechanism.

❖ SIAS undertake numerous planned audits/ (additional on request) and present progress reports against these, an Annual Assurance Statement Internal audit/ opinion report of the Head of Internal Audit on the work undertaken. On an annual basis SIAS is required to evidence its conformance with the requirements of the Public Sector Internal Audit Standards (PSIAS). [Annual Assurance Statement and Internal Audit Report 2017/18 presented at June 2018](#). An external review is required at least once every five years and this was last carried out in January 2016. In SIAS' Opinion report for 2016/17: 'The Head of Assurance has concluded, therefore, that SIAS 'generally conforms' to the PSIAS, including the Definitions of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. 'Generally conforms' is the highest rating and means that SIAS has a charter, policies and processes assessed as conformant to the Standards and is consequently effective and has the processes in place to deliver robust assurance work.

❖ The CFO follows: the CIPFA Code of practice on local authority accounting in the United Kingdom 2018/19 and the CIPFA Statement on the role of the Chief Financial Officer in Local Government 2016 by ensuring that the financial statements are prepared on a timely basis, meet legislative requirements, financial reporting standards and professional standards as reflected in CIPFA's Code of Practice.

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❖ External Auditors provide key timetabling/ stage of audit reports to FAR Committee (Audit Fee Letter, Audit Plan, testing routine procedures, Audit on financial statement and value for money conclusions/ Audit completion certificate and Annual Audit Letter).

Review of Effectiveness

The Council uses a number of ways to review and assess the effectiveness of its governance arrangements. These are set out below:

Assurance from Internal and External Audit

One of the fundamental assurance statements the Council receives is the Head of Internal Audit's Annual Assurance Statement/ Opinion on the work undertaken. During 2017/18 SIAS reported on 35 areas of which 14 received a Substantial assurance, 3 received a moderate assurance and 2 received full assurance. The two were Non-domestic rates and the appraisal process. All key financial/ risk systems/ contract management were also reviewed.. Corporate Project Management, Hitchin town hall (HTH) – operation, Cyber risks and Tree Surveying received Moderate levels of assurance. Recommendations are detailed in the June 2018 SIAS report to FAR Committee [2017/18 Annual Assurance Statement and Internal Audit Report]. SIAS had provided an overall opinion of "Substantial Assurance" in respect of the Council's Financial and Non-Financial Systems. Some of the recommendations have been implemented and outstanding ones will be taken forward and monitored through the 2018/19 reports to FAR Committee. SIAS also review the effectiveness of the FAR Committee. Their conclusions for 2017/18 were that the FAR committee was substantially compliant.

The Council's external auditors provide assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money. The last Annual Audit Letter presented to the FAR Committee in September 2018 was very positive, with unqualified

opinions on both the Council's financial statements and the value for money in use of its resources, [NHDC Annual Audit Letter 2017-18]. The most recent External Audit Update report issued [External Audit Update report 30th July 2018] indicated that there were no changes to the risk identified / value for money risk identified in previous report from January 2018 [FAR Committee meeting January 2018]. These arrangements are therefore deemed to be effective.

SIAS confirmed a good assurance level for corporate governance for the systems in place for 2018/19

Assurance from self-assessment

The review of effectiveness is informed by the work of the Senior Managers within the authority who have responsibility for the development and maintenance of the governance environment. Each Head of Service / Corporate Manager was responsible for producing their own assurance statements and an improvement action plan to rectify any identified governance weaknesses, as part of the Service Planning process. This process was reviewed with an overall SMT assurance statement provided [see⁵].

SMT is chaired by the Chief Executive, includes the MO, CFO and key senior managers. It followed the CIPFA/ SOLACE recommended self-assessment process of reviewing the Council's arrangements against the 2016 Framework Principles/ sub-principles guidance examples. This was undertaken during March-June and SMT is satisfied that appropriate and overall Substantial 2016 Framework governance arrangements are in place. However, any improvement actions have been identified for 2018-19 in the Action Plan. The detailed AGS self-assessment is available on the Corporate Governance page⁶.

Assurance from Risk Management

The top risks for the Council, as reported to FAR Committee in March 2019 [Risk Management report

March 2019), are: Local Plan, Managing the Council's Finances, Waste Management, Recycling and Street Cleansing, Brexit, Cyber Risks, Sustainable Development of the District, Income Generation, Increased Homelessness, Workforce Planning and North Hertfordshire Museum & Hitchin Town Hall Project, The first 4 scored 9 on the risk matrix:

❖ Delivery of the **Local Plan** has been and remains a top risk. The Planning Inspector published the Main Modifications arising from the Local Plan examination process in November 2018. These were reported to Cabinet in December 2018, when approval was granted for consultation on the proposals. The Council concluded consultation on the Main Modifications in April 2019.

❖ **Managing the Council's Finances** is an ongoing top risk which is reported through the FAR Committee and Cabinet process. The MTFS, budgets and capital programme are, however, noted as soundly based and designed to deliver the Council's strategic objectives.

❖ A new overarching top risk relating to **Waste Management, Recycling and Street Cleansing** was introduced in 2018/19 following the award/commencement of the new contract and a subsequent review of the previous top risks. The risk reflects the challenges and opportunities associated with the delivery of this major high profile service.

❖ A new top risk relating to **Brexit** was approved in March 2019, with the risk score reflecting the current high level of uncertainty. The Council is analysing all potential implications and taking proportionate actions based on the likelihood and potential impact.

Assurance from Complaints outcomes

Local Government Ombudsman (LGO): The Council reports complaints to SMT and O&S. The summary for the period 2018/19 (April to September 2018) indicated that NHDC received 1336 complaints of which 605 were complaints regarding contractors was presented at the December 2018 Overview and Scrutiny meeting

⁵ <https://www.north-herts.gov.uk/home/council-data-and-performance/corporate-objectives>

⁶ <https://www.north-herts.gov.uk/home/council-performance-and-data/corporate-governance>

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2 complaints were made to the LGO during 2018/19 (Benefits and Tax – not investigated - premature; Planning x 2 (same complaint – 2 complainants – upheld maladministration: no injustice;

Standards complaints involving Councillors:

During the 2018/19 year there have been fourteen complaints made to the Monitoring Officer (one relating to a Parish Council and councillor, two relating to Parish Councillors, one for a town councillor and 11 relating to District Councillors). None were upheld, although three informal complaints/concerns were raised and resolution was sought by the parties involved and Group Leader intervention.. One was referred to the Police following an ongoing public complaint(one that had previously been self-referred) in relation to alleged Disclosable Pecuniary Interest offences and no offences were found to have taken place by the Police. (A repeat allegation).

Information Commissioner's office (ICO)

During 2018/19 the Council received 783 requests for information with 97% of these handled within the statutory deadline. Two complaints were made to the ICO during this period. A determination has yet to be made in respect of one and the other complaint has not been upheld, In terms of other reports/ issues there have been no formal Statutory reports issued by the MO or s151 (CFO). The Council is therefore assured that effective complaint handling and response measures are in place.

Conclusion

No significant governance issues have arisen as a result of the review of effectiveness for the 2018/19 financial year. The Council is satisfied that it has appropriate arrangements in place. The Council proposes over the coming year to take the actions set out in the Action Plan below to address/ enhance its governance arrangements. Implementation will be monitored through the FAR Committee.

Cllr Martin Stears-Hanscomb Leader of NHDC

David Scholes, Chief Executive of NHDC

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Action Plan 2019/2020

1. Implementation of new member protocol and induction from May 2019; encourage members to access GrowZone to access relevant e-learning as and when appropriate; increased uptake of Member registration as Data controllers [Service Director – Customers];
2. Revised Staff - Staff cultural values and behaviours have been incorporated into the RPP process. (Learning & Development; Deputy Chief Executive)
3. Ethical awareness training – increased staff/member uptake of the Anti-bribery e-learning module (Learning & Development)
4. Re-organisation – Directorate teams are aligned to new responsibilities and ensure resilience; fully staffed [Service Directors]
5. The Area Committee Grants criteria to be reviewed in 2019/20 to ensure that it is fit for purpose (Service Director – Legal & Community)
6. Media training for members (Communications Manager and Committee Services)
7. Implement recommendations of Gender Pay Gap Report action plan for 2019/20 (Senior Management Team)
8. Implementation of LGA Peer review recommendations [Senior Management Team].

NORTH HERTFORDSHIRE
DISTRICT COUNCIL



North Hertfordshire District Council

Finance, Audit & Risk Committee Annual Report

2018 to 2019

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Introduction from the Finance Audit & Risk Committee Chairman

I am pleased to present the Annual Report of the Finance, Audit & Risk (FAR) Committee which describes the Committee's work and achievements over a 12 month period to March 2019.

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

As well as elected members, the Committee is supported by the Service Director: Resources and the Accountancy Manager. Similarly representatives from the Shared Internal Audit Service (SIAS), the Shared Anti-Fraud Service (SAFS) and our External Auditors (Ernst Young) regularly attend the meetings of the Committee.

Due to the changes in Administration as a result of the recent NHDC elections, I will no longer be Chairman nor a member of this Committee, a position that I have held for the past two years. I would like to express my thanks to the Members of the Committee, Ian Couper and his team and all others involved in this very important statutory Committee.

Councillor Terry Hone

May 2019

Role of the Committee

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

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

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

http://www.north-herts.gov.uk/sites/northherts-cms/files/Constitution%20Section%2010_0.pdf

Effectiveness

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

Such a review was carried out by the Client Audit Manager within the Shared Internal Audit Service who has responsibility for the provision of the Internal Audit Service at North Herts District Council. It was reported to the June 2018 meeting of the FAR Committee. This review concluded that the Committee was operating effectively.

A further review will again be carried out and reported to the June 2019 meeting of the Committee.

Members of the Committee

The following Members were appointed to the Committee for 2018/19:

Councillor Terry Hone	Conservative	Chairman
Councillor Simon Harwood	Conservative	Vice-Chairman
Councillor Ian Albert	Labour	
Councillor Kate Aspinwall	Labour	
Councillor Jim McNally	Conservative	
Councillor Ian Moody	Conservative	
Councillor Terry Tyler	Liberal Democrat	

Substitutes:

Councillor Steve Jarvis	Liberal Democrat
Councillor Ben Lewis	Conservative
Councillor Helen Oliver	Labour
Councillor Janine Paterson	Conservative

To support Members appointed to the Committee, assistance was readily available from relevant Officers. An additional development opportunity that some Members took advantage of was a training session on Treasury, Risks and Investments.

Meetings

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

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

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

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

18 June 2018

The Effectiveness of the Finance Audit & Risk Committee
Annual Assurance Statement and Internal Audit Annual Report 2017-2018
SIAS update on progress against the 2018-19 audit plan
Risk Management Update and Annual Report on Risk Management
FAR Annual Report
Draft Annual Governance Statement for 2017-18
Revenue Budget Outturn 2017-2018
Capital Programme Outturn 2017-18
Annual Treasury Management Review 2017-18

30 July 2018

Audit findings report 2017-18
Annual Governance Statement for 2017-18
Statement of Annual Accounts for 2017-2018
Medium Term Financial Strategy
First Quarter Revenue Monitoring 2018-19
First Quarter Capital Monitoring for 2018-19
First Quarter Treasury Monitoring Report for 2018-19

24 September 2018

Annual Audit Letter for the year ended 31 March 2018
Progress report on the Shared Anti-Fraud Service (SAFS)
Annual Governance Statement Action Plan 2018/19- Progress Review
SIAS Annual Report for 2017-18
SIAS update on progress against the 2018-19 Audit Plan
Risk Management Update
Integrated Capital and Treasury Strategy

17 December 2018

SAFS Anti-Fraud Progress Report
SIAS update on progress against the 2018-19 Audit Plan
Updated Contract Procurement Regulations
Risk and Opportunities Management Update
Second Quarter Revenue Budget Monitoring 2018-19
Second Quarter Capital Monitoring for 2018-19

Second Quarter Treasury management 2015-16 Corporate Business Planning- Draft Budget 2019-20
28 January 2019
External Audit Plan for the year ending 31 st March 2019 Certification of Grants and Claims Annual Report 2017-18 Revenue Budget 2019-20 Investment Strategy (Integrated Capital and Treasury)
21 March 2019
SIAS update on progress against the 2018-19 Audit Plan Internal Audit Plan for 2019-20 SAFS Anti-Fraud Plan for 2019-20 Review of the Annual Governance Statement Action Plan and Local Code of Corporate Governance Risk and Opportunities Management Update Third Quarter Revenue Budget Monitoring 2018-19 Third Quarter Capital Monitoring 2018-19 Treasury Management Third Quarter Report 2018-19

Main Achievements

Taking the year as a whole, the Finance, Audit & Risk Committee has been successful in maintaining a comprehensive overview of internal control and governance. In addition, it played a key role in financial monitoring by reviewing reports and providing comments and recommendations to Cabinet.

The Committee received a report on changes to the Contract Procurement Rules. This allowed the Committee to make a recommendation on a change. With this change it was referred on to Cabinet and Council that the proposals be approved.

The Committee received a report on the proposed format of the new Investment Strategy report, which combines the capital and treasury strategies. This report is a new statutory requirement. This allowed the Committee to provide a view on how user friendly the new format was.

Planned work for 2019-20

The Committee will receive the items that ensure it covers its remit. This will include fulfilling its statutory requirement to approve the Annual Governance Statement and Statement of Annual Accounts. The Committee will also comment on a planned update to the fraud prevention policy.

All Members of the Committee are encouraged to take advantage of the various offers of training and development that have been made by Officers as well as some of the external courses that are available. Attendance at a meeting of the Risk and Opportunities Management Group would also be beneficial. This will enable Members of the Committee to discharge their responsibilities to the best of their ability.

FINANCE, AUDIT & RISK COMMITTEE
3 June 2019

PUBLIC DOCUMENT

TITLE OF REPORT: REVENUE BUDGET OUTTURN 2018/19

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: COUNCILLOR IAN ALBERT

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to inform Cabinet of the summary position on General Fund income and expenditure as at the end of the financial year 2018/19. The net outturn of £14.626m represents a **£555k decrease** from the working budget of £15.181million. There are corresponding requests to carry forward **£474k** (of underspends) to fund specific projects that will now take place in 2019/20. There is a further forecast impact on the 2019/20 base budget of a **£7k decrease**. Within these summary totals there are several budget areas with more significant variances, which are detailed and explained in table 3. The report also provides an update on;
- the delivery of planned efficiencies (paragraph 8.3)
 - the use of budget approved to be carried forward from 2017/18 (table 4)
 - performance against the four key corporate 'financial health' indicators (paras 8.6-8.10)
 - confirmation of the funding position as the end of 2018/19 (table 6)
 - details of earmarked reserves movements and balances (table 8)

2. RECOMMENDATIONS

- 2.1 That Cabinet notes this report.
- 2.2 That Cabinet approves a decrease of £555k in the 2018/19 net General Fund expenditure, as identified in table 3 and paragraph 8.1, to a total of £14.626million.
- 2.3 That Cabinet approves the adjustments to the 2019/20 General Fund budget, as identified in table 3 and paragraph 8.2, a £467k increase in net expenditure.
- 2.4 That, as referred to in paragraph 8.3, Cabinet approves the transfer of £48k from the

underspend on the General Fund to the Strategic Priority fund to enable the Senior Management Team to undertake invest to save and/or continuous improvement projects

- 2.5 That Cabinet recommend that Council approves the net transfer to earmarked reserves, as identified in table 8, of £1.504million.

3. REASONS FOR RECOMMENDATIONS

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

4. ALTERNATIVE OPTIONS CONSIDERED

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

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

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

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 18th March 2019.

7. BACKGROUND

- 7.1. Council approved the revenue budget for 2018/19 of £14.747 million in February 2018. The working budget at financial year-end has increased to £15.181 million. Table 1 below details the approved changes to this budget to get to the current working budget:

Table 1 - Current Working Budget

	£k
Original approved budget for 2018/19	14,747
Quarter 3 2017/18 Revenue Monitoring report - 2018/19 budget changes approved by Cabinet (March 2018)	85
2017/18 Revenue Outturn Report - 2017/18 budget changes approved by Cabinet (June 2018)	346
Quarter 1 2018/19 Revenue Monitoring report - 2018/19 variances approved by Cabinet (July 2018)	30
Waste Collection Service in North Hertfordshire report – 2018/19 income implication from 3 month extension to payment period for green waste collection – approved by Council (November 2018)	85
Quarter 2 2018/19 Revenue Monitoring report – 2018/19 variances approved by Cabinet (December 2018)	(17)
Revenue monitoring included within 2019/20 budget report – 2018/19 variances approved by Cabinet (January 2019)	116
Quarter 3 2018/19 Revenue Monitoring report - 2018/19 variances approved by Cabinet (March 2019)	(211)
Working budget at Financial Year End 2018/19	15,181

- 7.2. The Council is managed under Service Directorates. Table 2 below confirms the current net direct resource allocation of each Service Directorate in 2018/19 and how this has changed from the allocations published in the quarter three monitoring report.

Table 2 – Service Directorate Budget Allocations

Service Directorate	Net Direct Working Budget at Q3	Forecast Variances approved at Q3	Budget Transfers in Q3	Current Net Direct Working Budget
	£k	£k	£k	£k
Chief Executive	1,525	13	168	1,706
Commercialisation	(510)	7	83	(420)
Customers	3,610	(5)	(57)	3,548
Legal & Community	2,035	(4)	(59)	1,972
Place	4,521	(257)	150	4,414
Regulatory Services	1,713	35	(228)	1,520
Resources	2,498	0	(57)	2,441
TOTAL	15,392	(211)	0	15,181

8. RELEVANT CONSIDERATIONS

REVENUE INCOME AND EXPENDITURE FORECASTS

- 3.1 Cabinet are asked to approve the net expenditure on the General Fund in 2018/19 of £14.626million (recommendation 2.2). This is a net decrease of £555k on the working budget of £15.181million. Table 3 below highlights the most significant variances, which are generally more than £25k, and contains an explanation for each. The final columns detail if a carry forward into 2019/20 is requested and the estimated ongoing impact of any variances:

Table 3 - Summary of significant variances

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2019/20 £k
Employee Costs - Apprenticeships	173	63	(110)	Unspent amount reflects the timing in year of appointments to apprenticeship posts. It is therefore requested to carry this budget forward to meet the remaining contract commitments. There is now a regular update to the Council's Senior Management Team and Apprentice recruitment is planned to coincide with Apprentice leavers, which should reduce variances going forward.	+110	0
Strategic Priorities Fund	52	0	(52)	A budget of £100k was approved for the Strategic Priorities Fund in 2018/19, of which a total of £48k was allocated to successful investment bids. It is requested that the remaining £52k goes towards a new allocation of £100k for 2019/20.	+52	0
Commercialisation Projects	94	9	(85)	It is expected that the recent appointment of a Commercial Projects manager will lead to the ongoing development of commercialisation opportunities. It is therefore requested that the remaining resource unspent in 2018/19 be carried forward into 2019/20 as this funding will be used for the up-front costs of exploiting these opportunities.	+85	0

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2019/20 £k
Waste Minimisation Expenditure	76	+14	(62)	Unspent budget relates to projects earmarked for, but not completed, in 2018/19. £53k is requested to be carried forward to fund the purchase of food waste caddy liners that will now be distributed to residents as part of the new collection times being introduced in May. A further £6k is also required to install water fountains to encourage residents to avoid single use plastic bottles.	+59	0
Income from Activities at Hitchin Town Hall	(150)	(101)	+49	The under-achievement of income in 2018/19 is due to a combination of several factors. The Council has put in place various measures to address these factors over the course of the next financial year. The full opening of the museum should improve visibility and footfall. The capital investment allocated for improving the acoustics and the installation of a second bar should address some of the negative PR experienced. Similarly, recruitment to vacancies means that there is greater capacity to promote and facilitate a larger number of events.	0	0
Housing Benefits						
Benefit Payments	+32,604	+32,381	(223)	The reduction in the net cost of Housing Benefits is attributed to the impact of Universal Credit (UC), which has significantly reduced the number of claimants (those affected will now be assessed under the DWP administered UC instead). This fall in claimants has reduced the gross level of housing benefit payments, with a consequent impact on the level of overpayments identified. The reduction in the level of overpayments raised this year has however helped to reduce the contribution required to the corresponding bad debt provision.	0	(6,563)
Subsidy Grant	(32,159)	(32,010)	+59		0	+6,563
Overpayments Bad Debt Provision	+300	+233	(67)		0	0
Overpayments Income	(488)	(387)	+101		0	0
Net Total	+257	+127	(130)		0	0
Waste Services – Client Team Staffing	+43	0	-43	It was reported at Q2 that the staff restructure had delivered greater savings in 18/19 than estimated. At that point it was expected that this over-achievement would be absorbed by temporary staffing pressures associated	+43	0

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2019/20 £k
				with the new waste contract. In the event the anticipated cost pressure did not materialise. There are however additional pressures expected in 2019/20, which will require additional staff and support. This will include consultancy work on a jointly provided commercial waste service; review of back office functions; and potential works required for the flats collection service. It is therefore requested that the unspent resource is carried forward to 2019/20.		
Waste Services – Contract Variation Orders	+164	+71	(93)	The anticipated volume of work outside of the core contract did not materialise through the first year of the contract. The budget will be reviewed in June to determine the required budget level.	0	0
Waste Services – Income from paper collected for recycling	(476)	(449)	+27	Shortfall in income achieved for 2018/19 is indicative of the continuing fall in paper tonnages collected. Tonnages in this year were 14% lower than the prior year. The ongoing impact is mitigated slightly by the full year effect of a small increase in the price per ton achieved following the retender of the contract.	0	+26

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2019/20 £k
Planning Services – Planning Applications Income	-806	-521	+285	Reduction in planning application income recorded for 2018/19 is as a result of a change to the Council's accounting policy. This is a result of changes to the accounting standards that the Council is required to follow. In accordance with this, the Council will now only recognise income from those planning applications resolved in the year, with all other receipts received held as income in advance. The accounting adjustment required for 2018/19 reduced the level of income charged to the General Fund by £335k. This does not affect the actual cash that the Council will receive.	0	0
Parking Services – Car Park Season Ticket Income	(284)	(309)	(25)	Over-achievement of the income budget follows significantly higher than expected sales in the last two months of the financial year. While some increase in this period is expected, as some commuters seek to purchase tickets in advance of an anticipated April price increase, the number of season tickets sold in February and March 2019 was nearly 40% higher than the equivalent period in the prior year.	0	0
Council Property General Maintenance	179	128	(51)	This underspend is primarily due to delays to a number of planned projects and a carry forward of £51k in respect of these works is requested. This comprises £28k for the external redecoration of the main building at Hitchin Swimming Centre, which was delayed for better weather; £6k for the redecoration of Hitchin Museum, which was delayed due to identifying structural repairs; and £17k for the replacement of pump and controls at Hitchin Swim Centre, which it had not been possible to install to due manufacturing delays.	+51	0

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2019/20 £k
Brexit Preparations	18	0	(18)	A carry forward is requested for the first instalment of the Central Government grant awarded for Brexit preparations. £500 has been spent to date on a Food Resilience work plan and the remainder of the grant will be used to fund specific costs relating to Brexit.	+18	0
Local Plan – Consultants Costs and Legal Fees	125	67	(58)	Expenditure is lower than anticipated as the Local Plan did not proceed to adoption during the financial year as originally anticipated. While the Inspector's proposed Main Modifications were published in November 2018 and the consultation began in January 2019, no further examination hearing days were held during 2018/19, which helped to limit the costs incurred. Council officers also completed some additional tasks associated with the examination in-house, which reduced the requirement for external consultant assistance. However, the costs associated with the anticipated completion of the examination and adoption of the Plan are expected to be incurred during 2019/20 and as such a carry forward is requested.	+58	0
Total of explained variances	(535)	(901)	(366)		+475	+26
Other minor balances	+15,716	+15,527	(162)		(1)	(33)
Overall Total	+15,181	+14,626	(555)		+474	(7)

3.2 Cabinet are asked to approve the estimated net impact on the 2019/20 budget, a **£467k increase** in budget (recommendation 2.3), which includes:

- **£474k** of budget carry-forwards from 2018/19 to 2019/20 for projects that were not completed by the end of the financial year. These are shown in the penultimate column of table 3 above. This will take the total carry-forward to £689k (i.e. including those reported and approved at quarter 2, month 8 and quarter 3).
- **£7k** decrease in budget to reflect the estimated ongoing net impact in 2019/20 of variances identified in Q4. These are shown in the final column of table 3 above.

- 3.3 Cabinet are asked to approve the transfer of £48k from the underspend in 2018/19 into the Strategic Priorities Fund in the following year (recommendation 2.4). Along with the Strategic Priorities Fund carry forward of £52k requested, this will bring the total amount in the fund next year to £100k. The fund provides the Council's Senior Management Team with authority to approve the allocation of the funds during the year for invest to save or continuous improvement projects as the opportunity arises.
- 3.4 The original approved budget for 2018/19 (and therefore working budget) included efficiencies totalling £2,706k, which were agreed by Council in February 2018. Progress in delivering the efficiencies identified has been monitored throughout the year and reported at each quarter. The efficiency total has been overachieved in the year by £166k, which is the same as the forecast overachievement reported at quarter 3. This total excludes the accounting adjustment for planning income detailed in table 3.
- 3.5 The working budget for 2018/19 included budgets totalling £515k that were carried forward from the previous year. These are generally carried forward so that they can be spent for a particular purpose that had been due to happen in 2017/18 but was delayed into 2018/19. At the end of the year a total of £307k of the budget carried forward has not been spent in 2018/19, as detailed in Table 4 below, of which £295k has been requested to be carried forward into 2019/20.

Table 4 – Unspent Carry Forward Budget in 2018/19

Monitoring Report	Carry Forward Budget in 18/19 (£k)	Project	Underspend reported (£k)
Q2	87	Potential implementation of a Community Infrastructure Levy	87
Month 8	60	Area Committee Grants	9
Q3	55	Parking Services Lines and Signs Maintenance	39
Q3	18	Economic Development Officer post	10
Q3	13	Herts Warmer Home Project	13
Q3	12	Review of Housing Strategy	12
Outturn	100	Strategic Priorities Fund (SPF); £48k of the £100k funding available was allocated to successful bids in 2018/19 with the remaining £52k requested to be carried forward into 2019/20 (as highlighted in table 3 above).	52
Outturn	95	Commercialisation project; £9k of this £94k carry forward budget has been spent in 2018/19, with the remainder requested to be carried forward into 2019/20 (as highlighted in table 3 above).	85
Total Underspend 2018/19			307

- 3.6 There are 4 key corporate 'financial health' indicators identified in relation to key sources of income for the Council. Table 5 below shows the performance for the year. A comparison is made to the original budget to give the complete picture for the year. Each indicator is given a status of red, amber or green. A green indicator means that income recorded matched or exceeded the budgeted level of income. A red indicator means that the outturn has not met the budgeted level of income. An amber indicator is only used during the year to highlight that there is a risk that the budgeted level of income may not be met.
- 3.7 At the end of the year, one indicator is green and three indicators are red.
- 3.8 Having been flagged as amber at quarter 1, the red indicator in relation to car parking fees was highlighted within the revenue monitoring report at quarter 2. This relates to measures to generate additional parking fee income anticipated from the Parking Strategy review, which have not been implemented.
- 3.9 The red indicator in relation to land charges income was also highlighted within the revenue monitoring report at quarter 2. The number of searches requested to be undertaken by the authority has reduced in comparison to the prior financial year.
- 3.10 The red indicator in relation to income from planning applications was highlighted within the revenue monitoring report at quarter 3, with a lower number of applications received in the second half of the year. The actual income figure for the year has also been affected by the change in accounting policy relating to the recognition of the planning income (as detailed in table 3 above), with the relevant accounting adjustments reducing the income total charged to the General Fund for 2018/19 by £335k.

Table 5 - Corporate financial health indicators

Indicator	Status	Original Budget £k	Actual income for the year £k	Variance £k
Planning Application Fees (including fees for pre-application advice)	Red	(940)	(522)	419
Land Charges	Red	(174)	(145)	30
Car Parking Fees	Red	(1,906)	(1,867)	39
Parking Penalty Charge Notices	Green	(532)	(535)	(3)

FUNDING, RISK AND GENERAL FUND BALANCE

- 3.11 The Council's revenue budget is funded from the following main sources; Council Tax, New Homes Bonus and Retained Business Rates income. The Council was notified by Central Government in February 2018 of the amount of New Homes Bonus it could expect to receive in 2018/19 and planned accordingly.
- 3.12 Council Tax and Business Rates are accounted for in the Collection Fund rather than directly in our accounts, as we also collect them on behalf of other bodies. Each organisation has a share of the balance on the Collection Fund account. At the end of 2018/19 there is a surplus on the NHDC share of the Council Tax Collection Fund of £279k and a deficit on the Business Rates Collection Fund of £604k.
- 3.13 The Central Government return submitted in January 2019 estimated a Business Rates Collection Fund deficit for 2018/19 of £58k. The contribution to the Collection Fund required in 2019/20 in respect of the deficit for 2018/19 is based on this January estimate. The £546k difference between the actual deficit of £604k and the January estimate of £58k will be included in the calculation of the estimated surplus/deficit for 2019/20 (submitted to Central Government in January 2020), and hence will affect the calculation of the Council's retained business rates income for 2020/21.
- 3.14 The Council also receives compensation in the form of a grant from Central Government for business rate reliefs introduced, which goes in to our funds rather than the Collection Fund. We are holding this amount in a reserve to fund the repayment of deficits recorded in future years. Some of the amount held in reserve will therefore be used in the next financial year to fund the repayment of the £58k deficit highlighted above.
- 3.15 The Council is also subject to a business rates levy from Central Government as NHDC collects more in business rates than the baseline need determined by Central Government. In 2018/19 the Council was a member of the Hertfordshire Business Rates Pool, with the expectation that this would reduce the levy amount required. This has proved to be the case, with the Council benefiting from a pooling gain of £368k in the form of a reduced levy contribution, with the calculated levy for 2018/19 reduced from a total of £528k to £160k. The pooling gain has been retained in the reserve. Current forecasts suggest that the pooling gain amount could be released to fund General Fund expenditure.
- 3.16 The Ministry for Housing, Communities and Local Government announced in the provisional Local Government Finance Settlement for 2019/20 in December 2018 that their Business Rates levy account, from which safety net payments are made to eligible authorities, was in a surplus position of £195million and that £185million of the surplus would be distributed to local authorities. The published schedule of provisional allocated amounts, which included £41k for NHDC, was headed as 'Levy account surplus allocations for 2019 to 2020'. When the final settlement was published on January 29 2019, however, the equivalent schedule was headed 'Levy account surplus final allocations for 2018 to 2019'. As such the additional £41k income, received in March

2019, has been charged to the General Fund in 2018/19 and explains the increase in the funding total in table 6 below.

- 3.17 Table 6 below summarises the impact on the general fund balance of the outturn position detailed in this report. It should however be noted at this point that the Statement of Accounts is yet to be audited and changes to the General Fund balance may arise as a result of the final accounts audit.

Table 6 – General Fund impact

	Working Budget £k	Outturn £k	Difference £k
Brought Forward balance (1st April 2018)	(7,403)	(7,403)	-
Net Expenditure	15,181	14,626	(555)
Funding (Council Tax, Business Rates, RSG)	(15,044)	(15,085)	(41)
Contribution to Collection Fund	656	656	0
Funding from Reserves (including Business Rate Relief Grant)	(656)	(656)	0
Carried Forward balance (31st March 2019)	(7,266)	(7,862)	(596)

- 3.18 The minimum level of General Fund balance is determined based on known and unknown risks. Known risks are those things that we think could happen and we can forecast both a potential cost if they happen, and percentage likelihood. The notional amount is based on multiplying the cost by the potential likelihood. The notional amount for unknown risks is based on 5% of net expenditure. There is not an actual budget set aside for either of these risk types, so when they occur they are reflected as budget variances (see table 3). We monitor the level of known risks that actually happen, as it highlights whether there might be further variances. This would be likely if a number of risks come to fruition during the early part of the year. We also use this monitoring to inform the assessment of risks in future years. The notional amount calculated at the start of the year for known risks was £1,424k, and at the end of the year a total of £853k have come to fruition. The two identified risks realised in the final quarter relate to;

- Hitchin Town Hall income (as highlighted in table 3). £49k
- Increase in the net cost of recycling services (paper income variance highlighted in table 3 with other offsetting variances included in the 'other minor variances' total in table 3). £17k

Table 7 – Known financial risks

	£'000
Original allowance for known financial risks	1,424
Known financial risks realised in Quarter 1	(243)
Known financial risks realised in Quarter 2	(466)
Known financial risks realised in Quarter 3	(77)
Known financial risks realised in Quarter 4	(66)
Remaining allowance for known financial risks	571

EARMARKED RESERVES

- 3.19 The Council has a number of earmarked reserves, which can be used to fund revenue expenditure. These are detailed in Table 8 below. A total of £2.892million has been contributed to the reserves in 2018/19 and a total of £1.388million has been used to fund expenditure.
- 3.20 Cabinet are asked to recommend to Council that the net contribution to reserves of £1.504million be approved (recommendation 2.5), which leaves a total balance in earmarked reserves at 31 March 2019 of £7.183million.

Table 8 – Earmarked Reserves

	Balance at 1 April 2018	Contributions to reserve	Transfers out to fund expenditure	Balance at 31 March 2019
	£'000	£'000	£'000	£'000
Cemetery Mausoleum Reserve	140	21	0	161
Childrens Services Reserve	8	0	(1)	7
Climate Change Grant Reserve	30	0	(2)	28
Community Development Reserve	1	0	(1)	0
Community Right to Challenge Reserve	45	0	0	45
MHCLG Grants Reserve	868	1,763	(817)	1,814
DWP Additional Grants Reserve	129	117	(56)	190
Environmental Warranty Reserve	209	0	0	209
Growth Area Fund Reserve	53	0	0	53
Homelessness Grants Reserve	203	204	(145)	262
Housing & Planning Delivery Reserve	768	387	(13)	1,142
Information Technology Reserve	82	0	0	82
Insurance Reserve	34	0	0	34
Land Charges Reserve	104	0	(10)	94

	Balance at 1 April 2018	Contributions to reserve	Transfers out to fund expenditure	Balance at 31 March 2019
	£'000	£'000	£'000	£'000
Leisure Management Maintenance Reserve	47	0	0	47
Museum Exhibits Reserve	12	0	0	12
Neighbourhood Plan Reserve	41	0	0	41
Office Move IT Works	7	0	0	7
Paintings Conservation Reserve	11	0	0	11
Property Maintenance Reserve	62	10	0	72
S106 Monitoring Reserve	53	0	(17)	36
Special Reserve	1,720	0	(325)	1,395
Street Furniture	17	4	0	21
Street Name Plates	16	0	0	16
Syrian Refugee Project	87	28	0	115
Taxi Licences Reserve	13	0	0	13
Town Centre Maintenance	38	8	(1)	45
Traffic Regulation Orders	296	51	0	347
Waste Reserve	585	46	0	631
Waste Vehicles Reserve	0	253	0	253
Total Revenue Reserves	5,679	2,892	(1,388)	7,183

9. LEGAL IMPLICATIONS

- 1.2 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. Specifically 5.6.8 of Cabinet's terms of reference state that it has remit "*to monitor quarterly revenue expenditure and agree adjustments within the overall budgetary framework*". By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget and to maintain a prudent balance.
- 1.3 The Accounts and Audit Regulations 2015 require that the Annual Statement of Accounts be approved and published by the deadline date of 31 July 2018. Members are reminded of the duty to set a balanced budget and to maintain a prudent level of reserves.

2. FINANCIAL IMPLICATIONS

- 2.1 Members have been advised of any variations from the budgets in the body of this report and of any action taken by officers.

- 2.2 The general fund balance of £7.862million (table 6) meets the recommended minimum balance of General Fund reserves agreed when the budget was set. The Statement of Accounts is however yet to be audited and changes to the General Fund balance may arise as a result of the final audit. As the Housing Benefit claim is also yet to be audited, the relevant values included in the reported outturn are based on un-audited figures.

3. RISK IMPLICATIONS

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

4. EQUALITIES IMPLICATIONS

- 4.1 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.
- 4.2 For any individual new revenue investment proposal of £50k or more, or affecting more than two wards, a brief equality analysis is required to be carried out to demonstrate that the authority has taken full account of any negative, or positive, equalities implications; this will take place following agreement of the investment.

5. SOCIAL VALUE IMPLICATIONS

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

6. HUMAN RESOURCE IMPLICATIONS

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

7. APPENDICES

- 7.1 None.

8. CONTACT OFFICERS

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**FINANCE, AUDIT AND RISK COMMITTEE
3 JUNE 2019**

PUBLIC DOCUMENT

TITLE OF REPORT: CAPITAL PROGRAMME OUTTURN 2018/19

REPORT OF : SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER : CLLR IAN ALBERT

COUNCIL PRIORITY : RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 As at the end of financial year 2018/19, there is a reduction in spend compared to quarter 3 of **£1.162million**. The majority of this change is for project underspends **£0.676million** and expenditure that will now be incurred in 2018/19. The forecast increase in spend in future years is **£0.542million**.

2. Recommendations

- 2.1 That Cabinet notes expenditure of **£5.574million** in 2018/19 on the capital programme, paragraph 8.2 refers, and in particular the changes detailed in table 3 which resulted in a net decrease on the working estimate of **£0.620million**.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2019/20 as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2019/20 by **£0.541million** (re-profiled from 2018/19).
- 2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 4 paragraph 8.6 and the requirement to keep the capital programme under review for affordability.
- 2.4 That Cabinet approves the application of **£0.626million** of capital receipts towards the 2018/19 capital programme and the drawdown of **£4.431million** from set aside receipts, paragraph 8.6 refers.

3. REASONS FOR RECOMMENDATIONS

3.1 Cabinet is required to approve adjustments to the capital programme.

3.2 Cabinet is required to ensure that the capital programme is fully funded.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 Options for capital investment are considered as part of the Corporate Business Planning process.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

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

6. FORWARD PLAN

6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 18th March 2019.

7. BACKGROUND

7.1 In February 2018, Council approved the capital programme for 2018/19 to 2021/22. This was subsequently amended by reprogramming from 2017/18 and changes in forecasts at quarter 1, 2 and 3. In February 2019, Council approved the capital programme for 2019/20 to 2022/23.

7.2 The Medium Term Financial Strategy for 2019 to 2024 confirmed that the Council will seek opportunities to utilise capital funding (including set aside receipts) for invest to save schemes and proposals that generate higher rates of return than standard treasury investments. This is one way the Council will allocate resources to support organisational transformation that will reduce revenue expenditure.

8. RELEVANT CONSIDERATIONS

Capital Programme 2018/19

8.1 Summaries of the capital programme by Council priority and service are shown in appendix A together with the overall funding analysis and projected availability of capital funding balances (set aside and capital receipts). The full programme is detailed in Appendix B and shows the revised costs to date, together with the expected spend from 2019/20 to 2022/23 and the funding source for each capital scheme.

8.2 The outturn capital expenditure for 2018/19 is **£5.574million**. This is a reduction of **£1.162million** on that reported at the end of the third quarter. The decrease in spend is

largely due to re-profiling spend in to future years and underspend on projects. Table 1 below details the changes from what was reported at Quarter 3.

Table 1- Current Capital Estimates (compared to Quarter 3 forecasts)

	2018/19 £M	2019/20 £M	2020/21 to 2022/23 £M
Estimate as at Q3 2018/19	6.736	8.679	1.890
Change from Q3 Estimate	-1.162	0.541	0
Outturn 2018/19	5.574	9.220	1.890

- 8.3 Table 2 lists the schemes in the 2018/19 Capital Programme that will start or continue in 2019/20:

Table 2: Scheme Timetable Revision:

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

Scheme	2018/19 Working Budget £'000	2018/19 Outturn £'000	Variance £'000	Comments	Estimated impact on 2019/20 onwards £'000
Provide Housing at Market Rents	500	18	-482	Work is in progress to redevelop a Council office building (Harkness Court) in to residential. Planning permission and Building Regulation approval have been obtained. Tenders have now been received for the building work and the estimated spend in 2019/20 is £208,000. The Council is in the process of setting up a property company, which will enable the letting of residential properties.	482
Museum Services Development	80	50	-30	The land formerly known as 14/15 Brand Street was secured in February 2019. The Museum Team has been working hard to complete these areas but some works are still to be carried out. As a result, this budget will still be required in the 2019/20 financial year as we move towards full opening of the facility this summer.	30
Other minor slippage			-30		30
Total Revision to Budget Profile			-542		

- 8.4 There are also changes to the overall costs of schemes in 2018/19. These changes total a net decrease of £0.620million and are detailed in Table 3:

Table 3: Changes to Capital Schemes Commencing in 2018/19:

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

Scheme	2018/19 Working Budget £'000	2018/19 Outturn £'000	Increase/ Decrease £'000	Comments
Waste and Street Cleansing Vehicles	3,600	3,178	-422	The budget was an estimate prior to the commencement of the new shared service contract. The outturn reflects both the actual vehicles being used by the contractor and how they have been procured. Only those vehicles that have been purchased or leased on a long-term basis will be reflected as a capital cost.
Disabled Facility Grants (DFG)	300	122	-178	Some grants did not proceed or were cancelled. There were also delays in undertaking certain works and other cases were funded from other sources.
Other minor changes			-20	
Total revision to scheme spend			-620	

- 8.5 The following capital schemes have been completed during 2018/19:

- Waste and Street Cleansing Vehicles
- Purchase of 14 & 15 Brand Street
- Hitchin Swim Centre lift
- Ultra Violet Water System
- Hitchin Outdoor Pool Showers and WCs
- Letchworth Outdoor Pool Showers and WCs
- Food Waste Caddies purchase
- Wilbury Hills Cemetery Paths
- Bancroft Recreation Ground Pathways Renewal
- Various IT Projects

Capital Programme 2018/19 Funding onwards

- 8.6 Table 4 below shows how the Council will fund the 2018/19 capital programme.

Table 4: Funding the Capital Programme:

	2018/19 Balance at start of year £M	2018/19 Additions £M	2018/19 Funding Used £M	2018/19 Balance at end of year £M
Useable Capital Receipts	3.090	0.116	(0.626)	2.580
Set-aside Receipts	10.252		(4.342)	5.910
S106 receipts			(0.235)	
Other third party grants and contributions			(0.371)	
Total	13.342		(5.574)	

- 8.7 The availability of third party contributions and grants to fund capital investment is continuously sought in order to reduce pressure on the Council's available capital receipts and allow for further investment.

9. LEGAL IMPLICATIONS

- 9.1 Cabinet's terms of reference under 5.6.7 specifically includes "to monitor expenditure on the capital programme and agree adjustments within the overall budgetary framework". The Cabinet also has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget.
- 9.2 Asset disposals must be handled in accordance with the Council's Contract Procurement Rules.

10. FINANCIAL IMPLICATIONS

- 10.1 The main financial implications are covered in section 8 of the report.
- 10.2 The Authority operates a tolerance limit on capital projects that depends on the value of the scheme and on this basis over the next four-year programme it should be anticipated that the total spend over the period could have been £1.313million higher than the originally budgeted £11.11million.
- 10.3 The capital programme will need to remain under close review due to the limited availability of capital resources and the affordability in the general fund of the cost of using the Council's capital receipts. When capital receipts are used and not replaced the availability of cash for investment reduces. Consequently interest income from investments reduces. £1.0million currently earns the Authority approximately £10k a year in interest. The general fund estimates are routinely updated to reflect the reduced income from investments. When the Capital Financing Requirement (CFR) reaches zero the Council will need to start charging a minimum revenue provision to the general fund for the cost of capital and will need to consider external borrowing for further capital spend. The CFR at the 31 March 2019 is negative £6million.

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

11. RISK IMPLICATIONS

- 11.1 The inherent risks in undertaking a capital project are managed by the project manager of each individual scheme. These are recorded on a project risk log which will be considered by the Project Board (if applicable). The key risks arising from the project may be recorded on Pentana (the Council's Performance & Risk management software). Some of the major capital projects have been included as the Council's Top Risks (such as the new North Hertfordshire Museum). The Top Risks are monitored by the Finance, Audit and Risk Committee.
- 11.2 Cabinet receives quarterly reports on project progress and forecast spend

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 For any individual new capital investment proposal of £50k or more, or affecting more than two wards, an equality analysis is required to be carried out; this will take place following Cabinet agreement of the investment. A sound management of funds ensures that the Council has sufficient monies to support the improvement of district facilities.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 As the recommendations made in this report do not constitute a public service contract, the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied, although equalities implications and opportunities are identified in the relevant section at paragraphs 12. Any individual capital scheme which is subject to the award of a public service contract will be evaluated in terms of its social value through the Council's procurement processes.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource implications.

15. APPENDICES

- 15.1 Appendix A, Capital Programme Summary 2018/19 onwards.
Appendix B, Capital Programme Detail including Funding 2018/19 onwards,

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

17.1 2018/19 Budget Estimates Book.

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By Council Priority

Priority	2017/18 Outturn	£	2018/19 Working Estimate	£	2018/19 Outturn	£	2018/19 Movement	£	2019/20 Revised Estimate	£	2020/21 Revised Estimate	£	2021/22 Revised Estimate	£	2022/23 Revised Estimate	£
Attractive & Thriving	2,501,300		694,600		692,300		-2,300		2,221,800		578,000		255,000		39,000	
Prosper & Protect	335,600		1,335,900		839,700		-496,200		5,117,800				0		0	
Responsive & Efficient	6,646,800		4,705,400		4,042,400		-663,000		1,880,800		384,000		124,000		510,000	
Grand Total	9,483,700		6,735,900		5,574,400		-1,161,500		9,220,400		962,000		379,000		549,000	

By Service Group

Service Group	2017/18 Outturn	£	2018/19 Working Estimate	£	2018/19 Outturn	£	2018/19 Movement	£	2019/20 Revised Estimate	£	2020/21 Revised Estimate	£	2021/22 Revised Estimate	£	2022/23 Revised Estimate	£
Advances & Cash Incentives	0		0		0		0		1,096,000		0		0		0	
Asset Management	5,532,300		1,145,500		665,800		-479,700		3,316,500		255,000		255,000		0	
Building Control	0		0		0		0		0		0		0		0	
CCTV	21,700		0		0		0		0		0		0		0	
Community Services	364,000		506,500		492,800		-13,700		790,400		120,000		0		0	
Computer Software and Equipment	142,600		149,300		134,200		-15,100		839,800		119,000		64,000		450,000	
Corporate Items	0		0		0		0		10,600		0		0		0	
Growth Fund Projects	0		0		0		0		713,000		0		0		0	
Leisure Facilities	2,600,300		746,700		727,000		-19,700		1,148,700		408,000		0		39,000	
Museum & Arts	141,700		105,900		69,100		-36,800		149,800		0		0		0	
Parking	11,300		0		24,200		24,200		1,095,600		0		0		0	
Renovation & Reinstatement Grant Expenditure	669,800		350,000		156,200		-193,800		60,000		60,000		60,000		60,000	
Town Centre Enhancement	0		0		0		0		0		0		0		0	
Waste Disposal	0		0		0		0		0		0		0		0	
Waste collection	0		3,732,000		3,305,100		-426,900		0		0		0		0	
Grand Total	9,483,700		6,735,900		5,574,400		-1,161,500		9,220,400		962,000		379,000		549,000	

Capital Funding Source

Service Group	2017/18 Outturn	£	2018/19 Working Estimate	£	2018/19 Outturn	£	2018/19 Movement	£	2019/20 Revised Estimate	£	2020/21 Revised Estimate	£	2021/22 Revised Estimate	£	2022/23 Revised Estimate	£
Capital Receipt	1,436,700		326,400		625,600		299,200		2,664,900		675,000		379,000		549,000	
Government Grant	704,900		300,000		122,000		-178,000		763,000		0		0		0	
IT Reserve	0		0		0		0		0		0		0		0	
Revenue Contribution / Borrowing	0		0		0		0		0		0		0		0	
Other Capital Contributions	480,900		273,400		249,500		-23,900		172,800		250,000		0		0	
S106 Funding	471,000		197,100		235,600		38,500		488,900		37,000		0		0	
Drawdown of cash investments	6,390,200		5,639,000		4,341,700		-1,297,300		5,130,800		0		0		0	
Grand Total	9,483,700		6,735,900		5,574,400		-1,161,500		9,220,400		962,000		379,000		549,000	

Capital Receipt Analysis

	2017/18 Outturn	£	2018/19 Working Budget	£	2018/19 Revised Funding	£	2019/20 Estimate	£	2020/21 Estimate	£	2021/22 Estimate	£	2022/23 Estimate	£
B/fwd Capital Receipt Funding	-3,223,516		-3,090,265		-3,090,265		-2,580,229		-4,865,329		-7,190,329		-9,061,329	
Add: Capital Receipts Received in Year	-1,303,449		0		-115,564		-4,950,000		-3,000,000		-2,250,000		-1,250,000	
Less: Capital Receipts Used in Year	1,436,700		326,400		625,600		2,664,900		675,000		379,000		549,000	
C/Fwd Capital Receipt Funding	-3,090,265		-2,763,865		-2,580,229		-4,865,329		-7,190,329		-9,061,329		-9,762,329	

Set-Aside Receipts Analysis

	2017/18 Outturn	£'000	2018/19 Working Budget	£'000	2018/19 Revised Funding	£'000	2019/20 Estimate	£'000	2020/21 Estimate	£'000	2021/22 Estimate	£'000	2022/23 Estimate	£'000
B/fwd Set-Aside Receipt Funding	-16,642,400		-10,252,200		-10,252,200		-5,910,500		-779,700		-779,700		-779,700	
Set-Aside Receipts Received in Year	0		0		0		0		0		0		0	
Set -Aside Receipts Used in Year	6,390,200		5,639,000		4,341,700		5,130,800		0		0		0	
C/Fwd Set-Aside Receipt Funding	-10,252,200		-4,613,200		-5,910,500		-1,297,300		-779,700		-779,700		-779,700	

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		2017/18 Funding £	2018/19 Funding £	2019/20 Funding £	2020/21 Funding £	2021/22 Funding £	2022/23 Funding £
Project							
40 KVA UPS Device or Battery Replacement	Capital Receipt			7,000			
40 KVA UPS Device or Battery Replacement Total		0	0	7,000	0	0	0
Additional PC's - Support Home Working/OAP	Capital Receipt			13,000			
Additional PC's - Support Home Working/OAP	Drawdown of cash investments	12,700					
Additional PC's - Support Home Working/OAP Total		12,700	0	13,000	0	0	0
Additional Storage	Capital Receipt			13,000			
Additional Storage	Drawdown of cash investments			12,000			
Additional Storage Total		0	0	25,000	0	0	0
Alternative to safeword tokens for staff/members working	Capital Receipt			8,000			
Alternative to safeword tokens for staff/members working		0	0	8,000	0	0	0
Area Visioning	Drawdown of cash investments	26,400					
Area Visioning Total		26,400	0	0	0	0	0
Baldock Road Recreation Grounds	Capital Receipt			20,000			
Baldock Road Recreation Grounds Total		0	0	20,000	0	0	0
Baldock Town Hall project	Drawdown of cash investments		26,600	47,900			
Baldock Town Hall project	S106 Funding	1,500		800			
Baldock Town Hall project Total		1,500	26,600	48,700	0	0	0
Bancroft Gardens Play Area	Capital Receipt	36,800	3,100				
Bancroft Gardens Play Area	S106 Funding	11,500					
Bancroft Gardens Play Area Total		48,300	3,100	0	0	0	0
Bancroft Recreation Ground, Hitchin, Multi Use Games Area	Capital Receipt			44,100			
Bancroft Recreation Ground, Hitchin, Multi Use Games Area	Other Capital Contributions			60,000			
Bancroft Recreation Ground, Hitchin, Multi Use Games Area	S106 Funding		5,800	60,100			
Bancroft Recreation Ground, Hitchin, Multi Use Games Area		0	5,800	164,200	0	0	0
Cabinet Switches - 4 Floors	Capital Receipt					18,000	
Cabinet Switches - 4 Floors	Drawdown of cash investments	6,700					
Cabinet Switches - 4 Floors Total		6,700	0	0	0	18,000	0
Cadcorp Local Knowledge & Notice Board Software	Capital Receipt		8,300	5,200			

Project		2017/18 Funding £	2018/19 Funding £	2019/20 Funding £	2020/21 Funding £	2021/22 Funding £	2022/23 Funding £
Cadcorp Local Knowledge & Notice Board Software Total		0	8,300	5,200	0	0	0
Channel shift - processing of housing register applications	Drawdown of cash investments			40,000			
Channel shift - processing of housing register applications Total		0	0	40,000	0	0	0
Construction of pathway and roadway, Wilbury Hills Cemetery, Letchworth	Drawdown of cash investments		32,100				
Construction of pathway and roadway, Wilbury Hills Cemetery, Letchworth Total		0	32,100	0	0	0	0
Core Backbone Switch	Capital Receipt			20,000			
Core Backbone Switch Total		0	0	20,000	0	0	0
Council property improvements following condition surveys	Capital Receipt	63,600	14,200	265,800	255,000	255,000	
Council property improvements following condition surveys	Drawdown of cash investments		63,000	12,000			
Council property improvements following condition surveys Total		63,600	77,200	277,800	255,000	255,000	0
Customer Self Serve Module	Capital Receipt			3,000			
Customer Self Serve Module Total		0	0	3,000	0	0	0
Cyber Attacks - Events Monitoring Software Solution	Capital Receipt			30,000			
Cyber Attacks - Events Monitoring Software Solution Total		0	0	30,000	0	0	0
Cycle Strategy implementation (GAF)	Government Grant			278,000			
Cycle Strategy implementation (GAF) Total		0	0	278,000	0	0	0
Decommissioning of Pavilions	Capital Receipt		48,000				
Decommissioning of Pavilions Total		0	48,000	0	0	0	0
Decommissioning of Play Areas	Capital Receipt		26,200	103,800			
Decommissioning of Play Areas Total		0	26,200	103,800	0	0	0
Dell Servers	Capital Receipt			65,000			
Dell Servers Total		0	0	65,000	0	0	0

		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
		Funding	Funding	Funding	Funding	Funding	Funding
		£	£	£	£	£	£
Project							
Dog / Litter Bins	Capital Receipt	32,600					
Dog / Litter Bins Total		32,600	0	0	0	0	0
DR Set-up	Capital Receipt			27,400			
DR Set-up	Drawdown of cash investments		22,600	22,400			
DR Set-up Total		0	22,600	49,800	0	0	0
EA Agreement (MS EA) TN agreed funded within 4571 Account	Capital Receipt	-5,200					450,000
EA Agreement (MS EA) TN agreed funded within 4571 Account	Drawdown of cash investments						
EA Agreement (MS EA) TN agreed funded within 4571 Account Total		-5,200	0	0	0	0	450,000
Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract	Capital Receipt	28,000			39,000		
Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract Total		28,000	0	0	39,000	0	0
Email Encryption Software Solution	Capital Receipt				45,000		
Email Encryption Software Solution Total		0	0	0	45,000	0	0
Energy efficiency measures	Drawdown of cash investments	51,500		8,500			
Energy efficiency measures Total		51,500	0	8,500	0	0	0
Financial System upgrade - E-series	Drawdown of cash investments	4,400					
Financial System upgrade - E-series Total		4,400	0	0	0	0	0
Food Waste Caddies	Drawdown of cash investments		127,500				
Food Waste Caddies Total		0	127,500	0	0	0	0
Green Infrastructure implementation (GAF)	Government Grant			185,000			
Green Infrastructure implementation (GAF) Total		0	0	185,000	0	0	0
Hitchin & Letchworth Outdoor Pool Automatic Chemical Dosing Pumps	Capital Receipt			20,000			
Hitchin & Letchworth Outdoor Pool Automatic Chemical Dosing Pumps Total		0	0	20,000	0	0	0
Hitchin & Royston Fitness Equipment	Other Capital Contributions	480,900	27,700				

Project		2017/18 Funding £	2018/19 Funding £	2019/20 Funding £	2020/21 Funding £	2021/22 Funding £	2022/23 Funding £
Hitchin & Royston Fitness Equipment Total		480,900	27,700	0	0	0	0
Hitchin Multi Storey Safety and Equalities Act improvements	Drawdown of cash investments	700		39,300			
Hitchin Multi Storey Safety and Equalities Act improvements Total		700	0	39,300	0	0	0
Hitchin Outdoor Pool Showers and Toilets	Drawdown of cash investments		40,600				
Hitchin Outdoor Pool Showers and Toilets	S106 Funding		60,400				
Hitchin Outdoor Pool Showers and Toilets Total		0	101,000	0	0	0	0
Hitchin Swimming Centre Lift	Drawdown of cash investments	3,100	65,800				
Hitchin Swimming Centre Lift Total		3,100	65,800	0	0	0	0
Hitchin Swimming Pool Car Park extension	Capital Receipt	28,200		497,700			
Hitchin Swimming Pool Car Park extension Total		28,200	0	497,700	0	0	0
Hitchin Town Hall Acoustic Panelling	Capital Receipt			30,000			
Hitchin Swimming Pool Car Park extension Total		0	0	30,000	0	0	0
Hitchin Town Hall Additional Bar Facility	Capital Receipt			15,000			
Hitchin Town Hall Additional Bar Facility		0	0	15,000	0	0	0
Hitchin Town Hall Sprung Floor Replacement	Capital Receipt			75,000			
Hitchin Town Hall Sprung Floor Replacement		0	0	75,000	0	0	0
Installation of trial on-street charging (GAF)	Government Grant			50,000			
Installation of trial on-street charging (GAF) Total		0	0	50,000	0	0	0
Jackmans Central Play Area Renovation	Capital Receipt	64,500	-2,800				
Jackmans Central Play Area Renovation	S106 Funding	10,500					
Jackmans Central Play Area Renovation Total		75,000	-2,800	0	0	0	0
Jackmans Creamery, Letchworth	Capital Receipt		-12,000				
Jackmans Creamery, Letchworth Total		0	-12,000	0	0	0	0
John Barker Place, Hitchin	Drawdown of cash investments			825,600			
John Barker Place, Hitchin	S106 Funding			270,400			
John Barker Place, Hitchin Total		0	0	1,096,000	0	0	0
Jontek Database Server	Government Grant	33,800					
Jontek Database Server Total		33,800	0	0	0	0	0

Project		2017/18 Funding £	2018/19 Funding £	2019/20 Funding £	2020/21 Funding £	2021/22 Funding £	2022/23 Funding £
Lairage Multi-Storey Car Par - Structural wall repairs	Capital Receipt			120,000			
Lairage Multi-Storey Car Par - Structural wall repairs	Drawdown of cash investments	1,700	3,300	700			
Lairage Multi-Storey Car Par - Structural wall repairs Total		1,700	3,300	120,700	0	0	0
Laptops - Refresh Programme	Capital Receipt		6,500		6,000		
Laptops - Refresh Programme Total		0	6,500	0	6,000	0	0
Leisure Condition Survey Enhancements	Capital Receipt			64,000	23,000		39,000
Leisure Condition Survey Enhancements		0	0	64,000	23,000	0	39,000
Letchworth Multi_storey Car Park - parapet walls, soffit & decoration	Capital Receipt	8,900	3,800	133,800			
Letchworth Multi_storey Car Park - parapet walls, soffit & decoration Total		8,900	3,800	133,800	0	0	0
Letchworth multi-storey car park - lighting	Drawdown of cash investments		3,000	19,700			
Letchworth multi-storey car park - lighting Total		0	3,000	19,700	0	0	0
Letchworth Outdoor Pool safety surface	Capital Receipt	3,500	46,500	10,000			
Letchworth Outdoor Pool safety surface Total		3,500	46,500	10,000	0	0	0
Letchworth Outdoor Pool Showers and Toilets	Drawdown of cash investments		97,000				
Letchworth Outdoor Pool Showers and Toilets Total		0	97,000	0	0	0	0
Mandatory Disabled Facility Grants	Government Grant	645,800	122,000				
Mandatory Disabled Facility Grants Total		645,800	122,000	0	0	0	0
Microsoft Enterprise Software Assurance	Capital Receipt			358,000			
Microsoft Enterprise Software Assurance		0	0	358,000	0	0	0
Museum/Town Hall Lift	Drawdown of cash investments		19,000				
Museum/Town Hall Lift		0	19,000	0	0	0	0
New Blade Enclosure	Capital Receipt			32,000			
New Blade Enclosure Total		0	0	32,000	0	0	0
NH Museum & Community Facility	Drawdown of cash investments	92,700					
NH Museum & Community Facility	Other Capital Contributions		50,100	29,800			
NH Museum & Community Facility	S106 Funding	49,000					
NH Museum & Community Facility Total		141,700	50,100	29,800	0	0	0

		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
		Funding	Funding	Funding	Funding	Funding	Funding
		£	£	£	£	£	£
Project							
North Herts Leisure Centre Development	Capital Receipt	892,400					
North Herts Leisure Centre Development	Drawdown of cash investments	744,100					
North Herts Leisure Centre Development	Other Capital Contributions		171,700				
North Herts Leisure Centre Development	S106 Funding	65,600					
North Herts Leisure Centre Development Total		1,702,100	171,700	0	0	0	0
Norton Common Wheeled Sports improvements	Drawdown of cash investments	7,600					
Norton Common Wheeled Sports improvements	S106 Funding	142,100	400	26,500			
Norton Common Wheeled Sports improvements Total		149,700	400	26,500	0	0	0
Off Street Car Parks resurfacing and enhancement	Capital Receipt		14,100	77,100			
Off Street Car Parks resurfacing and enhancement Total		0	14,100	77,100	0	0	0
PC's - Refresh Programme	Capital Receipt		11,200	19,800	17,000	17,000	
PC's - Refresh Programme	Drawdown of cash investments	20,000					
PC's Refresh Programme Total		20,000	11,200	19,800	17,000	17,000	0
Permit gateway Citizen - to enable customers to renew permits on line	Capital Receipt		-3,900				
Permit gateway Citizen - to enable customers to renew permits on line Total		0	-3,900	0	0	0	0
Portable Pendants	Government Grant	15,000					
Portable Pendants Total		15,000	0	0	0	0	0
Premises compliance enhancements	Drawdown of cash investments						
Premises compliance enhancements Total		0	0	0	0	0	0
Private Sector Grants	Capital Receipt	24,000		60,000	60,000	60,000	60,000
Private Sector Grants	Drawdown of cash investments		34,200				
Private Sector Grants Total		24,000	34,200	60,000	60,000	60,000	60,000
Provide housing at market rents.	Capital Receipt						
Provide housing at market rents.	Drawdown of cash investments		18,500	2,981,500			
Provide housing at market rents. Total		0	18,500	2,981,500	0	0	0
Purchase of 14 & 15 Brand Street	Drawdown of cash investments		567,000				
Purchase of 14 & 15 Brand Street Total		0	567,000	0	0	0	0
Recording of Council Meetings	Capital Receipt		80,200				

Project		2017/18 Funding £	2018/19 Funding £	2019/20 Funding £	2020/21 Funding £	2021/22 Funding £	2022/23 Funding £
Recording of Council Meetings Total		0	80,200	0	0	0	0
Refurbishment and improvement of community facilities	Capital Receipt	165,400	307,700		120,000		
Refurbishment and improvement of community facilities	Drawdown of cash investments			612,900			
Refurbishment and improvement of community facilities Total		165,400	307,700	612,900	120,000	0	0
Refurbishment of DCO	Drawdown of cash investments	5,288,100	3,700				
Refurbishment of DCO Total		5,288,100	3,700	0	0	0	0
Refurbishment of lifts at Lairage Car Park	Drawdown of cash investments			360,000			
Refurbishment of lifts at Lairage Car Park Total		0	0	360,000	0	0	0
Relay concrete slabs that surround the Hitchin outdoor pool.	Capital Receipt	30,600	100				
Relay concrete slabs that surround the Hitchin outdoor pool. Total		30,600	100	0	0	0	0
Renew pathways at Bancroft Recreation Ground, Hitchin	Capital Receipt	14,600	22,900				
Renew pathways at Bancroft Recreation Ground, Hitchin	S106 Funding	12,300					
Renew pathways at Bancroft Recreation Ground, Hitchin Total		26,900	22,900	0	0	0	0
Renovate play area Howard Park, Letchworth	Capital Receipt				75,000		
Renovate play area Howard Park, Letchworth Total		0	0	0	75,000	0	0
Renovate play area King George V Recreation Ground, Hitchin	Capital Receipt			75,000			
Renovate play area King George V Recreation Ground, Hitchin Total		0	0	75,000	0	0	0
Renovate play area, District Park, Gt. Ashby	Drawdown of cash investments			75,000			
Renovate play area, District Park, Gt. Ashby Total		0	0	75,000	0	0	0
Replace and enhance lighting at St Mary's Car Park	Capital Receipt			60,000			
Replace and enhance lighting at St Mary's Car Park Total		0	0	60,000	0	0	0
Replace items of equipment, Brook View, Hitchin	Capital Receipt	10,000	900				
Replace items of equipment, Brook View, Hitchin Total		10,000	900	0	0	0	0
Replace items of play equipment Holroyd Cres, Baldock	Capital Receipt				10,000		

Project		2017/18 Funding £	2018/19 Funding £	2019/20 Funding £	2020/21 Funding £	2021/22 Funding £	2022/23 Funding £
Replace items of play equipment Holroyd Cres, Baldock Total		0	0	0	10,000	0	0
Replace items of play equipment Wilbury Recreation Ground, Letchworth	Capital Receipt			10,000			
Replace items of play equipment Wilbury Recreation Ground, Letchworth Total		0	0	10,000	0	0	0
Replace items of play equipment, Chiltern Road, Baldock	Capital Receipt			10,000			
Replace items of play equipment, Chiltern Road, Baldock Total		0	0	10,000	0	0	0
Replace main pool grating and overflow gullies at Hitchin Swim Centre	Capital Receipt	1,100					
Replace main pool grating and overflow gullies at Hitchin Swim Centre Total		1,100	0	0	0	0	0
Replace seating at Hitchin Swimming Centre	Drawdown of cash investments						
Replace seating at Hitchin Swimming Centre Total		0	0	0	0	0	0
Replacement of neighbourhood CCTV equipment	Capital Receipt	21,700					
Replacement of neighbourhood CCTV equipment Total		21,700	0	0	0	0	0
Replacement of Walsworth Common Access Bridge	Drawdown of cash investments	113,600	-1,900				
Replacement of Walsworth Common Access Bridge Total		113,600	-1,900	0	0	0	0
Replacement SAN	Capital Receipt			110,000			
Replacement SAN Total		0	0	110,000	0	0	0
S106 Projects	S106 Funding	170,740	158,500	128,800			
S106 Projects Total		170,740	158,500	128,800	0	0	0
Scheme Alarms	Government Grant	10,300					
Scheme Alarms Total		10,300	0	0	0	0	0
Security - Firewalls	Capital Receipt					14,000	
Security - Firewalls	Drawdown of cash investments	9,900		14,000			
Security - Firewalls Total		9,900	0	14,000	0	14,000	0
Serby Avenue Play Area renovation, Royston	Capital Receipt						
Serby Avenue Play Area renovation, Royston	S106 Funding	7,800					

Project		2017/18 Funding £	2018/19 Funding £	2019/20 Funding £	2020/21 Funding £	2021/22 Funding £	2022/23 Funding £
Serby Avenue Play Area renovation, Royston Total		7,800	0	0	0	0	0
Server / Infrastructure Refresh	Capital Receipt						
Server / Infrastructure Refresh Total		0	0	0	0	0	0
Smithsons Recreation Ground	Capital Receipt	500					
Smithsons Recreation Ground	S106 Funding						
Smithsons Recreation Ground Total		500	0	0	0	0	0
Software for personalised bills and annual billing.	Capital Receipt			6,000			
Software for personalised bills and annual billing. Total		0	0	6,000	0	0	0
Storage Facilities	Capital Receipt	15,500	1,300				
Storage Facilities	Drawdown of cash investments			48,700			
Storage Facilities Total		15,500	1,300	48,700	0	0	0
Tablets - Android Devices	Capital Receipt		6,400	14,000	12,000	15,000	
Tablets - Android Devices	Drawdown of cash investments	7,000	2,900				
Tablets - Android Devices Total		7,000	9,300	14,000	12,000	15,000	0
Telephony system	Drawdown of cash investments			10,600			
Telephony system Total		0	0	10,600	0	0	0
Town Centre pay & display machines for on-street charging	Capital Receipt			235,000			
Town Centre pay & display machines for on-street charging Total		0	0	235,000	0	0	0
Transport Plans implementation (GAF)	Government Grant			250,000			
Transport Plans implementation (GAF) Total		0	0	250,000	0	0	0
Ultra Violet water disinfection system	Capital Receipt		42,900				
Ultra Violet water disinfection system Total		0	42,900	0	0	0	0
Walsworth Common Pavilion - contribution to scheme	Capital Receipt				13,000		
Walsworth Common Pavilion - contribution to scheme	Other Capital Contributions				250,000		
Walsworth Common Pavilion - contribution to scheme	S106 Funding				37,000		
Walsworth Common Pavilion - contribution to scheme Total		0	0	0	300,000	0	0
Walsworth Common Pitch Improvements	Capital Receipt			7,200			

		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
		Funding	Funding	Funding	Funding	Funding	Funding
		£	£	£	£	£	£
Project							
Walsworth Common Pitch Improvements	Other Capital Contributions			83,000			
Walsworth Common Pitch Improvements	S106 Funding		10,500	2,300			
Walsworth Common Pitch Improvements Total		0	10,500	92,500	0	0	0
Walsworth Common Reconstruction of Car Park	Drawdown of cash investments		39,200				
Walsworth Common Reconstruction of Car Park Total		0	39,200	0	0	0	0
Waste and Street Cleansing Vehicles	Drawdown of cash investments		3,177,600				
Waste and Street Cleansing Vehicles Total		0	3,177,600	0	0	0	0
Grand Total		9,483,740	5,574,400	9,220,400	962,000	379,000	549,000

Summary

Capital Receipt	1,436,700	625,600	2,664,900	675,000	379,000	549,000
Government Grant	704,900	122,000	763,000	0	0	0
Revenue Contribution / Borrowing						
Other Capital Contributions	480,900	249,500	172,800	250,000	0	0
S106 Funding	471,040	235,600	488,900	37,000	0	0
Drawdown of cash investments	6,390,200	4,341,700	5,130,800	0	0	0
	9,483,740	5,574,400	9,220,400	962,000	379,000	549,000

**FINANCE, AUDIT AND RISK COMMITTEE
3 JUNE 2019**

PUBLIC DOCUMENT

TITLE OF REPORT: ANNUAL TREASURY MANAGEMENT REVIEW 2018/19

REPORT OF : SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER : CLLR IAN ALBERT

COUNCIL PRIORITY : RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 During the year the Council has generated **£0.353million** of interest from its investments. This is slightly below the budgeted total of £0.358million. The Council continued to invest in smaller Building Societies (subject to checks that compare the size of the Society with that of the investment) but did not invest outside of the UK.
- 1.2 The Council has repaid £0.015million of borrowing during the year as it has matured. The Council has £0.440million of remaining borrowing. This borrowing is at a fixed rate for a fixed period. The premium incurred from repaying this borrowing early means that it is not worthwhile to do so.
- 1.3 The Council complied with its legislative and regulatory requirements throughout the year.
- 1.4 The forecast for 2019/20 is that investment income will continue to reduce due to both market conditions and the use of cash balances to fund the capital programme.

2. Recommendations

- 2.1 Cabinet is asked to note the position of Treasury Management activity as at the end of March 2019.
- 2.2 Cabinet is asked to recommend this report to Council and ask Council to:
 - 1) Approve the actual 2018/19 prudential and treasury indicators.
 - 2) Note the annual Treasury Report for 2018/19.

3. REASONS FOR RECOMMENDATIONS

- 3.1 To ensure the Council's continued compliance with both the CIPFA code of Practice on Treasury Management and the Local Government Act 2003, and that the Council manages its exposure to interest and capital risk.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 In general there is a relationship between the risk of an investment and the level of interest that is received (yield). Risk can be summarised under the headings of credit, liquidity and market. The risk appetite and approach of the Council determines what strategy it adopts. Whilst the focus is on managing risk, the interest received is an important income stream for the Council's General Fund.
- 4.2 Our Treasury advisors from Link Asset Services promote a different risk approach, particularly in relation to smaller Building Societies. This option has been dismissed on the basis of Members' different view of risk and the impact on the general fund.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 There is ongoing dialogue with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Link). The Link service includes regular updates on economic and political changes that may impact on the Council's borrowing and investment strategies, advice on rescheduling, information and prudent parameters in respect of investment counterparty creditworthiness, document templates, access to technical updates and to the Technical Advisory Group. The Executive Member for Finance and IT is also regularly briefed.

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 18th March 2019.

7. BACKGROUND

- 7.1 Members adopted the 2018/19 Treasury Strategy at the meeting of full Council on the 8th February 2018. There were minor changes from the 2017/18 Strategy relating to borrowing limits.
- 7.2 Members received updates on treasury activity at quarterly intervals during 2018/19, and this report represents the final quarterly update.

8. RELEVANT CONSIDERATIONS

- 8.1 Appendix A provides the Treasury Management update at year end.
- 8.2 In summary, the Council has operated both within the treasury and prudential indicators set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices.
- 8.3 The Council generated £0.354M of interest during 2018/19. The average interest rate agreed on new deals during the year was 0.96%. The average interest rate on all outstanding investments at the 31st March was 1.16%.
- 8.4 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authority's appetite for the level of exposure to these risks.
- 8.5 **Credit Risk** – The possibility that other parties fail to pay amounts due to the Authority.
- 8.6 The Council's counterparty list comprises mostly UK building societies and UK banks with a Fitch (a credit rating agency) credit rating greater than BBB but also includes other Local Authorities and Public Corporations. It also includes smaller Building Societies that do not have a credit rating.
- 8.7 **Liquidity Risk** – the possibility that the Authority may not have funds available to meet its commitments to make payments.
- 8.8 **Market Risk** - the possibility that financial loss might arise as a result of changes in interest rates.
- 8.9 Investing long term (greater than one year) currently achieves higher interest rates than short term deals. The risks of long term deals are:
- (i) The longer the time period the longer the investment is exposed to default.
 - (ii) If the investment has a fixed interest rate, interest rates could rise and the potential to invest at a higher rate will be lost until the investment matures.
- 8.10 Members have indicated that they are prepared to accept this risk within the limits expressed in the Treasury Strategy which allows no more than 40% of outstanding investments to be invested for longer than 365 days at any one time. At the end of the year the Council had £1.5M (4.6%) invested for longer than 365 days.
- 8.11 **Interest (Yield)** - This year has continued to prove challenging to find counterparties willing to pay a reasonable return on cash investments, either long or short term. The uncertainty around interest rate changes has continued in 18/19, with the latest predictions signalling the first increase to the base rate around March 2020.

- 8.12 The investments outstanding at the 31 March 2019 were £32.4million. This compares to a balance of £32.8million at 31 March 2018. Investment in capital projects will continue during 2019/20 and combined with declining returns for new investments means that the estimated investment interest for 2019/20 is expected to be in the region of £0.300M.

9. LEGAL IMPLICATIONS

- 9.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council.
- 9.2 Section 151 of the Local Government Act 1972 states that:
“every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.”
- 9.3 The Prudential Indicators comply with the Local Government Act 2003.

10. FINANCIAL IMPLICATIONS

- 10.1 These are covered in section 8.

11. RISK IMPLICATIONS

- 11.1 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003 and is revisited annually as part of the Treasury Strategy review. The risk on the General Fund of a fall of investment interest below the budgeted level is dependant on banks and building societies need for borrowing. The introduction of the Funding for Lending Scheme which allows financial institutions access to low cost funding from Government for an extended period has impacted on their need to borrow and the rates at which they are prepared to borrow.

12. EQUALITIES IMPLICATIONS

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

13. SOCIAL VALUE IMPLICATIONS

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

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource or equality implications.

15. APPENDICES

- 15.1 Appendix A Annual Treasury Management Review 2017/18.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

Treasury Strategy 2018/19
CIPFA Prudential Code for Capital Finance in Local Authorities

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Annual Treasury Management Review 2018/19

English Local Authorities

April 2019

Annual Treasury Management Review 2018/19

1. Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 08/02/2018)
- a mid-year (minimum) treasury update report (Council 18/12/2018)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

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

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

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Finance Audit and Risk Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during the year on 25th June 2018 in order to support members' scrutiny role.

2. The Council's Capital Expenditure and Financing

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

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

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

	2017/18 Actual £'000	2018/19 Working Budget £'000	2018/19 Actual £'000
Capital expenditure	9,484	6,736	5,574
Financed in year	3,094	1,097	1,233
Unfinanced capital expenditure	6,390	5,639	4,341

3. The Council's Overall Borrowing Need

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2018/19. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2018 Actual £'000	31 March 2019 Budget £'000	31 March 2019 Actual £'000
Gross borrowing position	455	440	440
CFR	-10,315	-10	-5,990

The CFR is negative as the Council has more cash investments than borrowing. Borrowing is historic and was undertaken prior to the housing stock transfer when the CFR was positive.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Council has maintained gross borrowing within its authorised limit.

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

Actual financing costs as a proportion of net revenue stream - - this indicator is the net cost of borrowing as a percentage of the total revenue budget. This would usually show how much of the overall budget is spent on borrowing costs. However as the Council's investment income exceeds the cost of interest on borrowing it is a negative number.

	2018/19
Authorised limit	£15.0m
Maximum gross borrowing position during the year	£0.455m
Operational boundary	£5.0m
Average gross borrowing position	£0.449m
Financing costs as a proportion of net revenue stream	-2.3%

4. Treasury Position as at 31 March 2019

At the end of 2018/19 the Council's treasury position was as follows:

	31 March 2018 Principal £'000	Rate/ Return	31 March 2019 Principal £'000	Rate/ Return
Fixed rate borrowing:				
-PWL	455	9.59%	440	9.7%
-Market	0		0	
Variable rate borrowing:				
-PWL	0		0	
-Market	0		0	
Total debt	455	9.59%	440	9.7%
CFR	-10,315		-5,990	
Over / (under) borrowing	10,770		6,430	
Investments:				
Total investments	30,500	1.13%	30,000	1.17%

The maturity structure of the debt portfolio was as follows:

	31 March 2018 Actual £'000	31 March 2019 Actual £'000
Under 12 months	16	17
12 months and within 24 months	17	18
24 months and within 5 years	55	58
5 years and within 10 years	92	82
10 years and above	275	265

The table below summaries where investments were held at 31 March and includes the Lloyds Bank interest bearing current account:

INVESTMENT PORTFOLIO	Actual 31.3.18 £000	Actual 31.3.18 %	Actual 31.3.19 £000	Actual 31.3.19 %
Treasury investments				
Banks	2,300	7	9,900	30
Building Societies	18,000	55	16,500	51
Local authorities	9,000	27	6,000	19
Money Market Funds	3,500	11	0	0
TOTAL TREASURY INVESTMENTS	32,800	100	32,400	100

Money market funds provide a short-term investment option with no entry or exit fees. Due to changes in accounting regulations the Council would have been required to obtain (and possibly pay for) professional advice on the risk of default in relation to balances held in Money Market Funds at 31st March 2019. To avoid these fees, it was decided to temporarily remove the funds and then reinvest them after the 1st April 2019.

The maturity structure of the investment portfolio was as follows:

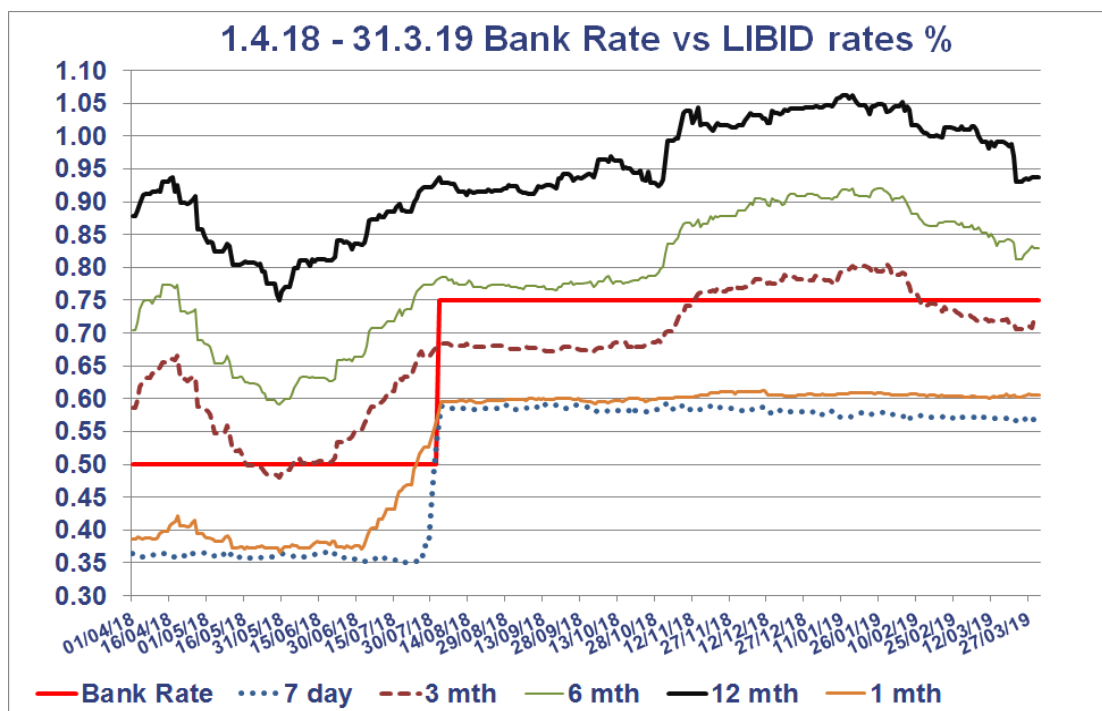
	2017/18 Actual £000	31 March 2019 Actual £000
Investments Longer than 1 Year	1,000	1,500
Investments Up to 1 Year	29,500	28,500
Total	30,500	30,000

5. The strategy for 2018/19

The strategy in 2018/19 was to continue only lending to UK banks, building societies, money market funds, Local Authorities and property funds. Only UK banks with a credit rating, for longer term deals, greater than “BBB” and F3 or above for short term credit ratings were on the Council’s lending list. (These are Fitch definitions of ratings). Not all building societies are credit rated but this did not preclude them from the lending list as lending to a building society was dependant on their asset size. Where a society did have a rating, this was considered at the time of the deal taking into account the amount of investment and the length of the deal. As well as imposing maximum limits with each counter party, the overall percentage of outstanding investments with each counterparty was assessed to ensure a reasonable spread of investments.

Change in strategy during the year – the strategy adopted in the original Treasury Management Strategy Report for 2018/19, approved by the Council on 08/02/2018, was not changed during the year.

5.1 Investment strategy and control of interest rate risk



Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018.

It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

6. Borrowing Outturn

Borrowing

No new loans were taken during the year.

£15K of PWLB loans were repaid during the year, as they became due.

Borrowing in advance of need

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

Rescheduling

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

7. Investment Outturn

Investment Policy – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 08/02/18. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the Fitch credit rating agency for banks and asset size for building societies.

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Investments placed by Cash Managers – the Council used an external cash manager to invest some of its longer term cash balances, where the rate achieved (after fees) is better than can be obtained by the Council directly. At the start of the year, Tradition had £18.0m of outstanding investments. This reduced to £8.5m by the end of the year as investments were returned in house. The performance of the Tradition against the benchmark return was:

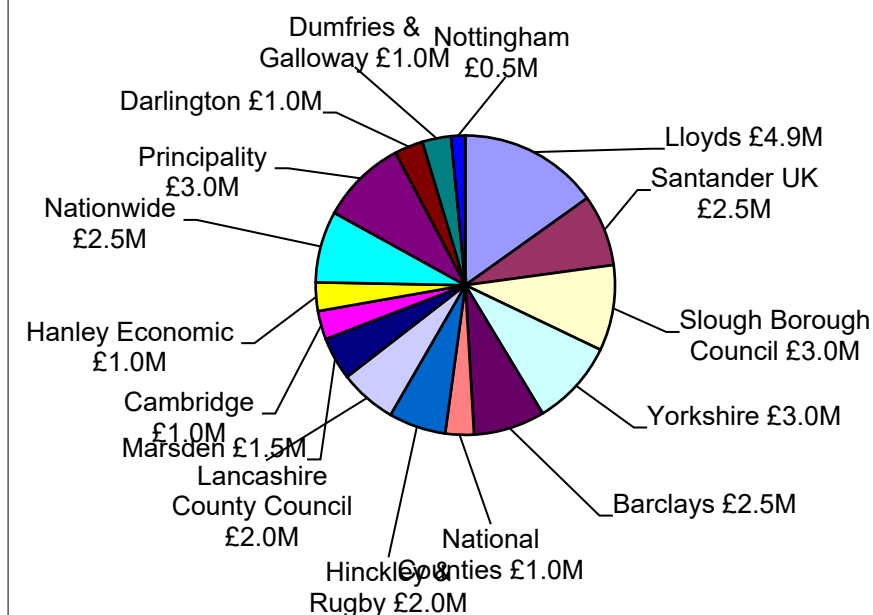
Cash Manager	Investments Placed	Interest	Return	Benchmark*
Tradition	£18.0M - £8.5M	£0.134M	1.10%	0.67%

* Ave 7 days notice Rate 0.67%

This compares with an original budget of £0.139M.

The pie chart below shows the spread of investment balances as at 31 March 2019. This is a snapshot in time that demonstrates the diversification of investments.

Placement of Investments 31st March 2019

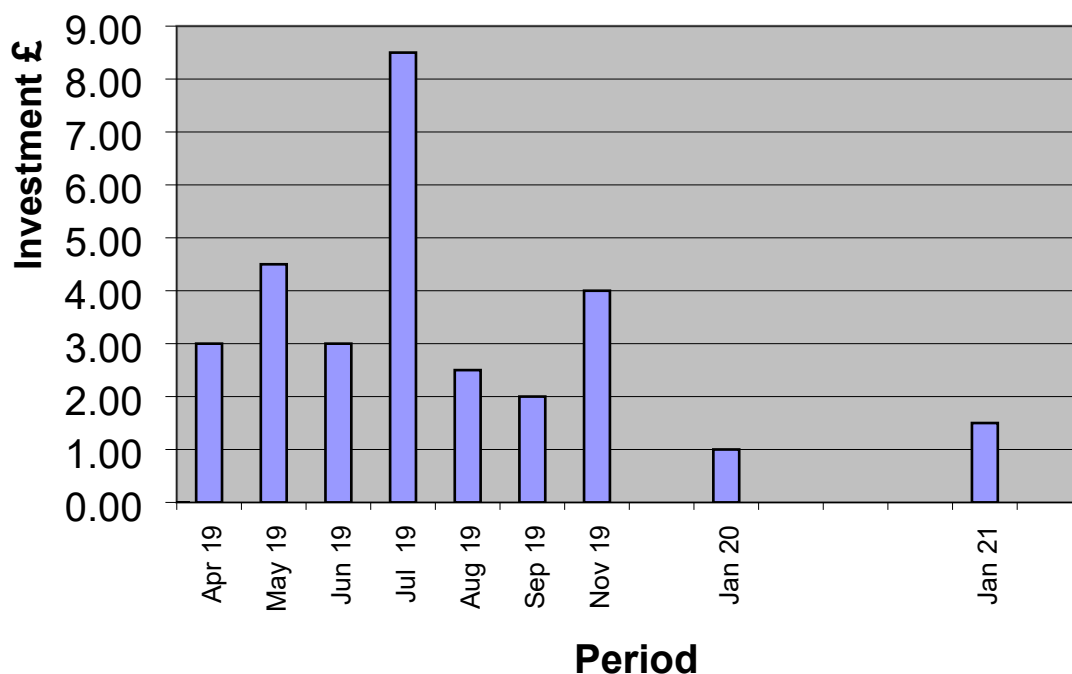


The average daily balance of investments was £40.3m with balances varying between £31.2m and £52.1m.

£0.354m of interest was generated from investments during the year. This is slightly less than the estimated interest of £0.358m (as per Quarter 3 forecast).

The graph below shows the maturity profile of investments at 31st March 2019.

Investment Maturity 31st March 2019



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

Balance Sheet Resources	31 March 2018 £,000	31 March 2019 £'000
Balances	8,357	8,800
Earmarked reserves	5,679	7,054
Provisions	1,252	1,245
Usable capital receipts	3,090	2,580
Total	18,378	19,679

Investments held by the Council

- The Council maintained an average investment balance of £35.4m.

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