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NORTH HERTFORDSHIRE DISTRICT COUNCIL

19 July 2019

Our Ref Finance, Audit and Risk Committee
Your Ref.
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To: Members of the Committee: Councillors Kate Aspinwall, (Chair) Sam North, (Vice-Chair) 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, LETCHWORTH GARDEN CITY

On

MONDAY, 29TH JULY, 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 - 3 JUNE 2019** To take as read and approve as a true record the minutes of the meeting of this Committee held on the 3 June 2019. *Minutes to follow*.	
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, 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.	
5.	**PUBLIC PARTICIPATION** To receive petitions and presentations from members of the public.	
6.	**SHARED ANTI-FRAUD SERVICE REPORT** REPORT OF THE HEAD OF COUNTER FRAUD, SHARED ANTI FRAUD SERVICE To inform and update the Finance, Audit & Risk Committee of Anti-Fraud Activity at NHDC 2018/19.	(Pages 5 - 16)
7.	**ANNUAL GOVERNANCE STATEMENT 2018** REPORT OF THE SENIOR POLICY OFFICER Finance, Audit & Risk Committee to approve the Annual Governance Statement (AGS) for the 2018/19 year.	(Pages 17 - 28)
8.	**AUDIT FINDINGS REPORT FOR NHDC 2018/19**	

Finance Audit & Risk Committee to receive report from Ernst and Young LLP. To Consider the Audit Findings Report for North Hertfordshire District Council 2018/19

To be tabled.

9. STATEMENT OF ACCOUNTS 2018/19 (Pages 29 - 134)
REPORT OF THE SERVICE DIRECTOR – RESOURCES

To consider the statement of accounts for 2018/19.

10. ANNUAL REPORT ON RISK MANAGEMENT 2018/2019
REPORT OF THE SERVICE DIRECTOR – RESOURCES

To follow.

11. RISK AND OPPORTUNITIES MANAGEMENT UPDATE (Pages 135 - 154)
REPORT OF THE SERVICE DIRECTOR - RESOURCES

Finance, Audit and Risk Committee to receive a quarterly update on Risk and Opportunities Management at North Herts.

12. FIRST QUARTER REVENUE BUDGET MONITORING 2019/20 (Pages 155 - 164)
REPORT OF THE SERVICE DIRECTOR – RESOURCES

To consider the First Quarter Revenue Budget Monitoring Report 2019/20.

13. FIRST QUARTER INVESTMENT STRATEGY (INTEGRATED AND TREASURY MONITORING) 2019/2020
REPORT OF THE SERVICE DIRECTOR – RESOURCES

This report is to follow.

14. MEDIUM TERM FINANCIAL STRATEGY 2020-25 (Pages 165 - 182)
REPORT OF THE SERVICE DIRECTOR – RESOURCES

To consider the Medium Term Financial Strategy 2020/25.

15. FUTURE MEETINGS - POSSIBLE AGENDA ITEMS
To be Introduced by the Chairman.

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SAFS
Shared Anti-Fraud Service
Fighting Fraud Across Hertfordshire

North Hertfordshire District Council

Anti-Fraud Report 2018/19

Recommendation

Members are recommended to:

- Review the Councils work to combat fraud in 2018/19
- Review the performance of SAFS in meeting its KPIs in 2018/19
- Review the progress delivering the Councils 2019/20 Anti-Fraud Plan

Contents

Appendices

1 Introduction and Background

Introduction

This report provides details of the work undertaken to protect the Council against the threat of fraud as laid out in the Council's Anti-Fraud Action plan for 2018/2019. The Committee are asked to note this work.

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

- *Fighting Fraud and Corruption Locally 2016–2019 Strategy* produced by CIPFA in March 2016 and supported by CLG. The new strategy estimates annual fraud losses in local government at around £2.1bn (this report is based on 2013 data).

- *UK Annual Fraud Indicator 2017* published in partnership by Crowe Clark Whitehill, Portsmouth University and Experian which estimates the risk of fraud losses for local government in excess of £8bn per annum.

- CIPFAs *Fraud and Corruption Tracker 2018* indicates that identified fraud had increased since 2016 but that counter fraud capacity within councils had reduced, and would continue to do so, placing local government at even greater risk of fraud.

- The Governments *United Kingdom Anti-Corruption Strategy 2017-2022* includes the vision and priorities for dealing with and reducing the risk of corruption within the UK private, public & charity sectors and when working with organisations /companies/government agencies abroad.

Background

1.2 According to reports from CIPFA, National Audit Office (NAO), Cabinet Office, and the private sector, fraud risk across local government in England exceeds £2.billion each year, with some more recent reports indicating levels considerably above this.

1.3 The Cabinet Office, Ministry for Housing Communities and Local Government, National Audit Office, and CIPFA have also issued advice and best practice guidance to support local councils in the fight to reduce the risk of fraud and prevent loss to the public purse. This advice includes the need for Councils to be vigilant in recognising their fraud risks and to invest sufficient resources in counter fraud activities that deliver savings.

1.4 It is essential that the Council has in place a robust framework to prevent and deter fraud, including effective strategies and policies, as well as plans to deal with the investigation and prosecution of identified fraud.

1.5 North Hertfordshire District Council is a founding member of the Hertfordshire Shared Anti-Fraud Service (SAFS). This Committee has previously received detailed reports about the creation of SAFS and how this service works closely with the Shared Internal Audit Service (SIAS). SAFS works across the whole Council dealing with many aspects of fraud from deterrence & prevention to investigation & prosecution.

2. Delivery of the 2018/19 Anti-Fraud Plan & *SAFS Activity 2018/2019*

Staffing

2.1 The SAFS Team (in April 2018) is comprised of 18 accredited and trained counter fraud staff and is based at Hertfordshire County Councils offices in Stevenage.

2.2 Each SAFS Partner receives dedicated support by allocating some officers to work exclusively for each Partner whilst also allowing all officers within the service to work with different SAFS Partners from time to time. Providing the Service in this way allows officers to develop good working relationships with Council staff and also offers better resilience and flexibility across the Partnership. SAFS Officers have access to Council offices, officers and systems to conduct their enquiries.

2.3 In 2018/19 SAFS deployed 1 member of staff to work exclusively for the Council. This officer is supported by SAFS Management Team and the SAFS Intelligence Team based at Stevenage which now includes specialist data analytics and financial investigation expertise.

SAFS KPI for 2018/2019

KPI	Measure	2018/19 Target	Achieved in Year
1	Provide an Investigation Service	**1 FTE** on call for NHDC (Supported by SAFS Intel/ Management). Membership of NAFN Membership of CIPFA Counter Fraud Centre Access to NAFN for relevant NHDC Staff Fraud training events for staff/Members	**1.5 FTE** available and all other criteria met in full.
2	Identified value of fraud prevented/detected.	**£150k** (From fraud identified and savings/prevention)	£285k (£226k loss/ £59k prevented) And a further £155k in new Council Tax.
3	Allegations of fraud received from all sources.	**100** Fraud referrals from all sources to SAFS	134
4	Success rates for cases investigated. This will ensure that quality investigations are undertaken.	**50%**	70% (19 cases from 27 investigated identified fraud) SAFS also provided advice on 6 cases that did not warrant full investigation
5	Conduct data-matching using the local data-hub, NFI and other data-matching/mining.	• Data-Hub for local data matching. • Access to NFI output. • County wide Council Tax Review Framework.	NFI 2018 successfully completed upload on time and output now under review. The Council is party to the Council Tax Framework and the SAFS Data-Hub.

Fraud Awareness and Reported Fraud

2.4 One of the key aims for the Council is to create an ‘Anti-Fraud’ culture, that will deter fraud; encourage senior managers and members to consider the risk of fraud when developing policies or processes to prevent fraud occurring; encourage staff and the public at large to understand the impact of fraud on the Council, and report fraud where it is suspected.

2.5 The Council’s website included pages on how fraud affects the Council and the impact on public money https://www.north-herts.gov.uk/home/benefits/report-fraud. The website includes links for the public to report fraud by email, telephone or using the SAFS online reporting tool.

2.6 SAFS delivered general fraud awareness training to staff as well as service specific training including: Document verification training delivered to customer service, benefits and housing staff, training for housing and debt collection teams in the making the best use of National Anti-Fraud Network (NAFN) licences.

2.7 Working with the Council's HR Team SAFS have delivered an e-training package for staff and Members which will be linked to the Councils policies, and fraud reporting tools to raise awareness of the risk of fraud & corruption, bribery and anti-money laundering.

2.8 Council staff can use the same methods to report fraud, or they can report fraud directly to SAFS staff working at the Council or use a new on-line reporting tool for staff which feeds directly into the SAFS case management system.

2.9 During 2018/19 SAFS received 134 allegations of fraud affecting Council services.

Table 1. Types of fraud being reported:

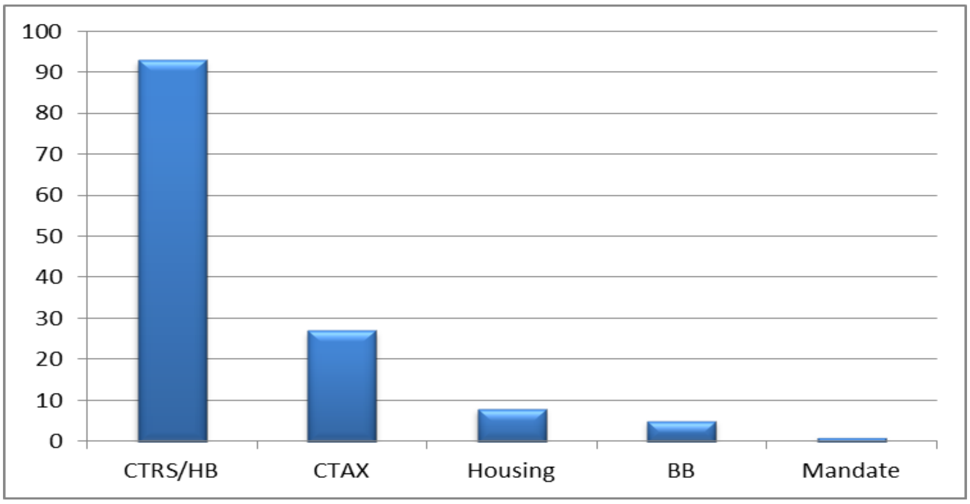
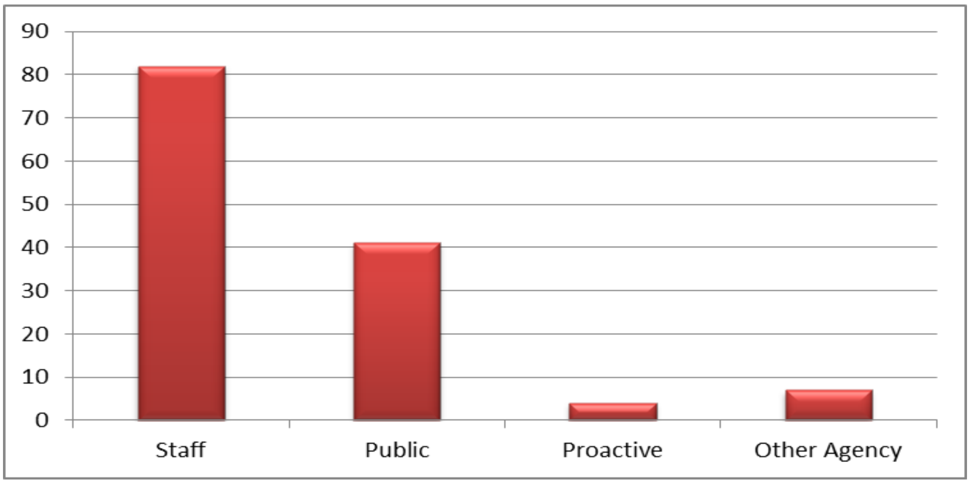


Table 2. Who is reporting Fraud:



2.10 The volume of cases reported continues fluctuate year on year and detailed breakdowns of reported fraud since 2015 can be found at **Appendix B**. In comparison to other SAFS Partners the volume of reported fraud is good and indicates that both staff and public alike understand that fraud against the Council is wrong and that they are able to report this.

2.11 At this time many cases raised for investigation are still in the early stages. However, of the 35 cases investigated and closed in the year fraud losses of £226,000 and fraud savings of £59,000 were identified. See **Appendix C** for a breakdown of cases where fraud has been reported. As well as those cases selected for investigation SAFS issued warning letters or provided advice to services on matters where a full investigation was not warranted on 6 occasions. In three of the most serious cases prosecutions were brought against individuals.

Case study 1:

In two investigated in partnership with the DWP Fraud and Error Service cases of fraud against North Hertfordshire District Council were heard at Stevenage Magistrates prosecuted by the CPS.

1. *A Letchworth resident - claimed HB/CTRS/SPD totalling £14.5k between 2015 and 2017 whilst running a business and failing to declare this. 16 weeks custody- suspended+ costs*
2. *A second Letchworth resident – claimed HB/IS/CTRS totalling £13k between 2016 and 2017 but failed to declared that their partner was resident and in work. Conditional Discharge + costs.*

In both cases the defendants pleaded guilty at first hearings and arrangements are in place to recover all the losses identified.

2.12 As well as the financial values identified SAFS has worked with the Revenues and Benefits Service to apply financial penalties as alternatives to prosecution, where fraud has been committed by people claiming Council Tax Discounts or Housing Benefit.

Case study 2:

In 2018 the Council made use of the Hertfordshire Council Tax Review Framework. This contract is with the County Council, is managed by SAFS, and allows district councils to use third party providers to undertake analytical reviews of data to check that council tax discounts awarded to residents are legitimate and up todate.

A review of 17,383 such discounts identified that 396 (2.4%) of claims were incorrect and removed. This work generated new council tax liability for collection in excess of £154,000 (note: this figures is not included in the SAFS stats but will be reported to CIPFA).

Case study 3:
In 2018 SAFS concluded an investigation into an alleged council tax discount fraud that had started in 2011.

The owner of an address in Letchworth had claimed the property had been solely occupied by a family member since 2011. As the reported occupier was the sole resident adult they were eligible for a discount and this was applied.
In 2018 following an investigation it was established that the property had been empty since 2011 and the occupier had only declared that it was occupied to avoid paying a council tax premium for an empty property/ second home.

As a result the owner had avoided paying council tax of £1,421. The council tax payer was billed for this sum and a fine of £490 was added to their liability.

2.13 SAFS works with Settle Housing, a social housing provider with stock across the district including former council stock, providing an anti-fraud service. Work has also been undertaken with the Councils Housing Team and Homelessness team to raise awareness of fraud and identify areas at risk.

Case study 4:
In 2018 SAFS conducted a very successful data analytics project with the housing team. Using data from the Councils housing register (families applying for social housing) and comparing this to data held about council tax liability a number of matches were identified where applications for housing had been made at addresses where the occupier claimed to be living at the address as the sole occupant (and claiming discounts/exemptions/benefits).

SAFS used third party data to review these matches and enquiries were made with the occupiers of the addresses concerned.

As a result of this work 43 housing applications removed from the housing register and several council tax discounts or exemptions are still under investigation.
Although nobody has been sanctioned or prosecuted for any offences at present this exercise has identified notional savings of around £770k.

(Note: these saving have not been included in NHDC fraud stats for 2018/2019 but will be reported to CIPFA)

2.14 SAFS has an excellent working relationship with the Councils legal team, working on criminal litigation and policy reviews. SAFS are working on a case involving Blue Badge abuse in Hertford, East Herts Council having requested that the councils legal team acts as agents in this matter. This is a great example of how the SAFS Partners are co-operating to combat fraud across the County at an operational level.

Case study 5:
Following changes to the government guidance on the 'Blue Badge Scheme' new instructions have been provided to enforcement authorities including North Hertfordshire District Council, and SAFS have worked with civil enforcement teams across the County to develop new training and a handbook to support officers where blue badge abuse is suspected in council operated parking areas (on-road or off-road).

2.18 The Council complied with the statutory requirement of the National Fraud Initiative (NFI) 2018 and the output from this in was received in February 2019 and is under review at present, 1441 data matches having been received. The NFI is a national anti-fraud data sharing exercise conducted by the Cabinet office every two years across local and central government.

2.19 A copy of the SAFS 2018-19 Annual Report can be found at **Appendix D.** This report covers all the work of the Service in the last financial year.

3. Progress - 2019/2020 Anti-Fraud Plan

3.1 The Council has in place an Anti-Fraud and Corruption Policy and this document includes advice to Members, senior officers and staff about reporting suspected fraud/corruption. This document was reviewed in 2018 and complies with best practice guidance from CIPFA.

3.2 A copy of the 2018/2019 Anti-Fraud Plan is attached at **Appendix c**. This Plan covers all areas recommended to ensure that the Council acknowledges the risk of fraud, its own responsibility to combat these risks, and takes appropriate action to prevent/deter/pursue fraud. The Plan also includes assurance that the Council benefits from a positive return on its investment in the SAFS Partnership.

3.3 The KPIs for SAFS in 2019/2020 have been amended to reflect some changes to the way the service will be delivered, including the better use of data and access to the Hertfordshire Fraud Hub hosted by the Cabinet Office.

3.4 SAFS will provide reports to this Committee later in 2019 on the performance against the Anti-Fraud Plan but todate we can report that 85 live cases at the 31st March were carried into the current year. 13 new allegations had been received in the first quarter of 2019/20, this is low in comparison to previous years, and 57 cases remain live at the time of writing.

3.5 SAFS have focused on clearing some of the older cases brought forward from previous year in the first few months with 22 'low value' cases being cleared from the backlog, identifying around £35,000 in fraud loss/savings and £3,500 in fines/penalties applied.

3.6 Following the roll out of national joint working with the Department for Work and Pensions (DWP) SAFS have been working with the DWP Fraud and Error Service teams based at Bedford and Stevenage to ensure that the Councils role in the administration of Housing Benefit is protected from fraud wherever possible.

3.7 SAFS are working with officers at present to enable the Council will join the Hertfordshire *FraudHub* in 2019 improving the use of data across the Council to prevent and identify fraud and error.

4. Transparency Code- Fraud Data

4.1 The Department for Communities and Local Government (DCLG) published a revised Transparency Code in February 2015, which specifies what open data local authorities must publish.

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

CIPFA: *Fighting Fraud Locally Strategy*
(https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/118508/strategy-document.pdf).
The National Fraud Strategy: *Fighting Fraud Together*
(https://www.gov.uk/government/publications/nfa-fighting-fraud-together)
CIPFA Red Book 2 – *Managing the Risk of Fraud – Actions to Counter Fraud and Corruption*
(http://www.cipfa.org/-/media/files/topics/fraud/cipfa_corporate_antifraud_briefing.pdf)

4.3 The Code requires that Local Authorities publish the following data in relation to Fraud. The response for *North Hertfordshire District* Council for 2018/2019 is in **Bold**:

- Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.

  Nil*. (The Council is a Partner to the Hertfordshire Shared Anti-Fraud Service and use the National Anti-Fraud Network (NAFN) to conduct such enquiries on their behalf.*

4 Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud.

1.5 FTE

5 Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists.

1 .5 FTE

6 Total amount spent by the authority on the investigation and prosecution of fraud.

£80,000

7 Total number of fraud cases investigated.

37 Cases investigated and closed in year

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

- Total number of cases of irregularity investigated-

  See 7 above

- Total number of occasions on which a) fraud and b) irregularity was identified**.**

  18 (85 cases remained under investigation at year end)

- Total monetary value of a) the fraud and b) the irregularity that was detected.

  £226,000 of fraud losses & £59,000 of fraud savings identified in year.

Appendices

A. Anti-Fraud Plan 2018/19	NHDC Anti-Fraud Plan
B. Fraud Comparison Statistics 2015-2019	NHDC Fraud Stats Comparison
C. Anti-Fraud Statistics 2018/19	Fraud Stats 2018 2019
D. SAFS Annual Report 2018/19	SAFS Service Report 2018-2019
E. Anti-Fraud Plan 2019/20	NHDC Anti-Fraud Plan

FINANCE, AUDIT & RISK COMMITTEE
29 July 2019

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: ANNUAL GOVERNANCE STATEMENT 2018/19

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 approve the Annual Governance Statement (AGS) for the 2018/19 year. This Statement reviews the Council's governance arrangements for the 2018/19 period. It also proposes an Action Plan to update/ improve those arrangements. This report also provides details of the amendments to the proposed Actions since the draft AGS for 2018/19 was reported to Committee in June 2019.

2. RECOMMENDATIONS

2.1. That the Committee approves the AGS and amended Action Plan (Appendix A);

3. REASONS FOR RECOMMENDATIONS

3.1 The AGS must be considered and approved by this Committee before the approval of the Statement of Accounts under Regulation 6(4)(a) of the Accounts and Audit Regulations ('AAR') 2015/234, .

3.2 This Committee is the legal body with responsibility for approval of the AGS.

3.3 Reviewing the AGS Action Plan during 2019/20 will provide the Committee with assurances that NHDC is examining and where necessary improving its governance arrangements.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 There are no alternative options to be considered.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1. As reported to the Committee on 3 June 2018 [Draft Annual Governance Statement (AGS) 2018/19 report] the governance review and AGS format is based on the 2016 CIPFA/ SOLACE Framework.

5.2. At the Committee on 3 June, Members were asked to provide feedback on the draft AGS. A draft of the self- assessment was sent to SIAS and the external auditors Ernst & Young for comment.

5.3 Any comments, or queries (or updated documents) have been included or links provided following this consultation as appropriate. The AGS appended at A is therefore the final version following consultation. Since the June Committee meeting, the Information Commissioner (ICO) has removed the requirement for members to register as Data Controllers.

6. FORWARD PLAN

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

7. BACKGROUND

7.1 Reference is made to the report of 3 June 2019, which sets out the legal requirements for preparation, review and approval of the AGS, together with the matters included/ and parties involved in that process. As indicated this must be considered by Members of the Committee and the AGS approved under Regulation 6(4)(a) AAR 2015 in advance of approving the Statement of Accounts (Regulation 9(2)(b)) at this Committee meeting. The AGS reviews the systems in place and identifies any actions to be undertaken in the forthcoming year.

7.2 The review was undertaken against the relevant CIPFA/ SOLACE Framework, which for this year onwards is the *Delivering good governance in Local Government Framework 2016 Edition* and any CIPFA/ SOLACE guidance[1]. The AGS was prepared following an in-depth review/ input and scoring of arrangements by SMT against the Framework 2016 Principles (in accordance with the guidance[2]). The detailed self-assessment document has not been appended. It has been loaded on the Council's Corporate Governance internet page and will remain on the site until the next review is undertaken [SMT AGS self-assessment document].

7.3 The format of the AGS conforms to recommended practice, as per the advice provided by CIPFA: a '*meaningful but brief communication*'; there is no requirement to repeat all the arrangements that have been comprehensively assessed. Nevertheless, the AGS highlights some key areas under the Principles, the overall conclusion on the arrangements and appends the Action Plan.

[1] CIPFA/SOLACE Delivering good governance in Local Government Guidance Notes for English Authorities 2016 Edition.
[2] *As above (ibid)*

8. RELEVANT CONSIDERATIONS

8.1. The preparation of the AGS provides the Council with an opportunity to consider the robustness of its governance and internal control arrangements. It highlights areas where governance can be further improved or further reinforced.

8.2. The AGS for 2018/19 is attached as Appendix A for approval.

8.3. The Council will publish the approved 2018/19 AGS alongside the Statement of Accounts as it has in previous years.

8.4. Updates to the Action Plan will be reported to this Committee again in or around September 2019 and March 2020.

9. LEGAL IMPLICATIONS

9.1 Under the LAAA 2014/ AAR 2015 Regulations the 2018/19 AGS must be approved by this Committee by 31 July. Otherwise the legal implications are set out 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. Other than this there are no direct financial implications arising from this report.

11. RISK IMPLICATIONS

11.1 The process of assessing the Council's governance arrangements 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 undertake an Annual Cumulative Equality Impact Assessment of these which is published 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 Human Resources will support relevant actions in Appendix A of the 2018/19 Annual Governance Statement, the action plan for 2019/2020.

15. APPENDICES

15.1 Appendix A – Annual Governance Statement for 2018/19 and Action Plan

16. CONTACT OFFICERS

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16.5 Tim Everitt, Performance & Risk Officer 01462 474646
Email: tim.everitt@north-herts.gov.uk:

17. BACKGROUND PAPERS

17.1. The SMT AGS self-assessment is on the Corporate Governance Page: https://www.north-herts.gov.uk/home/council-performance-and-data/corporate-governance. This contains links to further relevant background documents, reports, Policies and Guidance. The AGS also refers to documents and where possible, links have been provided to relevant pages and or documents.

NHDC ANNUAL GOVERNANCE STATEMENT 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.

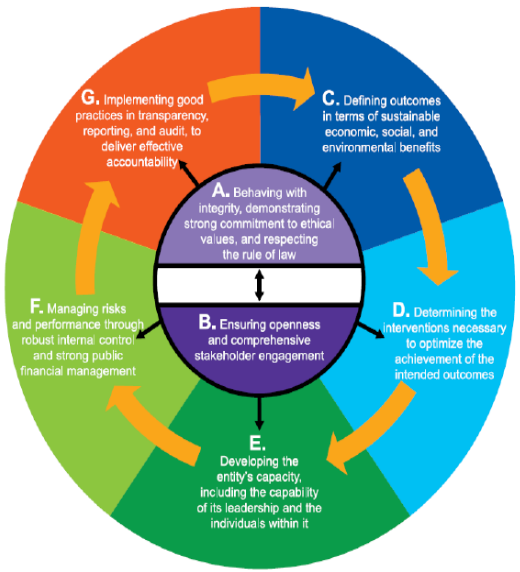
NHDC also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, NHDC should have proper arrangements for the governance of its affairs in place. It is legally required[1] 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 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:

Achieving the Intended Outcomes
While Acting in the Public Interest at all Times



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 requirements[3] 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

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 decisions[4] 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

NHDC ANNUAL GOVERNANCE STATEMENT 2018-2019

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 2018/19 presented in June 2019. 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.

❖ 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 2018/19 SIAS reported on 33 areas of which 13 received a Good assurance, 11 received a satisfactory assurance and 3 received limited assurance, 4 not applicable and 2 not finalised The limited assurance opinion related to the Corporate Debt management audit and museum services and CCTV audit (where Stevenage Borough Council are the lead authority).. All key financial/ risk systems/ contract management were also reviewed and a satisfactory assurance opinion overall on financial systems was concluded. .

Recommendations are detailed in the June 2019 SIAS report to FAR Committee [2018/19 Annual Assurance Statement and Internal Audit Report. SIAS had provided an overall opinion of "Satisfactory Assurance" in respect of the Council's Financial and Non-Financial Systems. SIAS concluded that the corporate governance and risk management frameworks substantially comply with the CIPFA/SOLACE best practice guidance on corporate governance. Some of the recommendations have been implemented and outstanding ones will be taken forward and monitored through the 2019/20 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. In looking forward to 2018/19 and beyond and given the significant financial and other pressures the Council faced, the importance of an effective Audit Committee is crucial. SIAS intend to complete a more thorough review of the effectiveness of the Committee in future years

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 [see[5]].

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 2019-20 in the Action Plan. The detailed AGS self-assessment is available on the Corporate Governance page[6].

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

[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

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

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 MartinStears-Hanscomb Leader of NHDC

David Scholes, Chief Executive of NHDC

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; [Service Director – Customers);
2. Revised Staff - Staff cultural values and behaviours have been incorporated into the RPR 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].

FINANCE, AUDIT AND RISK COMMITTEE
29 JULY 2019

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: STATEMENT OF ACCOUNTS 2018/19

REPORT OF : *SERVICE DIRECTOR- RESOURCES*

EXECUTIVE MEMBER: *NON-EXECUTIVE FUNCTION*

COUNCIL PRIORITY : RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

1.1 The purpose of this report is to ask Finance, Audit and Risk Committee to approve the audited Statement of Accounts for 2018/19. The Annual Statement of Accounts has been subject to external audit and is enclosed with the report as Appendix A.

2. Recommendations

2.1 That the 2018/19 Annual Statement of Accounts, as set out in Appendix A, be approved and signed by the Chairman.

3. REASONS FOR RECOMMENDATIONS

3.1 To ensure that the Council abides by the Audit and Account Regulations 2015, which require the approval and publication of the Statement of Accounts by no later than the 31 July.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 None. The Authority is required to prepare an annual Statement of Accounts and must follow accounting practices guidance issued by the Secretary of State and follow 'proper practices' governing the preparation of the annual Statement of Accounts (Section 21 of the Local Government Act 2003).

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 Consultation on the Statement of Accounts is not required.

5.2 The draft Statement of Accounts was published on the Council's website at the end of May 2019. A copy was also printed and provided at the Customer Service Centre. Members of this Committee were provided with details of where the Accounts could be found and encouraged to ask any questions about the content.

5.3 The accounts are subject to audit by the Council's External Auditors, Ernst and Young LLP.

5.4 Under the Local Audit and Accountability Act 2014 (sections 26 and 27) and the Accounts and Audit Regulations 2015 (sections 14 and 15), members of the public and Local Government electors have certain rights in respect of the audit process. This includes inspection of the accounts, associated documents and being able to ask questions. This opportunity was advertised in accordance with the regulations. No one took up this opportunity.

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 Council is legally required to produce a statement of accounts detailing the financial activities for the year and overall financial position as at 31 March. It has a statutory responsibility to publish its draft Statement of Accounts by 31 May.

7.2 The Council's external auditors, Ernst & Young LLP, arrived as scheduled in early July to start the accounts audit and their report will be presented to Members at this meeting tonight.

7.3 Regulation 10 of the Accounts and Audit Regulations 2003, states the accounts should be signed and dated by the Member presiding at the meeting which formally approves the accounts. Under the constitution, the Finance, Audit & Risk Committee has responsibility to "review and approve the Statement of Accounts".

8. RELEVANT CONSIDERATIONS

8.1 A draft of the audited version of the Statement of Accounts is attached at Appendix A. At the time of publishing this report, the majority of the audit work was complete but there were still some areas to be completed. This means that there is still scope for further changes prior to the meeting. If there are any changes then these will be presented either as a verbal update (if they are very minor) or an addendum report.

8.2 The Service Director- Resources (as the Council's Chief Finance Officer) will have signed the Statement of Responsibilities (page 1 of Appendix A) prior to the meeting. This is to certify that the statement of accounts give a true and fair view of the financial position of the Authority as at 31 March 2019 and its income and expenditure for the year then ended. Subject to the Committee's approval of the Statement of Accounts, the Service Director- Resources and the Chairman of the Committee will sign the Letter of Representation on behalf of the Council. The wording of the Letter of Representation can be found in the Audit Results Report document, which will be presented by Ernst & Young this evening. The Chairman will also sign page 1 of the Statement of the Accounts to confirm that they have been approved by the Committee.

8.3 Committee members have had the opportunity to review the draft Statement of Accounts. The following paragraphs detail the changes between the Draft and Final versions. Where changes have been made these are highlighted in green. The version of the accounts that will be signed will have these highlights removed.

8.4 There are a number of changes throughout the accounts, but they all relate to changes in relation to pension fund estimates. These estimates are provided by the actuary to the Hertfordshire Local Government Pension Fund. In order to meet the timescales for producing the draft Statement of Accounts, the actuary uses a combination of known data, estimates and future forecasts. Whilst improved information becomes available on some of the estimates as time passes, there should not be a need to update for these. However if the improved information would result in a material change to the numbers in the accounts (greater than £1m) then the accounts should be adjusted. With pensions it is not possible to know the impact without an updated valuation report from the actuary, and once the report has been received (and paid for) it generally then makes sense to update the accounts to reflect the latest information. The Council requested an updated valuation report in respect of the issues described in the following two paragraphs. At the same time the new valuation report will also reflect where new information has become available that improves the estimates that have been made. The accounts have been updated to reflect the cumulative impact of all these elements.

8.5 The Local Government Pension Scheme (LGPS) introduced a new career-average (CARE) benefit structure with effect from 1 April 2014. For members who were 10 years or less from normal retirement age on 1 April 2012 (i.e. aged 55 or above), they were allowed to continue to earn benefits based on final salary (i.e. in line with the old scheme that is generally more generous). In December 2018, the Court of Appeal found that similar transitional provisions in the pension schemes for firefighters (the Sergeant case) and the judiciary (the McCloud case) resulted in unlawful age discrimination. The Government sought permission to appeal this judgment, but in June 2019 this was declined by the Supreme Court. Whilst it will take time for the implications of this to be fully resolved, the forecast of future payments has to reflect that this will now need to be more generous for those that were aged under 55 in 2012 to remove this age discrimination.

8.6 Between 1978 and 1997 employers were able to contract out of the second tier state pension, if their pension scheme provided benefits that were at least equivalent to that second tier pension (a Guaranteed Minimum Pension of GMP). To reflect that the employee would not get the second tier state pension, the employee and the pension scheme paid a lower national insurance contribution rate (known as contracting-out). GMPs ceased in 1997 and contracting-out was abolished in 2016. A high court ruling in October 2018 determined that GMP benefits must be equalised so that they are the same for both men and women. An estimate therefore needs to be made of the impact of this.

8.7 The Narrative Report within the statement of accounts provides an overview of how the accounts are presented and highlights the most significant matters.

8.8 Officers are not aware of any events that have occurred since the year end that provide additional evidence of conditions that existed at the 31 March 2019 or materially affect the amounts included in the Statement of Accounts. In particular there has not been any subsequent event that would require an amendment to the contingent assets and liabilities listed in the accounts.

8.9 The Annual Governance Statement (AGS) is also recommended to be approved by Finance, Audit & Risk Committee at this meeting tonight. The Council has a legal duty to ensure that the publication of the Statement of Accounts is accompanied by the publication of the Annual Governance Statement.

9. LEGAL IMPLICATIONS

9.1 The Accounts and Audit Regulations 2015 require that the Annual Statement of Accounts be approved and published by the deadline date of 31 July 2019.

10. FINANCIAL IMPLICATIONS

10.1 The outturn reports were presented to Members in June. These provided the end of year position of the general fund, other reserves and capital expenditure. None of the changes to the Statement of Accounts identified from the audit have resulted in any change to the outturn position reported.

10.2 The Council has had to pay for an additional pension fund valuation report to reflect the changes described in paragraphs 8.4 to 8.6. The cost of this is £1,350.

10.3 Ernst and Young have said that they will be looking to charge the Council additional costs for audit work. These have been stated as being in relation to:

- Additional work in relation to pensions, linked to the changes detailed in paragraphs 8.4 to 8.6.
- As the Council went through a restructure between 2017/18 and 2018/19 this required some restatements to the accounts which then had to be audited.
- Some additional work in relation to information provided from Officers for some detailed transaction testing.

A view will be taken as to whether to agree these additional costs when further justification is provided (particularly in relation to the third point) and confirmation of the actual amounts.

11. RISK IMPLICATIONS

11.1 The process of compiling the Statement of Accounts is a control mechanism to help mitigate against the risk of poor financial management and is a way the Council can demonstrate to the public how it has managed its resources and acted in its responsibility as a steward of public funds.

12. EQUALITIES IMPLICATIONS

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

12.2 There are no equalities implications arising from this report.

13. SOCIAL VALUE IMPLICATIONS

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

14. HUMAN RESOURCE IMPLICATIONS

14.1 There are no direct human resource implications arising from this report.

15. APPENDICES

15.1 Appendix A- Draft Audited Statement of Accounts 2018/19.

16. CONTACT OFFICERS

16.1 Antonio Ciampa, Accountancy Manager, Tel 474566,
email Antonio.Ciampa@north-herts.gov.uk

16.2 Ian Couper, Service Director- Resources, Tel 474243,
email Ian.Couper@north-herts.gov.uk

17. BACKGROUND PAPERS

Draft Statement of Accounts
https://www.north-herts.gov.uk/sites/northherts-cms/files/UnAudited%20Statement%20of%20Accounts%202018-19.pdf

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Statement of Accounts
(AUDIT CHANGES)
2018/2019

North
Hertfordshire
District Council

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The Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Service Director – Resources;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the statement of accounts.

Service Director – Resources' Responsibilities

The Service Director – Resources is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the statement of accounts, the Service Director – Resources has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code;

The Service Director – Resources has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the 31 March 2019 and its income and expenditure for the year then ended.

Ian Couper

Service Director – Resources

The Chairman of the Approving Committee Responsibilities

I confirm that these accounts were approved by the Finance, Audit & Risk Committee at the meeting held on 29 July 2019. Signed on behalf of North Hertfordshire District Council:

Chairman of meeting approving the accounts:

Councillor Aspinwall, Chairman of the Finance, Audit & Risk Committee
Date: 29 July 2019

Independent Auditor's Report

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Independent Auditor's Report

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Independent Auditor's Report

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Independent Auditor's Report

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Narrative Report

This narrative report provides a summary of the key information that is contained within the Statement of Accounts, as well as providing more information about the Council. This includes the vision and objectives, performance over the year and how resources are allocated.

What we do

The Council has a five year Corporate Plan which it reviews each year. The current plan runs from 2019-24 and the Council's vision and objectives are substantially unchanged from the previous version (2018-23). The full plan can be found here (https://www.north-herts.gov.uk/home/council-data-and-performance/corporate-objectives).

Despite reductions in funding, the Council continues to deliver a wide range of statutory and non-statutory services. Some of the statutory services are provided at levels beyond the statutory minimum.

Examples of the delivery of statutory duties are:

- Waste collection from over 57,000 households
- More than 50% of household waste sent for re-use, recycling and composting
- Street cleansing over 400 miles of roads
- Food inspection of around 1,000 premises
- Collecting council tax and Business rates from almost 57,250 homes and 4,400 businesses
- Planning for the second largest district in Hertfordshire at 145 square miles.
- Issuing of approximately 2,150 licences to premises and licenced individuals, around 550 licences to taxi and private hire vehicles and drivers and in the region of 850 temporary licenses to premises/individuals
- Homelessness provision
- Housing Benefit to around 6,800 claimants
- Regulation e.g. Parking, Fly-tipping

Non-statutory services provided include:

- Leisure centres in Hitchin, Letchworth and Royston
- Five swimming pools including 2 outdoor pools
- Maintenance of 100 hectares of parks and gardens
- 'Splash' parks in the four towns.
- Museum provision in the new North Hertfordshire Museum in Hitchin
- Local information and signposting to other services and providers
- Active Communities events

Our Vision

Making North Hertfordshire a vibrant place to live, work and prosper.

Our Objectives:

- To work with our partners to provide an attractive and safe environment for our residents, where diversity is welcomed and disadvantaged people are supported.
- To promote sustainable growth within our district to ensure economic and social opportunities exist for our communities, whilst remaining mindful of our cultural and physical heritage.
- To ensure that the Council delivers cost effective and necessary services to our residents that are responsive to developing need and financial constraints.

In providing services we consider the following:

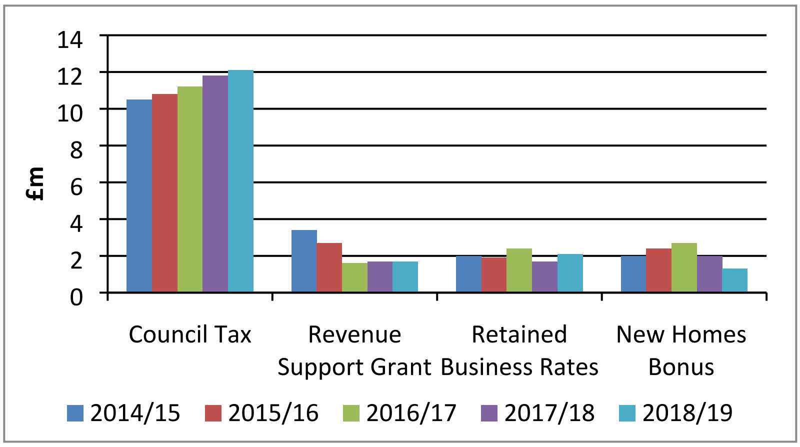
- Providing Value for Money to residents
- Actively engaging in partnerships, shared services or alternative delivery models
- Seeking new service provision which can generate income for re-investment by the Council to protect long term delivery of non statutory and other Council services
- Prioritising consideration of the impact of any service changes (or service introductions) on service users

Narrative Report

Our funding

The Council is required to split its spending between Revenue (day-to-day running costs) and Capital (buying and creating assets with a useful life of more than one year). Similarly our funding is split between Revenue and Capital. We can only use Capital funding sources for Capital spend (i.e. we can't use this funding for day-to-day running costs).

Revenue funding sources (Taxation and General Grants):



Increases in Council Tax are limited by Central Government, unless agreed by a local referendum. In 2018/19 the Council raised its element of Council Tax by 2.99%, which was the maximum possible without a referendum.

The Revenue Support Grant total includes section 31 grants, which is where Central Government provides reimbursements for reliefs and discounts in relation to Business Rates. The actual grant to support general expenditure has decreased substantially in recent years and was zero in 2018/19.

The current Business Rates system involves 50% of funding being retained within Local Government, and the balance going to the Ministry of Housing, Communities and Local Government. Each Authority has an assessed baseline need and, as the Council's assessed need is a lot lower than the income it collects, it has to pay a levy which redistributes the funding to other Authorities. The Council retains some of any growth in Business Rates, but is also exposed to falls as well (subject to a safety net level). Overall the Council keeps around 7p out of every £1 it collects.

Income from New Homes Bonus increased up to 2016/17 as the period for which the Bonus was paid increased each year. In 2016/17 Authorities received the bonus for new housing in the previous 6 years. For 2017/18, the period reduced to 5 years, and further reduced to 4 years in 2018/19. Alongside this a baseline was also introduced, so the Bonus is only paid if housing growth for that year is above a certain level.

While overall our funding of £17.2m in 2018/19 matched the total received in 2017/18, this represents a decrease in real terms (i.e. after reflecting inflation).

How we allocate our funding

At the same time that the Council reviews its Corporate Plan, it also carries out an annual review of its Medium Term Financial Strategy (MTFS). This estimates the funding that we expect to have in future years, and sets the strategy for meeting any shortfall. This strategy is inherently linked to the Corporate Plan. The current MTFS can be found here:

https://www.north-herts.gov.uk/home/council-performance-and-data/budgets-and-spending/medium-term-financial-strategy

Current spend provides a good starting point for assessing the future costs of providing services. Future budgets are estimated from this starting point, with adjustments for inflation, service changes, efficiencies and demography.

Each year, Officers and Councillors are asked to come up with ideas for reducing expenditure (e.g. income generation, efficiencies and service changes). Each of the Political Groups are given an opportunity to comment on these proposals at Budget Workshops held in the Autumn. These comments are considered by Cabinet when they formulate a budget in January. This budget is presented to Full Council in February for approval.

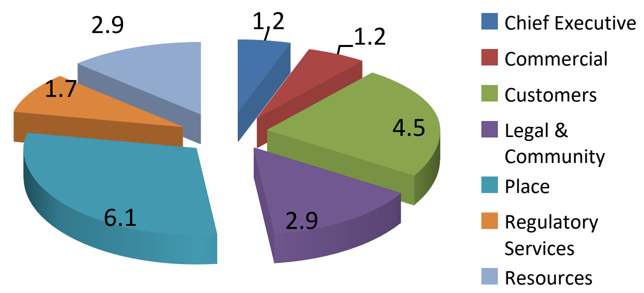
In the future it may be necessary to carry out a statutory service review. This will determine the cost of providing statutory services and see what funding is left to provide discretionary services. It will down to Councillors to decide which of these services continue to be provided.

Narrative Report

Spend by service area

For most of 2018/19 the Council was managed under 6 Service Directorates and the Chief Executive area (including Communications), and spend against these was as follows:

Service related spend (by Strategic Directorate), £m



Budgeting for Risk

In setting the budget each year, the Council's Chief Finance Officer is required to recommend a minimum level of General Fund reserves (the money that the Council has that is not allocated to a specific purpose). This minimum level is currently calculated as:

- 5% of the net budget of the Council- which is an allowance for unknown financial risks

+

- An assessment of known financial risks by both value and likelihood of occurring

For 2018/19, this resulted in a recommended minimum General Fund level of £2.15 million. The budgeted balance was £7.0 million at the start of the year and £7.2 million at the end of the year. The actual balance at 31st March 2019 was £7.9 million.

Success at achieving savings

Budgeted revenue savings achieved by year since 2010/11 (efficiencies, income generation and service change)

Year	Savings Achieved (£m)
2010/11	1.3
2011/12	1.9
2012/13	0.6
2013/14	0.7
2014/15	1.6
2015/16	0.4
2016/17	0.4
2017/18	1.2
2018/19	2.9
Total	**11.0**

Future Funding

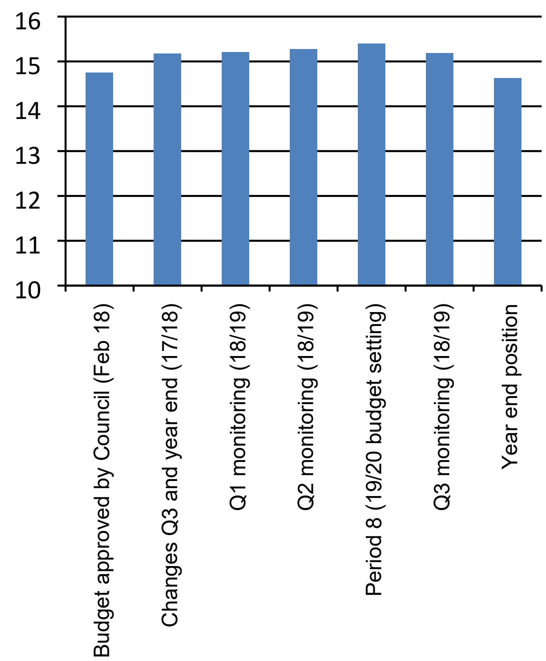
Reforms to Council funding are expected in 2020/21. It is expected that this will include a move to 75% Business Rate Retention and a new Fair Funding Formula. This means that more money will be provided to Local Government, but will be matched by new responsibilities. The way that this pot of money is then allocated to individual Councils will also change. It is expected that this will result in more money being provided to Social Care authorities, and therefore less to Authorities like North Hertfordshire District Council. Any change may be phased in, although it is expected that this phasing will be quite short.

The Council is continuing to look at ideas for income generation, efficiencies and service changes to help meet this challenge if/ when it happens.

Monitoring expenditure

The Council's Cabinet are responsible for monitoring expenditure (both revenue and capital) and they receive quarterly reports to enable them to do this. The Finance, Audit and Risk Committee review the financial performance of the Council. They receive the same reports, and are able to make recommendations to Cabinet.

Reported spend forecasts in 2018/19 (£m)



Narrative Report

Corporate Financial Health Indicators (Income)

In addition to overall monitoring, the quarterly reports also detail performance in relation to 4 of the Council's key sources of income.

Income category	Budgeted Income (£'000)	Q1 Status	Q2 Status	Q3 Status	Q4 Status	Actual Income (£'000)
Planning Application Fees	940	Green	Green	Red	Red	522
Land Charges	174	Green	Green	Red	Red	145
Car Parking Fees	1,906	Amber	Red	Red	Red	1,867
Penalty Charge Notices	532	Green	Green	Green	Green	535

Capital funding

The Council funds capital expenditure from these main sources:

- Government Grants, mainly housing adaptation grants
- S106 developer contributions
- Capital receipts- amounts received from the sale of surplus assets
- Set aside capital receipts- the remainder of the amounts received from the sale of our housing stock to North Herts Homes in 2003

The Council can also borrow money to fund capital expenditure, subject to meeting certain conditions. The Council has historic borrowing of £440k which is not worth repaying early (as at 31st March 2019).

During 2018/19 the Council's capital expenditure was funded from the following sources:

	£'000
Government Grants	122
S106 Developer Contributions	236
Other Contributions	249
Capital Receipts	625
Set-aside receipts	4,342
Total	**5,574**

As at the end of the year, the Council had £2.6m of Capital Receipts and £5.9m of set-aside receipts remaining.

Significant Capital Projects in 2018/19

Hitchin Outdoor Pool Showers and Toilets

Hitchin Swimming Centre Lift

Letchworth Outdoor Pool safety surface

Letchworth Outdoor Pool showers and toilets

Food waste caddies for weekly collection

Capitalisation of waste contract vehicles

Acquisition of 14/15 Brand Street and fit-out

Grants for improvements to community facilities

Disables Facilities Grants and Private Sector Housing Grants

Final payment for North Herts Leisure Centre redevelopment

Audio Visual equipment for the Council Chamber

All projects with spend greater than £50,000 in 2018/19

The Council's capital assets

The total value of the Authorities capital (long-term) assets is £116.7 million.

The main components of this are:

- Property, Plant and Equipment (£95.0 million) used to deliver services
- Heritage assets (£0.9 million), the museum collections and public artwork
- Investment properties (£18.8 million) that generate an annual income from being leased out (£1.1 million in 2018/19)
- Long-term treasury investments (£1.5 million)

The property assets are revalued on a regular basis (at least every 5 years).

Narrative Report

The Council's liabilities

The most significant liability that the Council has is its pension fund, which is administrated by Hertfordshire County Council. All of the Council's employees are eligible to join the pension scheme, which provides a retirement benefit that is linked to earnings. Employees make a contribution as part of their salary based on percentage rates that are set nationally. The Council also makes employer contributions. These contributions are based on:

- The estimated cost of the benefits being accrued by current employees – it is impossible to know what this really is as they will be payable from an unknown future date (when the employee retires) for an unknown period (depending on how long the employee lives for).
- Making up the shortfall from the past where the previous contributions are now considered to be insufficient – the shortfall is due to a combination of factors including people living longer and the old scheme where pensions were based on final salary. To stabilise the impact on Council Tax, this is being caught up on over a number of years.

The pension scheme is fully revalued every 3 years, with a less detailed revaluation each year in between. These valuations are undertaken by an actuary and involve a number of assumptions about the future. As the shortfall is being caught up on over time, this leaves an outstanding liability. This liability is the difference between the estimated value of the future pension payments that have been accrued and the value of the assets held by the pension fund.

As at the 31st March 2019, the value of the liability was £51.4 million (compared with £45.0 million at 31st March 2018). During the year, the Council made contributions of £2.6 million (of which £1.0 million was a lump sum relating to past shortfalls) and its employees contributed £0.6 million.

Key partners and contractors

Services may not always be delivered by the Council alone, but increasingly in a partnership with others.

Key partners include those in partner authorities and other Councils across the country, Urbaser (waste contract), John O'Connor (grounds maintenance contract), Stevenage Leisure Limited, settle, Countryside Management Service and Groundwork.

We work to support local, County wide and wider partnerships that seek to improve the wellbeing of our local community e.g. through the North Herts Health and Wellbeing Partnership and Hertfordshire Public Health Board.

Other key partners in the operation of the Council include County Councillors, District Councillors, Parish Councillors, local Members of Parliament, the Ministry of Housing, Communities and Local Government, the Local Government Association, the East of England Local Government Association, the Local Government Ombudsman, housing associations, North Herts Centre for Voluntary Service, Citizens Advice North Hertfordshire, North Herts Minority Ethnic Forum, Youth Connexions Herts, Business Improvement Districts, Letchworth Garden City Heritage Foundation, the Police, Herts Young Homeless and the Stevenage Haven.

Governance

The Council is required to review its governance arrangements annually and assess these against the International Framework: Good Governance in the Public Sector. An Annual Governance Statement (AGS) is published alongside the Statement of Accounts.

The Finance, Audit and Risk (FAR) Committee approves the AGS and monitors the actions identified.

The Action Plan from 2017/18 was last considered by the Committee at their meeting on 21st March 2019.

Narrative Report

Alternatives Models of Service Delivery

CCTV

The Council is engaged in a jointly controlled operation for the provision and management of CCTV in the Hertfordshire and Bedfordshire area. This arrangement is with Stevenage Borough Council, North Hertfordshire Council, East Hertfordshire Council and Hertsmere Borough Council. Each member of the arrangement accounts for their share of the assets, liabilities and cash flows of the CCTV in their accounts. In 2013/14 all partner authorities agreed to incorporate a new company to conduct the commercial trading affairs of the CCTV partnership. This new company, Hertfordshire CCTV Partnership Ltd, started trading on the 1 April 2015. The Council's interest in this company is not considered to be material, and therefore it is not included within the Statement of Accounts.

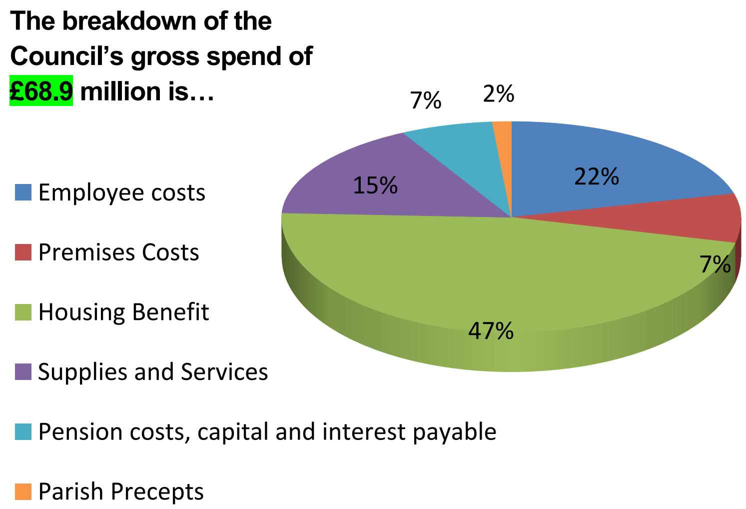
Building Control

The Council set up a joint Building Control Company with six other Hertfordshire Authorities. The company began trading in August 2016. The company delivers statutory building control services on behalf of the Council, as well being able to access further areas of work to help spread the cost of the service. The Council's interest in this company is not considered to be material, and therefore it is not included within the Statement of Accounts.

Home Improvement Agency

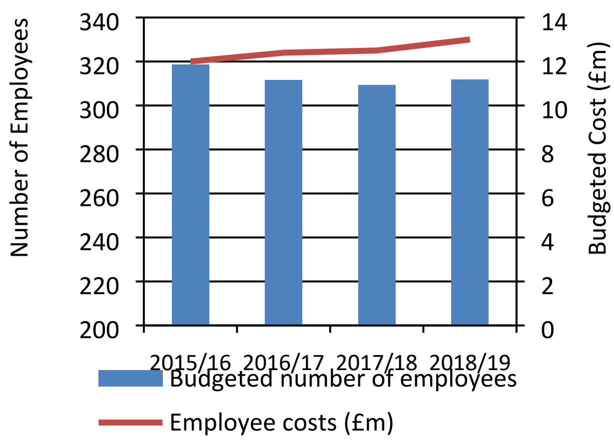
During 2017/18 the Council was part of the setting up of a Home Improvement Agency (HIA) arrangement that is hosted by Hertfordshire County Council. The HIA integrates Disabled Facilities Grants and Occupational Therapists to provide a more seamless service to those who need housing adaptations. The Council shows its contribution to running costs and use of Disabled Facilities Grants within its accounts.

Spend by type, including employee spend



By far the largest area of expenditure is Housing Benefit which the Council is responsible for administering. The Council claims a subsidy from the Department of Work and Pensions (DWP) towards the costs of benefits paid. In general the subsidy covers the cost of the grants awarded.

The next two most significant areas of expenditure are employee costs and supplies and services. Supplies and services include the amounts paid to suppliers to deliver services on the Council's behalf (e.g. waste collection, street cleansing and grounds maintenance). The graph below shows the trend in numbers and costs of employees:



Whilst the number of employees (as measured by the number of whole time equivalents) has generally decreased over the 4 years, the costs have increased. This reflects wage inflation and increasing pension contributions.

Narrative Report

Monitoring Projects

The Council's projects and performance are monitored by the Overview and Scrutiny Committee. The Committee receive quarterly update reports on projects, and will receive an end of year report in June.

A summary of the position on the key projects throughout the year is:

Status	Q1	Q2	Q3	Q4
Halted/ Funding not available	2	1	1	1
Behind original due date or forecast not to meet due date	1	2	2	2
Not due for completion in year or has not reached due date	8	7	5	5
Project Completed	3	0	2	0
	14	**10**	**10**	**8**

After being reported as halted or completed the project is taken off for the next quarter. As at Q1, the Royston Leisure Centre extension project was halted (see below) and 3 projects were completed. 2 projects were reported as completed at Q2.

The end of year position on the 14 projects was:

Project	Progress
Construction of pathway and Roadway at Wilbury Hills Cemetery, Letchworth	Reported as completed at Q3
Bancroft recreation ground MUGA	Works due to be completed by end of June 2019.
Renovation of Play area, District Park, Great Ashby	In progress - anticipated completion end of May 2019
Royston Leisure centre extension	Project deferred as outline business case did not provide a payback within current contract period. Capital funding now deferred to 2023/24.
Complete the fit out and open the North Hertfordshire Museum and Community Facility	Fit out was halted until completion of the purchase of 14/15 Brand Street in February 2019. Now underway with opening date anticipated in summer 2019.
Development of a Crematorium in North Hertfordshire	Central Bedfordshire refused an outline planning application in March 2019. Cabinet has since approved funding for an appeal.
Submission of a Local Plan for North Herts	The consultation on the Main Modifications concluded in April 2019. Future timescale dependent upon the Planning Inspectorate.
Designating air quality management areas in Hitchin to address the improvement of the air quality – Stevenage Road and Paynes Park.	Initial survey of Hitchin town centre was completed over February and March 2019. The air Pollution Notification System (Air Alert) is operational.
Churchgate	"Future High Streets Fund" bid submitted. Notification expected in Summer 2019 as to whether the bid is successful.
Investigating a range of options to improve use of Council assets	Business plan will be presented to relevant Cabinet Sub-Committee. If approved, holding company and subsidiary companies to be registered by end of July 2019.
Renewing our waste and street cleansing contracts, continuing to provide an efficient and effective service	Reported as completed at Q3
Ensuring that the Council's office accommodation is redeveloped	Reported as completed at Q1
Working with health partners to optimise opportunities for older people and children/young people	Reported as completed at Q1
Optimising use and management of the Council's assets	Reported as completed at Q1

Narrative Report

Key Projects 2019/20

The Overview and Scrutiny Committee have identified the following key projects for 2019/20:

- Developing projects from the Green Space Strategy including: Providing a Multi-Use Games Area at Bancroft Recreation Ground in Hitchin, renovating the play areas at the District Park in Great Ashby and King George V in Hitchin and Walsworth Common pitch improvements.
- Completing the fit-out and opening of the North Herts Museum and Community Facility
- Development of a crematorium in North Herts.
- Submission of a Local Plan for North Herts.
- Undertake various activities to seek improvements to air quality at Stevenage Road and Paynes Park in Hitchin
- Churchgate Shopping Centre, Hitchin
- Investigate options to make use of the Council's assets

The Committee will receive updates against these projects on a quarterly basis which will be available here:
https://democracy.north-herts.gov.uk/ieListMeetings.aspx?CId=134&Year=0

Monitoring Performance

The Overview and Scrutiny Committee also receive quarterly reports on Performance Indicators. During 2018/19 there were 21 indicators that were monitored, with some having targets and others for information only. A summary of the position on these throughout the year is:

Status	Q1	Q2	Q3	Q4
Met or exceeded target	8	8	7	8
Target not achieved but within agreed tolerance	2	0	3	2
Not achieved and outside tolerance	2	4	2	2
For information only and traffic light status is not applicable	9	9	9	9

The indicators that did not meet or exceed their target at Q4 were:

Indicator	Target	Actual Value	Comments
Working days lost due to short-term sickness absence per FTE employee	3.5	4.10	Short-term absence rose by 0.18 days per FTE compared with last year, although less absence occurred over the winter months. Performance remains in the top quartile (LG Inform Benchmarking Data).
Percentage of all planning applications determined within the relevant statutory or agreed time periods	83%	80.2%	While not all applicants will agree to an extension of time beyond the statutory period to enable negotiation with relevant parties, no fees were refunded or appeals lodged.
Kg residual waste per household	360	364	Performance is still in the top quartile (LG Inform Benchmarking Data).
Percentage of household waste sent for reuse, recycling and composting	55%	52.4%	

Narrative Report

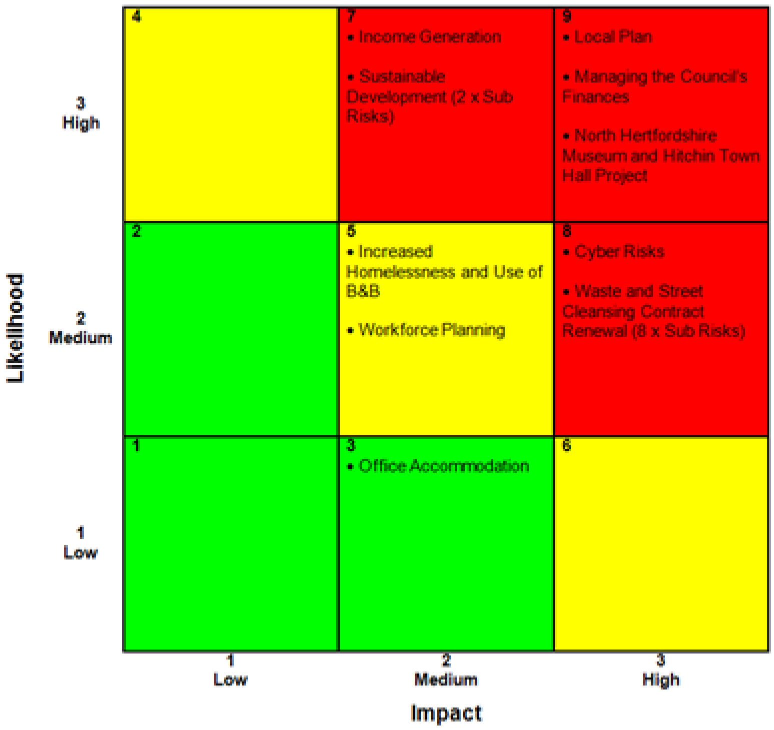
Monitoring Risk and Opportunities

The Council's processes for the development and operation of risk management are monitored by the Finance, Audit and Risk Committee. The committee review reports and can make recommendations to Cabinet on any changes.

In December 2017, the Committee reviewed the Council's 'Risk and Opportunities Management Strategy' and 'Risk Management Policy Statement' (these can be found here; https://www.north-herts.gov.uk/home/council-data-and-performance/performance-and-risk-management). They made recommendations to changes to Cabinet which were approved. The committee also receive quarterly reports on Corporate Risks.

Full Council receives an Annual Report on Risk Management in July each year.

At the start of the year the Council's Corporate Risks were:



During the year, the Committee received recommendations on changes to the following risks:

- Office accommodation to be removed, as project completed.
- Waste service parent risk to be increased to a score of 9 (with significant changes to sub-risks)
- Introduction of a Brexit risk with a score of 9
- North Herts Museum and Hitchin Town Hall project risk to be reduced to a score of 3, to reflect resolution of ownership of 14/15 Brand Street and a project plan in place to finalise the fit-out.

Understanding the Accounts

The accounts are made up of 5 core financial statements:

- Expenditure and Funding Analysis
- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Balance Sheet
- Cashflow statement

These are supported by a series of notes that provide further details of the numbers that they contain. Much of the information is of a technical nature and has been completed to be compliant with the 2018/19 Local Authority Accounting Code of Practice and Service Reporting Code of Practice, which are based on the International Financial Reporting Standards. On the next page there is a summary of the key information from each of these statements.

Narrative Report

Comprehensive Income and Expenditure Statement

This statement shows the Council's cost of providing services. There are two key totals:

- Surplus or Deficit on provision of services
- Total Comprehensive Income and Expenditure

The deficit on provision of services is £3.8 million, which includes actual income and expenditure incurred as well as adjustments for the cost of using capital assets (e.g. depreciation) and pension costs.

The total comprehensive income and expenditure (which is a deficit of £2.0 million) also includes the estimated gains on the revaluation of non-current (e.g. land and buildings) and pension assets. These gains would only be realised if the assets were actually sold.

Movement in Reserves Statements

This statement starts with the surplus or deficit on provision of services total (from the Comprehensive Income and Expenditure Statement). A series of adjustments are then applied to get to the movement in the General Fund balance.

The General Fund balance is like the Council's savings account. We try to balance income and expenditure each year, but there will be variations which lead to amounts being added to or taken out of the General Fund. There is a need to maintain a certain level of savings, and Council Tax will be set to try and keep these at the right level.

The adjustments to get to the General Fund balance reflect that:

- The Council has separate funding sources for capital so rather than reflect the full cost of using assets; it only has to make allowances for the repayment of any borrowing that it has taken out to fund capital purchases.
- Rather than reflect the full cost of future pension liabilities, the Council only has to show current year contributions. These already include an element of catching up on previous deficits.

The overall result is that the movement on the General Fund is -£0.5 million, which means that the balance at the start of the year of £7.4 million is now £7.9 million.

This statement also shows the other reserves that the Council has. The key ones are:

- Earmarked Reserves - money that the Council has chosen to set aside for a specific purpose.
- Capital Receipts Reserve - funding that can be used to fund future capital expenditure.

Expenditure and Funding Analysis

This statement is the most relevant to Council Taxpayers as it shows the Council's spend by Directorate (net total of £14.9 million). It then goes on to show how this is funded from taxation and grants. The final section shows the impact on the General Fund balance.

Balance Sheet

The Balance Sheet shows the value as at the 31 March of the assets and liabilities recognised by the Council. The net assets of the Authority (assets less liabilities) are matched by the reserves held. The total value of net assets of the Authority at 31 March 2019 is £87.9 million. Key assets and liabilities include:

- Property, Plant and Equipment used to deliver services: £95.0 million
- Investment properties used to generate income: £18.8 million
- Treasury investments: Long-term £1.5 million and Current £25.1 million
- Pension liabilities: -£51.4 million

Cashflow Statement

This shows the reason for changes in the Council's cash balances during the year, and whether that change is due to operating activities, new investment, or financing activities (such as repayment of borrowing and other long term liabilities).

Statement of Accounting Policies

1. GENERAL

1.1. The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and the position at the year-end of 31 March 2019. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. Those Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Local Government Act.

1.2. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. All disclosures are subject to materiality as the intention of the statement of accounts is to present a 'true and fair' view of financial position, financial performance and cashflows.

2. ACCRUALS OF INCOME AND EXPENDITURE

2.1. Subject to materiality, activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards or ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is generally recognised when the Authority can measure reliably the percentage of completion of the transaction and this reflects that the same proportion of the economic benefits or service potential associated with the transaction will flow to the Authority. Where the revenue is not material in value and the time interval between the receipt of the payment and transfer of the service to the service recipient is insignificant, the revenue is recognised when the payment is received. Where the provision of the service occurs over a period of time and the expectation of receiving the economic benefits or service potential only flows to the authority when the performance obligations have been completely fulfilled, the revenue will only be recognised when performance obligations in the contract have been fully satisfied.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Statement of Accounting Policies

3. COUNCIL TAX AND NON-DOMESTIC RATES

3.1 Billing authorities act as agents, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting Council Tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

3.2 The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

3.3 The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

4. BUSINESS IMPROVEMENT DISTRICTS

4.1 Business Improvement District (BID) schemes apply in Hitchin, Royston and Letchworth. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority acts as an agent only under the scheme and so income is not shown in the Comprehensive Income and Expenditure Statement since the BID levies are collected on behalf of the relevant BID body.

5. CASH AND CASH EQUIVALENTS

5.1 Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

6. EMPLOYEE BENEFITS

Benefits Payable During Employment

6.1. Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as salaries, paid annual leave, paid sick leave, and banked hours in the flexi scheme for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

6.2. Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis in the Comprehensive Income and Expenditure Statement and recognised at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring that involves the payment of termination benefits.

6.3. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

6.4. As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although these benefits will not actually be payable until the employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

6.5. The Authority participates in one pension scheme, the Local Government Pension Scheme, administered locally by Hertfordshire County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The Local Government Pension Scheme

6.6. The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Hertfordshire Local Government Pension Scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative current rate of return on high quality corporate bonds of equivalent currency and term as the liabilities (rated at the level of AA or equivalent).

- The assets of the Hertfordshire Local Government Pension Scheme attributable to the Authority are included in the balance sheet at their fair value:

quoted securities	– bid price
unquoted securities	– professional estimate
unitised securities	– average of the bid and offer rates
property	– market value

6.7. The change in the net pensions liability is analysed into the following components:

Service cost comprising:

Current service cost – the increase in liabilities as a result of years of service earned in the financial year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

Net Interest on the net defined benefit liability (asset) – i.e. the net interest expense for the authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any charges in the net defined benefit liability during the period as a result of contribution and benefit payments.

Re-measurements comprising:

The return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Hertfordshire Pension Scheme – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

6.8. In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

6.9. The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Statement of Accounting Policies

7. EVENTS AFTER THE REPORTING PERIOD

7.1. Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

7.2. Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

8. EXCEPTIONAL ITEMS

8.1. When items of income and expenditure are material and significant to the understanding of the Council's financial performance, their nature and amount is disclosed separately in the notes to the accounts.

9. FINANCIAL INSTRUMENTS

9.1. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities.

Financial Liabilities

9.2. Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For the Council's borrowings, the amount presented in the Balance Sheet is the outstanding principal repayable; and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

9.3. Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

9.4. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Statement of Accounting Policies

FINANCIAL ASSETS

9.5. Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

9.6. The Authority does not have any available for sale assets.

Loans and Receivables

9.7. Assets of this type will arise where the Council provides money, goods or services to another party and contracts to defer the settlement of the debt that arises, but in the meantime will not plan to trade the receivable on the market. Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Authority has made this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

9.8. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

9.9. Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

10. GOVERNMENT GRANTS AND CONTRIBUTIONS

10.1. Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

10.2. Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

10.3. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Where revenue grants have been ring-fenced to a specific service and have not been spent at the Balance Sheet date they are reversed out of the General Fund Balance and posted to an ear-marked reserve (revenue grants with less than £1,000 left unspent at the Balance Sheet date are treated as Creditors and not transferred to an ear-marked reserve).

10.4. Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

11. HERITAGE ASSETS

Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)

10.1 Heritage assets have historical, artistic, scientific, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture. The Authority's Heritage Assets consist of collections of assets or artefacts either exhibited or stored in the Authority's Museums (North Hertfordshire, Letchworth and Hitchin Museums) or the Museum Resource Centre, and items of public Sculpture and Artwork.

10.2 Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as the majority of them do not have a material monetary value and are therefore not recognised on the Balance Sheet.

- Where the Museums' Manager determines that an asset has a monetary value then they will undertake an annual programme of valuations by reviewing the archives of auctions houses to identify similar paintings by the same artist which have sold in the recent past.
- Purchased acquisitions are initially recognised at cost.
- For any donated acquisitions the Museums' Manager will determine whether they are likely to have a monetary value. If they do then they will either provide a valuation or obtain an external valuation (as per above). Otherwise they will not be recognised on the Balance Sheet.

10.3 The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see section 18.13 in this summary of significant accounting policies.

10.4 The Authority has a policy for the acquisition and disposal of Museum collections. The policy states there is a strong presumption against the disposal of any items in the museum's collection and decisions to dispose of items will not be made with the principal aim of generating funds. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment.

Statement of Accounting Policies

12. INTANGIBLE ASSETS

12.1. Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

12.2. Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

12.3. Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

12.4. Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

12.5. Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

13. INVENTORIES AND LONG TERM CONTRACTS

13.1. Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Work in Progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

13.2. Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

14. INVESTMENT PROPERTY

14.1. Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

14.2. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged in an orderly transaction between participants at the measurement date, and assuming that highest and best use is made of that asset. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Statement of Accounting Policies

14.3. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

15. JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS

15.1. Jointly controlled operations are activities undertaken by the Authority in conjunction with other partners that involve the use of the assets and resources of the partners rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs, and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

15.2. Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other partners, with the assets being used to obtain benefits for the partners. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

16. LEASES

16.1. Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

16.2. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

16.3. Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

16.4. Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Statement of Accounting Policies

16.5. Property, plant and equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

16.6. The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

16.7. Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance leases

16.8. Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain and loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

16.9. Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

16.10. The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

16.11. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

16.12. Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

17. OVERHEADS AND SUPPORT SERVICES

17.1. The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

18. PROPERTY, PLANT AND EQUIPMENT

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

Recognition

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

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

Measurement

18.4. Assets, other than surplus assets (see below), are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Surplus assets are measured at fair value, based on the highest and best use of that asset.

18.5. The cost of assets acquired other than by purchase is deemed to be its current value. Where an acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority) and is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

18.6. Donated assets are measured initially at current value. The difference between current value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Statement of Accounting Policies

18.7. Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

18.8. Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. In such cases an estimate of the cost to re-build a similar asset (to provide the same function), using modern building practices and the latest information from the Building Cost Information Services is used as the value of the asset.

18.9. Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

18.10. Assets included in the balance sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of a loss previously charged to a service.

18.11. Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

18.12. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

18.13. Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

18.14. Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

18.15. Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Statement of Accounting Policies

Depreciation

18.16. Depreciation is provided for all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

18.17. Depreciation is calculated on a straight line allocation over the useful life of the property as estimated by the valuer. There is no depreciation in the year of disposal but a full year's depreciation charge in the year of acquisition. Assets are typically depreciated over the following lives:

Fixed Asset	Life
Operational Buildings	Up to 50 years
Vehicles & Plant	5 to 10 years
Community Assets	Up to 50 years
Infrastructure	Up to 40 years

18.18. Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

18.19. An individual item of property, plant or equipment is componentised and each resultant significant component is recognised and depreciated separately subject to the following principles:

- Individual assets with a carrying value less than £500k are disregarded for componentisation (subject to an assessment of the materiality of any group of assets that have been disregarded).
- A component is judged to be significant and hence recognised and depreciated separately if the cost of the component is at least 20% of the overall cost of the asset and the components useful life and required method of depreciation is different to the overall asset.
- The significance of a component relative to the overall asset is determined when an asset is enhanced, acquired or revalued (e.g. as part of the five-year rolling programme).
- The cost of a component is based on best estimates where historical cost of assets and components is not available.

18.20. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

18.21. When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Statement of Accounting Policies

18.22. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

18.23. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

18.24. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

18.25. Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

18.26. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

19. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

19.1. Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

19.2. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. When a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

19.3. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Statement of Accounting Policies

20. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

20.1. Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

20.2. Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

20.3. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

20.4. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

Contingent Liabilities

20.5. A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will not be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

20.6. A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

21. RESERVES

21.1. The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

21.2. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

Statement of Accounting Policies

22. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

22.1. Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a long term asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

22.2. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

22.3. While the Authority has a de-minimis level for capitalising expenditure on its own assets there is no de-minimis level for revenue expenditure funded from capital under statute.

23. TRUST FUNDS AND THIRD PARTY ASSETS

23.1. Where the Authority acts as sole managing trustee for a Trust the net balance of the transactions incurred in running the Trust is included in the Comprehensive Income and Expenditure Statement. The Authority also holds income received for S106 legal agreements and unilateral undertakings relating to the submission of planning applications and these are treated as receipts in advance in the Balance Sheet before they are applied.

24. VAT

24.1. Value Added Tax (VAT) payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES).

The Expenditure and Funding Analysis is a note to the financial statements however it is positioned here as it provides a link between the figures in the narrative statement and the CIES.

2017/18 restated				2018/19		
Net Expenditure chargeable to the General Fund £'000	**Adjustments between the Funding and Accounting Basis £'000**	**Net Expenditure in the Comprehensive Income and Expenditure Statement £'000**	**Directorate**	**Net Expenditure chargeable to the General Fund £'000**	**Adjustments between the Funding and Accounting Basis £'000**	**Net Expenditure in the Comprehensive Income and Expenditure Statement £'000**
1,944	(905)	1,039	Chief Executive	1,716	(541)	1,175
593	1,239	1,832	Commercialisation	775	457	1,232
3,256	942	4,198	Customers	3,521	957	4,478
1,871	886	2,757	Legal & Community	2,058	847	2,905
6,366	3,077	9,443	Place	3,373	2,684	6,057
524	1,005	1,529	Regulatory	1,113	540	1,653
2,326	6,558	8,884	Resources	2,315	539	2,854
16,880	**12,802**	**29,682**	**Net Cost of Services**	**14,871**	**5,483**	**20,354**
1,068	(291)	777	Other Operating Expenditure	1,096	0	1,096
(1,366)	(1,544)	(2,910)	Financing and Investment Income and Expenditure	(764)	639	(125)
(16,820)	(1,180)	(18,000)	Taxation and Non-Specific Grant Income and Expenditure	(17,166)	(365)	(17,531)
(238)	**9,787**	**9,549**	**(Surplus) or Deficit on Provision of Services**	**(1,963)**	**5,757**	**3,794**
(8,235)			**Opening General Fund Balance**	**(7,403)**		
(238)			(Surplus) or Deficit on General Fund Balance in year	(1,963)		
1,070			Transfers to / (from) Earmarked Reserves	1,504		
(7,403)			**Closing General Fund Balance at 31st March**	**(7,862)**		

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and Movement in Reserves Statement.

2017/18 restated				Note	2018/19		
Gross Expenditure	**Gross Income**	**Net Expenditure**			**Gross Expenditure**	**Gross Income**	**Net Expenditure**
£'000	**£'000**	**£'000**			**£'000**	**£'000**	**£'000**
1,050	(11)	1,039	Chief Executive		1,205	(30)	1,175
2,058	(226)	1,832	Commercialisation		1,456	(224)	1,232
42,260	(38,062)	4,198	Customers		40,515	(36,037)	4,478
3,616	(859)	2,757	Legal & Community		3,507	(602)	2,905
12,998	(3,555)	9,443	Place		10,654	(4,597)	6,057
7,057	(5,528)	1,529	Regulatory		6,219	(4,566)	1,653
8,907	(23)	8,884	Resources		2,891	(37)	2,854
77,946	**(48,264)**	**29,682**	**Cost of Services**		**66,447**	**(46,093)**	**20,354**
		777	Other Operating Expenditure	12			1,096
		(2,910)	Financing and Investment Income & Expenditure	13			(125)
		(18,000)	Taxation and Non-Specific Grant Income & Expenditure	14			(17,531)
		9,549	**(Surplus) or Deficit on Provision of Services**				**3,794**
		(11,154)	(Surplus) or Deficit on Revaluation of non-current assets				(5,756)
		0	(Surplus) or Deficit on revaluation of available for sale assets				(81)
		(6,427)	Re-measurements of the net defined benefit liability	40			4,030
		(17,581)	**Other Comprehensive Income and Expenditure**				**(1,807)**
		(8,032)	**Total Comprehensive Income and Expenditure**				**1,987**

Service Reporting Code of Practice:
The above revenue service analysis is compliant with the latest accounting code of practice.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes and reflect the adjustments between the accounting basis and the funding basis under regulations. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2017	**8,235**	**4,609**	**3,223**	**954**	**17,021**	**64,880**	**81,901**
Movement in Reserve during 2017/18							
Surplus or (deficit) on provision of services	(9,549)	0	0	0	(9,549)	0	(9,549)
Other Comprehensive Expenditure and Income	0	0	0	0	0	17,581	17,581
Total Comprehensive Expenditure and Income	**(9,549)**	**0**	**0**	**0**	**(9,549)**	**17,581**	**8,032**
Adjustments between accounting basis & funding basis under regulations **(Note 11)**	9,787	0	(133)	0	9,654	(9,654)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**238**	**0**	**(133)**	**0**	**105**	**7,927**	**8,032**
Transfers to/from Earmarked Reserves **(Note 28)**	(1,070)	1,070	0	0	0	0	0
Increase / (Decrease) in Year	**(832)**	**1,070**	**(133)**	**0**	**105**	**7,927**	**8,032**
Balance at 31 March 2018	**7,403**	**5,679**	**3,090**	**954**	**17,126**	**72,807**	**89,933**
Movement in Reserve during 2018/19							
Surplus or (deficit) on provision of services	(3,794)	0	0	0	(3,794)	0	(3,794)
Other Comprehensive Expenditure and Income	0	0	0	0	0	1,807	1,807
Total Comprehensive Expenditure and Income	**(3,794)**	**0**	**0**	**0**	**(3,794)**	**1,807**	**(1,987)**
Adjustments between accounting basis & funding basis under regulations **(Note 11)**	5,757	0	(510)	(16)	5,231	(5,231)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**1,963**	**0**	**(510)**	**(16)**	**1,437**	**(3,424)**	**(1,987)**
Transfers to/from Earmarked Reserves **(Note 28)**	(1,504)	1,504	0	0	0	0	0
Increase / (Decrease) in Year	**459**	**1,504**	**(510)**	**(16)**	**1,437**	**(3,424)**	**(1,987)**
Balance at 31 March 2019	**7,862**	**7,183**	**2,580**	**938**	**18,563**	**69,383**	**87,946**

Balance Sheet as at 31 March 2019

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2018 £'000		Note	31 March 2019 £'000
89,570	Property, Plant and Equipment	15	95,048
733	Heritage Assets	16	853
17,647	Investment Property	17	18,839
192	Intangible Assets	18	38
1,000	Long Term Investments (non-property)	20	1,500
1	Mortgages	20	1
16	Loans	20	16
498	Other Long Term Debtors	20	423
109,657	**Long Term Assets**		**116,718**
159	Inventories	21	237
4,331	Short Term Debtors	23	5,639
21,161	Short Term Non Property Investments	20	25,115
0	Assets Held for Sale	25	627
10,576	Cash & Cash Equivalents	24	6,050
36,227	**Current Assets**		**37,668**
(24)	Short Term Borrowing	20	(24)
(4,174)	Short Term Creditors	26	(5,026)
(4,836)	Receipts in Advance	26	(5,257)
(100)	Provisions (< 1 year)	27	0
(9,134)	**Current Liabilities**		**(10,307)**
(440)	Long Term Borrowing	20	(423)
(131)	Long Term Creditors	41	(2,750)
(1,152)	Provisions (> 1 year)	27	(1,527)
(45,029)	Liability related to Pension Scheme	40	(51,449)
49	Deferred Credits		49
(114)	Capital Grants Receipt in Advance	36	(33)
(46,817)	**Long Term Liabilities**		**(56,133)**
89,933	**Net Assets**		**87,946**
17,126	Usable Reserves	28	18,563
72,807	Unusable Reserves	29	69,383
89,933	**Total Reserves**		**87,946**

The un-audited accounts were authorised for issue on 30th May 2019.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2017/18 £'000		**2018/19 £'000**
(9,549)	Net surplus or (deficit) on the provision of services	(3,794)
11,191	Adjustments for non-cash movements **(Note 30)**	5,875
6,197	Adjustments for items that are investing and financing activities **(Note 30)**	(4,951)
7,839	**Net cash flows from operating activities**	**(2,870)**
(5,986)	Investing Activities **(Note 30)**	(1,920)
517	Financing Activities **(Note 30)**	264
2,370	**Net Increase or (decrease) in cash and cash equivalents**	**(4,526)**
8,206	Cash and Cash Equivalents at the beginning of the year	10,576
10,576	**Cash and Cash Equivalents at the end of the year**	**6,050**

Notes to the Core Financial Statements

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Notes to the Core Financial Statements

INTRODUCTION

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and the accounting policies set out prior to the financial statements. The notes that follow (1 to 43) set out supplementary information to assist readers of the accounts.

1. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2019/20 Code:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Considerations
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation.

The Code will require implementation from 1 April 2019 and there is therefore no impact on the 2018/19 Statement of Accounts. It is also considered that these standards and amendments will not have a material impact on the Council's Statement of Accounts when they become applicable.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies (see the Statement of Accounting Policies), the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication of the degree to which the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Authority has determined that the ownership of the freehold of the Churchgate Shopping Centre in Hitchin is an investment property (carrying value of £1.5million) as there is no alternative policy for ownership other than for rental income or capital appreciation.

- The Authority has recognised £3.178m of vehicle assets in relation to a new waste contract with Urbaser. This reflects long-term leases economic benefits of ownership, through the performance of the contract. These have been treated as a finance lease, with the underlying assets included on the balance sheet. Around £1.76m of vehicle assets were not included, as they were found to be on short-term hire arrangements and/or had been replaced by other vehicles. This difference reflects the various phases of implementing the service levels within the new contract.

3. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Notes to the Core Financial Statements

The items in the Authority's Balance Sheet at 31 March 2019 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over estimated useful lives. If for any reason an individual asset should deteriorate at a quicker rate than expected then this could bring into doubt the useful lives assigned to individual assets. This could happen, for example, if the current period of austerity meant the necessary programme of repairs and maintenance was delayed.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £208,000 for every year that useful lives had to be reduced.
Investment Properties	Investment Properties are not depreciated but are revalued annually according to market conditions. In the current economic climate it is uncertain if there will be a significant change in property prices over the next 12 months. However, the majority of the Authority's investment properties are ground leases which are considered to be relatively secure investments and less liable to large swings in value.	A yield of 7.0% has been used in the calculation of the value of investment properties. A 0.5% reduction in the yield would reduce the carrying value of investment property by approximately £1.4million (this is a simple estimation for illustration only and does not consider the complexities and circumstances of individual assets).
Debtors	At 31 March 2019 the Authority had a balance of short term debtors of £6.3million. A review of the trend in collection rates and the age profile of the outstanding debt suggested an impairment of £1.7million was appropriate. However, in the current economic climate it is not certain if such an allowance is sufficient.	If collection rates were to deteriorate, a doubling of the amount of impairment of the doubtful debt would require an additional £1.7million to be set aside.
National Non Domestic Rates – Provision for Appeals	The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013. The Authority, acting as an agent on behalf of the major preceptors, central government and itself (as principal) is required to make provisions in accordance with the requirements of the Code and legislation for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This includes amounts relating to non-domestic rates charged to businesses in 2012-13 and earlier financial years.	A provision of £1.22million has been made, as at 31 March 2019, for the Authority's share of refunding outstanding appeals that are successful. This amount is based on the amount of outstanding appeals with the Valuation Office Agency, as at 31 March 2019, after applying a success factor of 25% and likely reduction in RV of 16% and, following the 2017 revaluation, an allowance for appeals not yet lodged. An increase of 1% in the success factor would increase the amount of provision required by £84,000.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements. A firm of actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The assumptions interact in complex ways. During 2018/19, the Authority's actuaries advised that the net pensions liability had increased by £6.4million.

Notes to the Core Financial Statements

4. MATERIAL ITEMS OF INCOME AND EXPENSE

The Code of Practice requires the disclosure of the nature and amount of any material items of income and expenditure which are not separately disclosed on the face of the Comprehensive Income and Expenditure Statement.

The following material items of income and expenditure are included in the Cost of Services in the Comprehensive Income and Expenditure Statement:

Directorate	Description of Material Item	Comment
Place	Grounds Maintenance Contract	Contract payments for the core service maintenance of amenity areas, burial grounds and rivers totalled £1.2million in 2018/19 (£1.2million in 2017/18)
Regulatory	Off Street Car Parking Income	Off Street Car Parking income received by the authority totalled £1.9millon in 2018/19 (£1.8million in 2017/18).
Place	Waste and Recycling Contract	Waste and Recycling Contract expenditure totalled £3.2million in 2018/19 (£5.3million in 2017/18).
Customers	Housing and Council Tax Benefits	The Authority paid a total of £32.4million of Housing Benefit payments in 2018/19 (£34.2million in 2017/18). This was funded by a grant subsidy from the Department for Work and Pensions of £32.1million (£33.7million in 2017/18).

5. EVENTS AFTER THE REPORTING PERIOD

There were no events that occurred after the reporting period that need disclosing in 2018/19.

6. PRIOR PERIOD ADJUSTMENTS

There were no prior period adjustments that needed disclosing in 2018/19.

7. ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired or discontinued operations during 2018/19 or 2017/18. These would normally arise following boundary changes or from legislation, neither of which affected North Hertfordshire District Council during 2018/19. All operations are therefore classified as '*continuing operations*'.

Notes to the Core Financial Statements

8. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis presents the total adjustments required to the amounts chargeable to the General Fund in order to arrive at the Net Expenditure in the Comprehensive Income and Expenditure Statement. The main adjustments required are detailed and explained below.

2017/18 Restated					2018/19			
Adjustments for Capital Purposes (Note 1)	**Net Change for the Pension Adjustments (Note 2)**	**Other Differences (Note 3)**	**Total Adjustments**	**Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts**	**Adjustments for Capital Purposes (Note 1)**	**Net Change for the Pension Adjustments (Note 2)**	**Other Differences (Note 3)**	**Total Adjustments**
£'000	**£'000**	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**	**£'000**
0	(914)	9	**(905)**	Chief Executive	0	(541)	0	**(541)**
1,156	83	0	**1,239**	Commercialisation	362	95	0	**457**
265	677	0	**942**	Customers	319	638	0	**957**
669	217	0	**886**	Legal & Community	650	197	0	**847**
2,909	168	0	**3,077**	Place	2,528	156	0	**2,684**
537	468	0	**1,005**	Regulatory	81	459	0	**540**
6,368	190	0	**6,558**	Resources	338	201	0	**539**
11,904	**889**	**9**	**12,802**	**Net Cost of Services**	**4,278**	**1,205**	**0**	**5,483**
(291)	0	0	**(291)**	Other Operating Expenditure	0	0	0	**0**
(2,788)	1,244	0	**(1,544)**	Financing and Investment Income and Expenditure	(546)	1,185	0	**639**
(844)	0	(336)	**(1,180)**	Taxation and Non-Specific Grant Income and Expenditure	(311)	0	(54)	**(365)**
(3,923)	**1,244**	**(336)**	**(3,015)**	**Other Income and Expenditure from the Expenditure and Funding Analysis**	**(857)**	**1,185**	**(54)**	**274**
7,981	**2,133**	**(327)**	**9,787**	**Difference between the General Fund Surplus or Deficit and the CIES surplus or deficit on the provision of services**	**3,421**	**2,390**	**(54)**	**5,757**

Notes to the Core Financial Statements

1) Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the Services lines, and for the following items in Other Income and Expenditure:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year. The gain to the authority on receipt of a donated asset is also credited to this line.

2) Net Change for the Pensions Adjustments

This column reflects the removal of pension contributions and the addition of IA S 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure –- the net interest on the defined benefit liability is charged to the CIES.

3) Other Differences

This includes those other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council Tax and NNDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Notes to the Core Financial Statements

9. SEGMENTAL INCOME

Income received on a segmental basis is analysed below.

Directorate	2017/18 £'000	2018/19 £'000
Chief Executive	(1,206)	(699)
Commercialisation	(1,311)	(1,302)
Customers	(38,066)	(36,039)
Legal & Community	(859)	(602)
Place	(3,555)	(4,598)
Regulatory	(5,528)	(4,566)
Resources	(23)	(37)
Total Directorate Income	**(50,548)**	**(47,843)**
Other Income Received		
Non-Ringfenced Government Grants	(3,678)	(3,020)
Income from Council Tax and Business Rates	(13,478)	(14,201)
Total Income within Surplus or Deficit on the Provision of Services	**(67,704)**	**(65,064)**

10. EXPENDITURE AND INCOME ANALYSED BY NATURE

The authority's expenditure and income is analysed as follows:

	2017/18 £000	2018/19 £000
Employee costs	14,101	14,922
Other Service Expenditure	17,868	15,304
Housing Benefit Payments	34,246	32,381
Interest Payments	56	661
Net Pension Costs	1,244	1,185
Capital Charges:		
- Depreciation of Property, Plant & Equipment	2,760	3,401
- Amortisation of Intangible Assets	165	162
- Impairment / Downward Revaluation of Assets	8,821	289
Payments to Housing Capital Receipts Pool	2	0
(Increase) / Decrease in Fair Value of Investment Properties	(2,785)	(543)
(Gain) / Loss on the disposal of assets	(293)	0
Parish Council Precepts	1,068	1,096
Total Expenditure	**77,253**	**68,858**
Fees and Charges	(9,180)	(9,027)
Interest and Rental Income	(1,548)	(1,596)
Housing Benefit Subsidy	(33,669)	(32,100)
Grants and Contributions	(9,829)	(8,140)
Income from Council Tax and Business Rates	(13,478)	(14,201)
Total Income	**(67,704)**	**(65,064)**
(Surplus) or Deficit on the Provision of Services	**9,549**	**3,794**

Notes to the Core Financial Statements

11. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

The first table shows the adjustments made in the comparative year 2017/18:

2017/18	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£'000	£'000	£'000	£'000
Adjustments Primarily involving the Capital Adjustment Account: Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(11,581)	0	0	11,581
Movements in the market value of Investment Properties	2,785	0	0	(2,785)
Amortisation of Intangible Assets	(165)	0	0	165
Capital Grants and contributions applied	1,720	0	10	(1,720)
Revenue Expenditure funded from capital under statute	(1,034)	0	0	1,034
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account	(10)	0	0	10
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory Provision for the financing of capital investment	3	0	0	(3)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account.	303	(303)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	1,437	0	(1,437)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0	0	0	0
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	(2)	2	0	0
Transfer from capital adjustment account upon receipt of Local Authority Mortgage Scheme loan principal	0	(1,000)	0	1,000
Transfer from deferred capital receipts reserve upon receipt of cash	0	(3)	0	3
Adjustments primarily involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(4,664)	0	0	4,664
Employers pensions contributions and direct payments to pensioners payable in year	2,531	0	0	(2,531)
Adjustments primarily involving the Collection Fund Account:				
Movement in the Authority's share of the Collection Fund surplus / deficit	336	0	0	(336)
Adjustments primarily involving the Accumulated Absences Account:				
Accrued employee absence adjustment	(9)	0	0	9
Total Adjustments	**(9,787)**	**133**	**0**	**9,654**

Notes to the Core Financial Statements

The following table shows the adjustments made in 2018/19:

2018/19	**Usable Reserves** General Fund Balance **£'000**	Capital Receipts Reserve **£'000**	Capital Grants Unapplied **£'000**	**Movement in Unusable Reserves £'000**
Adjustments Primarily involving the Capital Adjustment Account: Reversal of items debited or credited to the comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(3,689)	0	0	3,689
Movements in the market value of Investment Properties	543	0	0	(543)
Amortisation of Intangible Assets	(162)	0	0	162
Capital Grants and contributions applied	607	0	16	(623)
Revenue Expenditure funded from capital under statute	(723)	0	0	723
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account	0	0	0	0
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory Provision for the financing of capital investment	3	0	0	(3)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account.	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	510	0	(510)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0	0	0	0
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	0	0	0	0
Transfer from deferred capital receipts reserve upon receipt of cash	0	0	0	0
Adjustments primarily involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(4,958)	0	0	4,958
Employers pensions contributions and direct payments to pensioners payable in year	2,568	0	0	(2,568)
Adjustments primarily involving the Collection Fund Account:				
Movement in the Authority's share of the Collection Fund surplus / deficit	54	0	0	(54)
Adjustments primarily involving the Accumulated Absences Account:				
Accrued employee absence adjustment	0	0	0	0
Total Adjustments	**(5,757)**	**510**	**16**	**5,231**

Notes to the Core Financial Statements

12. OTHER OPERATING EXPENDITURE

2017/18 £000		2018/19 £000
1,068	Parish council precepts	1,096
2	Payments to the Government Housing Capital Receipts Pool	0
(293)	(Gains) / losses on the disposal of non-current assets	0
777	**Total**	**1,096**

13. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2017/18 £000		2018/19 £000
56	Interest payable and similar charges	661
1,244	Pensions interest cost and expected return on pensions assets	1,185
(355)	Interest receivable and similar income	(360)
(2,785)	Change in Fair Value of Investment Properties	(543)
(1,070)	Income and expenditure in relation to investment properties	(1,068)
(2,910)	**Total**	**(125)**

The increase in the amount for "interest payable and similar charges" relates to the finance lease for the vehicles used under the waste collection contract.

14. TAXATION & NON-SPECIFIC GRANT INCOME AND EXPENDITURE

2017/18 £000		2018/19 £000	2018/19 £000
(11,781)	Council Tax Income		(12,093)
0	Revenue Support Grant		0
(140)	Transition Grant		0
(1,546)	Section 31 Business Rates Reliefs Grant		(1,756)
(1,992)	New Homes Bonus		(1,263)
	National Non-Domestic Business Rates (NNDR)		
(15,135)	Share of total collectible	(15,345)	
12,814	Less NNDR Tariff	12,633	
624	Less NNDR Collection Fund Deficit	604	
(1,697)	Net Recognised NNDR		(2,108)
(844)	Capital Grants and Contributions (see below)		(311)
(18,000)			**(17,531)**

2017/18 £000	**Capital Grants and Contributions**	2018/19 £000
186	S106 Developer Contributions	77
49	Museum Heritage Lottery Funding	50
65	Stevenage Leisure Limited contribution to North Herts Leisure Centre Redevelopment.	172
481	Stevenage Leisure Limited contribution to purchase of fitness equipment for Archers Gym and Royston Leisure Centre	28
0	Performance Reward Grant	(16)
63	Contributions from several bodies to purchase of Roman Artefacts	0
844	**Total**	**311**

Notes to the Core Financial Statements

15. PROPERTY, PLANT AND EQUIPMENT

The movement on property, plant and equipment balances during the year and in the 2017/18 comparable year is detailed in the following tables.
Within each classification heading are the following types of assets:

Land & Buildings – Offices, Depots, Leisure Facilities, Community Centres, Museums and Pavilions
Infrastructure Assets – Capital Works to Public Roads and Drainage Schemes
Community Assets – Commons and Parks

REVALUATIONS

The Authority has a 5 year rolling revaluation programme for its properties. The Authority's Investment properties are valued annually. Revaluations completed during the year are reflected as at 1 April of the financial year when the valuation takes place. Valuations of the Authority's properties are overseen by the Estates Surveyor, who is a professional member of the Royal Institution of Chartered Surveyors. When necessary, specialist external valuers are used for assets which require particular knowledge of the asset valued.

Revaluations have been undertaken in 2018/19 in line with the 5 year rolling programme. These have resulted in a net increase to the carrying value of property, plant and equipment of just over £5.517million.

The following table shows which class of assets have been scheduled for revaluation over the last 4 years:

2015/16	2016/17	2017/18	2018/19
Industrial Properties	Industrial Properties	Industrial Properties	Industrial Properties
Investment Properties	Investment Properties	Investment Properties	Investment Properties
Amenity Land	Amenity Land	Burial Ground	Agricultural
Garden Licence	Allotments	Car Park	Allotments
Land in advance of need	Depot/Storage	Community Centres	Amenity Land
Recreation Grounds	Museum	Leisure Centres	Recreation Grounds
Storage	Offices	Markets	
	Public Halls	Museum	
	Scouts & Guides	Pavilions	
	Storage	Play Areas	
	Trust Property	Public Conveniences	
		Public Halls	
		Public Open Spaces	
		Storage	
		Swimming Pools	
		Trust Property	

The Authority measures some of its non-financial assets, such as surplus assets and investment properties, at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The Authority uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. The three widely used valuation techniques are:

- the market approach - uses prices and other relevant data generated by market transactions involving identical or comparable (i.e. similar) assets or group of assets.
- the cost approach - reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
- the income approach - converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

The market approach and the cost approach were both employed for the valuation of all surplus assets. The use of more than one valuation technique in the measurement of an asset is to ensure as far as possible that the valuation is most representative of fair value in the circumstances.

The market approach was employed for the valuation of all investment properties. For certain investment properties, where sufficient data was available, the income approach was also employed for valuation corroboration purposes, in accordance with valuation good practice.

The fair value measurements take into account the three levels of categories for inputs to valuations for fair value assets:

Level 1 Quoted Prices in active markets for identical assets accessible at the measurement date.

Level 2 Observable (either directly or indirectly) other than quoted prices at Level 1

Level 3 Unobservable

The Authority's investment properties and surplus assets have been assessed as Level 2 for valuation purposes.

An impairment review was completed as at 31 March 2019 to ascertain if the carrying value of the assets had decreased materially since the last revaluation. The value of the Town Lodge Office, Gernon Road, Letchworth was impaired by £169,952, Great Ashby Woodlands was impaired by £104,000, the Cross Public Conveniences Royston was impaired by £40,393, the Document Centre Gernon Road, Letchworth was impaired by £27,274 and the Secondary Centre Gernon Road, Letchworth was impaired by £20,911.

DISPOSALS

No assets were disposed of during 2018/19.

Notes to the Core Financial Statements

MOVEMENT ON BALANCES OF PROPERTY, PLANT AND EQUIPMENT IN 2017/18

	Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost of Valuation							
At 1 April 2017	**70,925**	**10,054**	**93**	**6,189**	**6,750**	**8,020**	**102,031**
Additions	7,554	651	0	0	1	204	**8,410**
Disposals	0	0	0	0	0	0	**0**
Reclassifications	947	0	0	0	15	(921)	**41**
Write Off to Revenue	0	0	0	0	0	0	**0**
Upward Revaluations recognized in the Surplus/Deficit on Provision of Services	6,715	0	0	0	(8)	0	**6,707**
Upward and Downward Revaluations taken to Revaluation Reserve	0	0	0	0	0	0	**0**
Impairments / Downward Revaluation recognized in the Surplus/Deficit on the Provision of Services	(8,427)	0	0	(394)	0	0	**(8,821)**
At 31 March 2018	**77,714**	**10,705**	**93**	**5,795**	**6,758**	**7,303**	**108,368**
Depreciation & Impairments							
At 1 April 2017	(11,476)	(7,822)	(35)	(1,133)	(20)	0	**(20,486)**
Depreciation Charge for 2017/18	(1,992)	(634)	(2)	(131)	0	0	**(2,759)**
Disposals	0	0	0	0	0	0	**0**
Reclassifications	0	0	0	0	0	0	**0**
Depreciation written out to the Revaluation Reserve	4,447	0	0	0	0	0	**4,447**
At 31 March 2018	**(9,021)**	**(8,456)**	**(37)**	**(1,264)**	**(20)**	**0**	**(18,798)**
Balance Sheet amount at 31 March 2018	**68,693**	**2,249**	**56**	**4,531**	**6,738**	**7,303**	**89,570**
Balance Sheet amount at 1 April 2017	**59,446**	**2,232**	**58**	**5,056**	**6,730**	**8,020**	**81,542**

Included in the Land and Buildings total is a donated asset with a carrying value of £1.8 million.

Notes to the Core Financial Statements

MOVEMENT ON BALANCES OF PROPERTY, PLANT AND EQUIPMENT IN 2018/19

	Land & Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost of Valuation							
At 1 April 2018	**77,714**	**10,705**	**93**	**5,795**	**6,758**	**7,303**	**108,368**
Additions	1,306	3,484	0	0	0	53	**4,843**
Disposals	0	0	0	0	0	0	**0**
Reclassifications	6,322	0	0	0	(546)	(7,141)	**(1,365)**
Write Off to Revenue	0	0	0	0	0	(115)	**(115)**
Upward and Downward Revaluations taken to Revaluation Reserve	1,218	0	0	0	4,253	0	**5,471**
Upward Revaluations recognized in the Surplus/Deficit on Provision of Services	0	0	0	0	0	0	**0**
Impairments / Downward Revaluations recognized in the Surplus/Deficit on the Provision of Services	(119)	0	0	0	0	0	**(119)**
At 31 March 2019	**86,441**	**14,189**	**93**	**5,795**	**10,465**	**100**	**117,083**
Depreciation & Impairments							
At 1 April 2018	(9,021)	(8,456)	(37)	(1,264)	(20)	0	**(18,798)**
Depreciation Charge for 2018/19	(2,183)	(1,085)	(3)	(131)	0	0	**(3,402)**
Disposals	0	0	0	0	0	0	**0**
Reclassifications	0	0	0	0	0	0	**0**
Depreciation written out to the Revaluation Reserve	165	0	0	0	0	0	**165**
At 31 March 2019	**(11,039)**	**(9,541)**	**(40)**	**(1,395)**	**(20)**	**0**	**(22,035)**
Balance Sheet amount at 31 March 2019	**75,402**	**4,648**	**53**	**4,400**	**10,445**	**100**	**95,048**
Balance Sheet amount at 1 April 2018	**68,693**	**2,249**	**56**	**4,531**	**6,738**	**7,303**	**89,570**

Included in the Land and Buildings total is a donated asset with a carrying value of £1.8 million.

Notes to the Core Financial Statements

16. HERITAGE ASSETS

Reconciliation of the Carrying Value of Heritage Assets Held by the Authority.

	Museum Collections £'000	Public Sculpture / Artwork £'000	Total Heritage Assets £'000
1 April 2017	624	46	670
In year Movements	63	0	63
31 March 2018	**687**	**46**	**733**
1 April 2018	687	46	733
Additions	120	0	120
31 March 2019	**807**	**46**	**853**

Museum Collections
A small number of items in the Authority's art collection and one item of the Authority's archaeology collection are reported in the Balance Sheet at insurance valuations which are based on market values. These valuations are reviewed annually and updated where relevant.

Many of the paintings owned by the Authority have been donated by local painting societies and are, therefore, not by artists who would attract value for their work. Of the grand total of 2,600 items in the art collection many of them are simple sketches which have no value.

The items of the art collection recognised on the Balance Sheet include eight paintings of note by William Ratcliffe. The Authority has been donated a number of Ratcliffe paintings, prints and drawings and has added to the collection by the occasional purchase. The collection is documented in a book on William Ratcliffe published by the Authority in 2011.

Other individual items of the Museum's collections, recognised on the Balance Sheet, include a Henry Moore Sculpture, an oil painting by Spencer Gore called The Road and "The Wymondley Hoard", which consists of 600 silver Tudor coins. There are a number of other paintings in the collection, of the local area. These are of local interest but do not have a significant monetary value to a national audience.

The Authority's Museums Manager carried out a full valuation of the collections as at 31 March 2012 and reviewed these valuations as at 31 March 2019. The valuations were based on commercial markets, including transaction information from auctions where similar paintings are regularly being purchased.

The principal museum collections are not considered to have a significant monetary value and include (all numbers are approximations):

- Archaeological (small finds such as coins, jewellery, nails) – 10,000 items
- Archaeological (other finds such as pots and broken pottery, human and animal bone, building materials) – 350,000 items
- Art collection – 2,600 items
- Ceramics and glass – 600 items
- Costume and costume accessories – 4,500 items
- Documents – 20,000 items
- Military – 1,000 items
- Natural Sciences – 500,000 items
- Photography – 500,000 items
- Social History – 22,000 items

The majority of the collections are not recognised in the Authority's Balance Sheet since there is no readily available information on the cost or market value of such items and to obtain such information would involve a disproportionate cost in comparison to the benefits to the users of the Authority's financial statements. The unvalued collections are insured for £2million as at 31 March 2019.

Notes to the Core Financial Statements

Public Sculpture / Artwork

The Authority has two items of public sculpture in Letchworth. These are the Bronze Statue of Sappho installed in Howard Gardens during 2011 and the centenary artwork 'Paradise Is' located next to the Town Hall on Gernon Road.

The Authority's civic regalia is not recognised in the financial statements. There are four ceremonial chains, which are insured in total for £9,750.

The Authority's sculpture of a bronze bust of Erica Lee by Reginald Hine and an M4 painting by Richard Smith are not recognised in the financial statements. These are insured for £7,000 and £5,000 respectively.

There are other Authority assets which could be considered to have attributes consistent with the definition of Heritage Assets. However, because it is deemed that they are maintained for purposes other than for their contribution to knowledge and culture they have been classified in the financial statements as Community Assets. These include the Hitchin War Memorial and open spaces and parks such as Priory Memorial Gardens in Royston and Broadway Gardens in Letchworth.

Heritage Asset Transactions

A summary of the transactions relating to Heritage Assets over the period 1 April 2018 to 31 March 2019 is as follows:

A painting described as "Pond at Letchworth" by Spencer Gore was donated to the Museum (valued at £120,000) after previously being held on loan. The painting was bequest to the Museum following the death of the owner. Purchased 6 Foot Tommy Silhouette, cost £776.30; Small oil painting titled Hitchin Interior by Samuel Lucas, cost £50.

The Authority received the following separate donations or groups of donations in the year:

- K & L wooden former for moulding railway wagon wheel, c.1965
- Perks & Llewellyn pill box, early-mid 20th century
- Donation of three small metal sculptures, cast in Hitchin, late 20th century
- Brass plaque of the Whitwell Steam Fair, 2000
- Painting of Radwell Mill by Denis Kelly
- Nokia 100 Mobile phone and advertising/set up ephemera, bought Letchworth 1990
- Callaway Challenge Cup (Trophy), c 1934
- Pelham Puppets Set, sold Letchworth c.1970
- 2 Ginger jars by George Cass

Plus 21 groups of photographs and paper archive, including:

- Ephemera related to the Sanders, Hitchin coachbuilders
- Recipe book to raise money for the Letchworth Hospital Extension Scheme
- Letter headed paper of Francis Newton of Tilehouse Street
- Air Raid precautions issued by Baldock Urban District Council
- Photograph of S.E.R.L. Employees and staff list, Baldock
- Ephemera from the Walker bakery of Sandon
- Ephemera related to FA Cup 1st Round match Hitchin Town vs. Solihull Moors
- Granting of arms document to the Viscount Caldecote and presentation box

21 items or groups of items left the permanent collections, transferred to other museums, including:

- Tile from the pavement of Chertsey Abbey, to Chertsey Museum
- Birmingham Workhouse and 2 x Norwich tokens, to The Workhouse Museum, Notts.
- Over 100 flints from Maiden Bower, transferred to Luton Museum
- 10 Cornish flints and microliths, transferred to the Royal Cornwall Museum

Notes to the Core Financial Statements

17. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2017/18 £'000	2018/19 £'000
Rental Income from Investment Property	(1,085)	(1,079)
De minimis land sales	0	0
Direct Operating Expenses arising from Investment Property	15	11
Net Gain / (Loss)	**(1,070)**	**(1,068)**

There are no restrictions on the Authority's ability to realise the value inherent in investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2017/18 £'000	2018/19 £'000
Balance at Start of the Year	**14,914**	**17,647**
Net Gains / (Losses) from Fair Value adjustments	2,785	543
Disposals	0	0
Transfers (to) / from Property, Plant and Equipment	(52)	649
Balance at End of Year	**17,647**	**18,839**

18. INTANGIBLE ASSETS

	Purchased Software Licences £'000
Original Cost	1,965
Amortisations to 1 April 2018	(1,773)
Balance at 1 April 2018	**192**
Expenditure in Year	8
Written off to Revenue in Year	(162)
Balance at 1 April 2019	**38**

19. CONTRIBUTION TO HOUSING POOLED CAPITAL RECEIPTS

No payments were made to the pool. The Council transferred its housing stock in March 2003 and the remaining outstanding right to buy mortgages were redeemed in 2017/18.

Notes to the Core Financial Statements

20. FINANCIAL INSTRUMENTS

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-term		Current	
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
Financial Liabilities at amortised cost:				
Creditors payable in one year	0	0	2,706	3,733
Borrowing	440	423	24	24
Total Financial Liabilities:	**440**	**423**	**2,730**	**3,757**
Financial Assets (loans and receivables):				
Debtors	515	440	3,128	3,912
Investments	1,000	1,500	21,161	25,115
Cash & Cash Equivalents	0	0	10,576	6,050
Total Financial Assets:	**1,515**	**1,940**	**34,865**	**35,077**

The gains and losses recognised in the Comprehensive Income and Expenditure Account in relation to financial instruments are made up as follows:

	Financial Liabilities At amortised cost £'000		Financial Assets Loans & Receivables £'000		Total £'000	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**
Interest Expense	(56)	(661)	0	0	(56)	(661)
Interest Payable & Similar Charges	**(56)**	**(661)**	**0**	**0**	**(56)**	**(661)**
Interest Income	0	0	351	354	351	354
Interest & investment income	**0**	**0**	**351**	**354**	**351**	**354**
Net gain/(loss) for year	**(56)**	**(661)**	**351**	**354**	**295**	**(307)**

Financial Liabilities and financial assets represented by loans and receivables are carried on the Balance Sheet at amortised cost. Their fair value is assessed as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction, using the following assumptions:

- A 'premature repayment' set of rates, supplied by the Council's financial advisors, in force on the 31 March 2019 has been used to supply the fair value for loans
- Transaction costs on all financial liabilities and financial assets are immaterial (transaction costs do not include internal administrative costs)
- Interest payable and receivable reflects market rates
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The Council is required to classify the valuation of financial instruments into three levels according to the quality and reliability of information used to determine fair value:

Level 1 Quoted Prices in active markets for identical assets accessible at the measurement date.

Level 2 Observable (either directly or indirectly) other than quoted prices at Level 1

Level 3 Unobservable

Notes to the Core Financial Statements

The valuation basis adopted below uses Level 2 inputs – i.e. inputs other than quoted prices that are observable for the financial asset/liability.

The fair values are calculated as follows:

	31 March 2018		31 March 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Financial Liabilities	3,170	3,635	4,534	4,997

The fair value of the financial liabilities is more than the carrying amount because the Authority's portfolio of loans includes fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the Authority would have to pay if the lender requested or agreed to early repayment of the loans.

	31 March 2018		31 March 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans & Receivables	36,380	36,400	33,626	33,655

The fair value of the loans & receivables is more than the carrying amount because valuation is made by comparison of the fixed term investment with a comparable investment with the same/similar lender for the remaining period of the deposit.

Nature and Extent of Risks Arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:
- Credit risk – the possibility that other parties might fail to pay amounts due
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a Central Treasury Team, under policies approved in the annual Treasury Management Strategy. The Authority provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

Credit Risk
Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, the Treasury Management Strategy ensured that its counterparty lists and limits reflected a prudent attitude towards organisations with whom funds were deposited, and limited its investment activities to the instruments, methods and techniques referred to in the Treasury Management Practices adopted by the Authority. It also maintains a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements. There were no defaults on investments in 2018/19 or 2017/18. The table below details the investment limits for 2018/19.

	Maximum Amount of Investment Allowable in any one Institution	Amount Invested as at 31 March 2019*
		£'000
UK Clearing Banks	10% of Investments	7,500
UK Clearing Banks (Wholly owned Subsidiaries)	10% of Investments	0
Building Societies (Assets £4.5bn)	10% of Investments	8,500
Building Societies (Assets £2.5bn - £4.5bn)	10% of Investments	500
Building Societies (Assets £1bn to £2.5bn)	10% of Investments	2,000
Building Societies (Assets £0.3bn to £1bn)	10% of Investments	5,500
Money Market Funds	10% of Investments	0
Other Local Authorities	10% of Investments	6,000
Total Invested		**30,000**

* This column shows the total invested in all counterparties in the group (for example, there was £8.5million invested in three separate building societies, assets £4.5bn and above, as at 31 March 2019).

The analysis of the £30.0million of investments by credit rating at year end is as follows:

AAA or equivalent	AA / AA- or equivalent	A+ / A- or equivalent	BBB+ / BBB or equivalent	AAA money market fund	Other Local Authorities	Not rated*	**Total Investments**
£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
0	0	13,000	3,000	0	6,000	8,000	**30,000**

* Many Building Societies do not pay to be credit rated. The Authority has chosen not to exclude Building Societies from its counterparty list for this reason alone and has continued to make cash deposits with Building Societies during the year. The Authority has chosen not to invest in any foreign financial institutions.

The Authority does not allow credit facilities for customers with relation to payments for the provision of services. £0.350M of the total £1.255M sundry debtor balance at 31 March 2019 has passed its due date for payment. The risk of default is accounted for through the corresponding bad debt provision, which is determined primarily by the age of the sundry debtor outstanding. The sundry debtor balance and corresponding provision is presented in the table below.

Age of Debt	**Sundry Debtors**	**Provision Percentage**	**Provision Required**	**Net Sundry Debtors**
	£'000		£'000	£'000
Within payment terms	905	0%	0	905
1-3 months over term	85	0%	0	85
3-12 months overdue	40	25%	(10)	30
12-24 months overdue	36	75%	(27)	9
More than 24 months overdue	189	100%	(189)	0
Total at 31 March 2019	**1,255**		**(226)**	**1,029**

The equivalent position at the end of 2017/18 is shown in the table below:

Age of Debt	**Sundry Debtors**	**Provision Percentage**	**Provision Required**	**Net Sundry Debtors**
	£'000		£'000	£'000
Within payment terms	516	0%	0	516
1-3 months over term	194	0%	0	194
3-12 months overdue	52	25%	(13)	39
12-24 months overdue	31	75%	(23)	8
More than 24 months overdue	191	100%	(191)	0
Total at 31 March 2018	**984**		**(227)**	**757**

Notes to the Core Financial Statements

Liquidity Risk

As the Authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority reviews its borrowing requirements as part of its annual Treasury Management Strategy and the standard policy has been to limit the amount of borrowing and reduce the exposure to liquidity risk. The strategy during 2018/19 was to utilise capital receipts set aside reserves and no new borrowing was taken out.

The total financial liability is made up as follows:

	31 March 2018 £'000	31 March 2019 £'000
Public Works Loan Board	456	440
Banks and Other Monetary Sectors	0	0
Total Borrowing	**456**	**440**
Less: Debt Maturing in 12 Months	16	17
Total Long Term Borrowing	**440**	**423**

At 31 March 2019 the average rates of interest on the different varieties of loans were as follows:

	%
Other Loans	na
Public Works Loan Board	9.7

The consolidated rate of interest, the rate used for internal transactions, was 13.11%.

The maturity analysis of the long term financial liabilities is as follows:

	£'000
Maturing in more than 1 and less than 2 years	18
Maturing in more than 2 and less than 5 years	58
Maturing in more than 5 and less than 10 years	82
Maturing in more than 10 years	265
Total	**423**

Market Risk

Interest rate risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise
- Investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Account. However, changes in interest payable and receivable on variable rate borrowings and investments will be included in the Surplus or Deficit on Provision of Services and affect the General Fund Balance pound for pound. Movements in the fair value of fixed rate investments will be reflected in the Other Comprehensive Income and Expenditure.

Notes to the Core Financial Statements

The Authority has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 30% of borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is mitigated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The Authority has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2019 if interest rates had been 1% higher with all other variables held constant, the effects seen in the Income and Expenditure Statement would have been an increase of £28k in interest receivable from cash investments. The fair value of the loans outstanding would have been £9k higher (cost of repayment would have increased). This is shown below:

	£'000
Increase in interest receivable on variable rate investments	(28)
Impact on Income and Expenditure Account	**(28)**
Increase in fair value of fixed rate loans	9

Price risk

The Council does not have any equity shares or shareholdings and thus has no exposure to a loss arising from movements in the prices of shares.

Foreign exchange risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus have no exposure to loss arising from movements in exchange rates.

21. INVENTORIES

	31 March 2018 £'000	**31 March 2019 £'000**
Inventory:		
Paper and Stationery	7	6
Postage	1	5
Waste & Recycling equipment	17	36
Museum merchandise	14	7
Careline Telecare equipment	102	170
Hitchin Town Hall beverages	10	5
Electrical equipment	7	7
Other	1	1
Total	**159**	**237**

Notes to the Core Financial Statements

22. CONSTRUCTION CONTRACTS

As at the 31 March 2019 the Council had committed to £815,000 of capital expenditure for a number of capital schemes within the capital programme. These are as follows:

Capital Scheme	Commitment £'000
Bancroft Recreation Ground, Multi Use Games Area (MUGA)	189
Hitchin Outdoor Pool Showers and WC's	101
Mandatory Disabled Facility Grants	213
Museum & Community Facility	34
North Herts Leisure Centre Development	56
Decommission Play Areas	111
Great Ashby District Park	75
Coombes Community Centre Car Park	36
Total Commitments	**815**

23. DEBTORS

	31 March 2018 £'000	31 March 2019 £'000
Central Government Bodies	519	824
Impairment	0	0
Net Total Central Government Bodies	**519**	**824**
Other Local Authorities	797	1,799
Impairment	0	0
Net Total Other Local Authorities	**797**	**1,799**
Ratepayers/Council Tax payers	1,442	1,626
Impairment	(757)	(723)
Net Total Ratepayers / Council Tax payers	**685**	**903**
Housing Benefit Overpayments	1,771	1,601
Impairment	(722)	(747)
Net Total Housing Benefit Overpayments	**1,049**	**854**
Other Entities and Individuals	1,549	1,523
Impairment	(268)	(264)
Net Total Other Entities and Individuals	**1,281**	**1,259**
Total Net Debtors	**4,331**	**5,639**

24. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2018 £000		31 March 2019 £000
31	Cash held by the Authority	28
2,045	Bank current accounts	2,522
0	Short-term Deposits with Banks/Building Societies	0
5,000	Short-term Deposits with other Local Authorities	3,500
3,500	Short-term Deposits with Money Markets Funds	0
10,576	**Total**	**6,050**

Notes to the Core Financial Statements

25. ASSETS HELD FOR SALE (Non-Current)

	2017/18 £'000	2018/19 £'000
Balance at Start of the Year	**0**	**0**
Assets newly classified as held for sale:		
Property Plant & Equipment	10	716
Impairment	0	(170)
Revaluation	0	81
Assets sold	(10)	0
Balance Outstanding at End of Year	**0**	**627**

26. SHORT TERM CREDITORS AND RECEIPTS IN ADVANCE

Short Term Creditors	**31 March 2018 £000**	**31 March 2019 £000**
Central government bodies	1,312	1,137
Other local authorities	518	808
Other entities and individuals*	2,344	3,081
Total	**4,174**	**5,026**

* As at 31 March 2019 there was £15k of prepayments received in the last couple of days of the year (£175k as at 31 March 2018).

Receipts in Advance	**31 March 2018 £000**	**31 March 2019 £000**
Central government bodies	205	400
Other local authorities	127	135
Other entities and individuals	4,504	4,722
Total	**4,836**	**5,257**

Notes to the Core Financial Statements

27. PROVISIONS

	Provisions <1yr	Provisions > 1 year		
	Restructure Costs	Insurance Fund	NNDR Appeals	Total
	£'000	£'000	£'000	£'000
Balance at 1 April 2018	**(100)**	**(26)**	**(1,126)**	**(1,252)**
Additional provisions made in 2018/19	0	(19)	(936)	(955)
Amounts used in 2018/19	100	19	561	680
Balance at 31 March 2019	**0**	**(26)**	**(1,501)**	**(1,527)**

Provision for Restructure Costs
This provision was set up in 2017/18 for settlement costs relating to the restructure of senior management as part of the Corporate Restructure. The settlement costs were formally signed off and corresponding payments made in 2018/19.

Insurance Provision
The insurance provision covers the uninsured aspect of outstanding insurance claims (the amount of our policy excess and any self-insured losses to be covered by the Insurance Fund). This varies throughout the year and the provision amount is adjusted at the end of each quarter on receipt of revised estimates from insurers.

NNDR Appeals Provision
From 1 April 2013 the Authority is required to recognise a provision for NNDR appeals liabilities. The total appeals figure for 2018/19 was £3.75million (£2.82million in 2017/18) and, as this is shared between North Herts, Herts County Council and Central Government, the North Herts proportion reflected in the balance sheet was £1.50million (£1.13million in 2017/18).

28. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and the following notes.

	Balance at 1 April 2018	Net Movement in Year	Balance at 31 March 2019
	£'000	£'000	£'000
Usable Capital Receipts	3,090	(510)	2,580
Earmarked Reserves	5,679	1,504	7,183
Capital Grants Unapplied	954	(16)	938
General Fund Reserve	7,403	459	7,862
Total Usable Reserves	**17,126**	**1,437**	**18,563**

Usable Capital Receipts	2017/18	2018/19
	£'000	£'000
Amounts receivable	1,306	0
Amounts applied to finance new capital investment	(1,437)	(510)
Contribution towards administrative costs of non current-asset disposals	0	0
Payments to Capital Receipts Pool	(2)	0
Total increase in realised capital resources	**(133)**	**(510)**
Balance brought forward at 1 April	3,223	3,090
Balance carried forward at 31 March	**3,090**	**2,580**

Notes to the Core Financial Statements

Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure.

Earmarked Reserve	Balance as at 31st March 2017	Transfers out 2017/18	Transfers in 2017/18	Balance at 31st March 2018	Transfers out 2018/19	Transfers in 2018/19	Balance at 31st March 2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cemetery Mausoleum Reserve	**129**	0	11	**140**	0	21	**161**
Childrens Services Reserve	**8**	0	0	**8**	(1)	0	**7**
Climate Change Grant Reserve	**30**	0	0	**30**	(2)	0	**28**
Community Development Reserve	**1**	0	0	**1**	(1)	0	**0**
Community Right to Challenge Reserve	**45**	0	0	**45**	0	0	**45**
MHCLG Grants Reserve	**489**	(1,078)	1,457	**868**	(817)	1,763	**1,814**
Welfare Reform Grants Reserve	**3**	(63)	189	**129**	(56)	117	**190**
Environmental Warranty Reserve	**209**	0	0	**209**	0	0	**209**
Growth Area Fund Reserve	**53**	0	0	**53**	0	0	**53**
Homelessness Grants Reserve	**42**	(14)	175	**203**	(145)	204	**262**
Housing & Planning Delivery	**368**	(212)	612	**768**	(13)	387	**1,142**
Information Technology Reserve	**82**	0	0	**82**	0	0	**82**
Insurance Reserve	**32**	(1)	3	**34**	0	0	**34**
LAMS Interest Reserve	**107**	(124)	17	**0**	0	0	**0**
Land Charges Reserve	**161**	(57)	0	**104**	(10)	0	**94**
Leisure Management Maintenance Reserve	**89**	(42)	0	**47**	0	0	**47**
Museum Exhibits Reserve	**13**	(2)	1	**12**	0	0	**12**
Neighbourhood Plan Reserve	**21**	0	20	**41**	0	0	**41**
Office Move IT Works	**7**	0	0	**7**	0	0	**7**
Paintings Conservation Reserve	**11**	0	0	**11**	0	0	**11**
Performance Reward Grant	**0**	0	0	**0**	0	0	**0**
Property Maintenance Reserve	**67**	(15)	10	**62**	0	10	**72**
S106 Monitoring Reserve	**68**	(15)	0	**53**	(17)	0	**36**
Special Reserve	**1,720**	0	0	**1,720**	(325)	0	**1,395**
Street Furniture	**10**	(5)	12	**17**	0	4	**21**
Street Name Plates	**38**	(22)	0	**16**	0	0	**16**
Syrian Refugee Project	**19**	(15)	83	**87**	0	28	**115**
Taxi Reserve	**13**	0	0	**13**	0	0	**13**
Town Centre Maintenance	**39**	(1)	0	**38**	(1)	8	**45**
Traffic Regulation Orders	**222**	0	74	**296**	0	51	**347**
Waste Reserve	**513**	0	72	**585**	0	46	**631**
Waste Vehicles Reserve	**0**	0	0	**0**	0	253	**253**
Total Earmarked Reserves	**4,609**	**(1,666)**	**2,736**	**5,679**	**(1,388)**	**2,892**	**7,183**

Notes to the Core Financial Statements

The Authority has taken the decision to set aside resources in a number of Earmarked Reserves to be used for specific purposes. The Reserves are reviewed annually during the budget estimate process to ensure the balance available is appropriate for the purpose. A description of each earmarked reserve is provided below:

The **Cemetery Mausoleum reserve** is held to cover the Authority's obligation to supply Mausoleum niches at the Wilbury Hills Cemetery and is funded from the sale of currently available niches.
The **Children's Services Reserve** is being used to help fund children's play projects in the district and is funded from grant income.
The **Climate Change Grant** was awarded to help combat the effects of climate change. The grant is used to help modify the Authority's buildings in order for them to be more energy efficient and other green projects.
Community Development Reserve – various grants for Community Development.
Community Right to Challenge represents the one-off grant funding received to recognize the additional burden of the new legislation.
DCLG Grants Reserve, reserve where ad hoc grants from DCLG will be transferred if not spent within the financial year, ready to be drawn down when grant is spent.
Welfare Grants are awarded to the Authority for different initiatives or changes relating to Housing & Council Tax benefit scheme. These grants will be used when the initiatives or changes are carried out.
The **Environmental Warranty Reserve** is required because an environmental warranty was provided to North Herts Homes on the transfer of the Housing stock. The Authority needs to make an allowance for these warranties and a sum of £209k was set aside for this purpose.
Growth Area Fund Reserve is the reserve where revenue Growth Area Grant has been transferred.
The **Homelessness Grant** is awarded to help prevent homelessness in the district. The entire grant is earmarked for different homelessness projects or resources.
The **Housing & Planning Delivery Reserve** was first formed when in 2002 the Government announced additional funding to Authorities in the form of the Planning Delivery Grant (PDG), to realise the Government's Communities Plan Objectives. The Council has taken a long term approach to the allocation of HPDG funding (the grant was renamed Housing & Planning Delivery). HPDG spending plans are approved by Cabinet and unspent funding is held in a specific reserve to meet approved spending in subsequent years. The Authority has also made a commitment to the Local Development Framework and funds are held in this reserve for this purpose. Additional income from the 20% increase in statutory planning fees is also transferred here to fund the development of Planning Services.
The **Information Technology Reserve** is used to ensure the Authority has adequate resources to purchase hardware and software items when they are required.
The **Insurance Reserve** is used to finance potential claims for risks that are not covered by external policies together with higher excesses currently being borne by the Authority.
LAMS Interest Reserve holds interest received from the Local Authority Mortgage scheme. Interest accumulated over 5 years has been transferred to reserve to offset the liability incurred if customers default on their mortgage. As no mortgage defaults had occurred in the five years period to November 2017, the full amount held in reserve was transferred back into the general fund in 2017/18.
Land Charges Reserve – reserve established to help meet the potential cost should the financial risk of the repayment of personal search fees occur.
The **Leisure Management Maintenance Reserve** is to cover the cost of any future repairs liabilities on the leisure facilities.
The **Museum Exhibits Reserve** funds the purchase of museum exhibits and is funded from donations.
Neighbourhood Plan Reserve – This is a reserve where funds received for neighbourhood Plans from the MHCLG (previously DCLG) have been transferred. The funding has been provided to authorities who received neighbourhood plans as funding will be needed in future years as plans are developed and public examinations and public referendums are required
Office Move IT Works is a reserve to cover the cost of moving cabling between Town Lodge and the other Authority buildings when required.
The **Paintings Conservation Reserve** is being used to help restore paintings. This is funded through donations and publication income.
The **Performance Reward Grant** was awarded for success against targets in the Local Area Agreement. This earmarked reserve represents the revenue element of the grant and is allocated to schemes in the District.
The **Property Maintenance Reserve** is to cover the cost of any unplanned emergency maintenance costs that may occur at any of the Authority's properties.

The **S106 Planning Monitoring** reserve is used to cover the cost of monitoring s106 obligations in future years.

The **Special Reserve** was originally the residual balance from the Housing Revenue Account that was used to fund the realignment of costs of the Authority following stock transfer. As part of the Authority's medium term financial strategy to manage budget movements, this reserve is maintained for any special financial pressures such as pump priming for initiatives for shared services, changes in working practice, major contract renewals, unexpected contract variation and other financial pressures.

Street Furniture is a reserve to fund new street furniture as and when required.

Street Name Plate Reserve is a reserve to fund Street Name Plates as and when required.

Syrian Refugee Project - The council has agreed to house 50 Syrian Refugees over five years under the government's resettlement scheme. The scheme is fully funded by the government and the reserve enables the multiple year funding for each household to be maintained for future expenditure associated with their placement in the district, such as housing and support costs.

Taxi Reserve is a reserve where any surplus from the taxi service will be transferred to the earmarked reserve where it can be used to offset any future deficit or to fund investment in the taxi service.

Town Wide Review / Town Centre Maintenance are reserves for the implementation of the Town Wide Reviews and ad hoc town centre maintenance.

Traffic Regulation Orders. An audit was done to identify TRO work to be carried out in the district. However due to other priorities this work was delayed and the budget has been transferred to a reserve, to be drawn down as and when the work is done.

Waste Reserve – is a reserve where AFM monies are transferred to help mitigate any potential risk to the waste service, for example the construction of a Northern Transfer Station.

Waste Vehicles Reserve – as repayment of the finance lease principal embedded within the waste contract is funded from the Council's cash reserves, the saving on the revenue account is transferred to this reserve to fund the purchase of vehicles when they next need to be replaced.

29. UNUSABLE RESERVES

	Balance at 1 April 2018 £'000	Net Movement in Year £'000	Balance at 31 March 2019 £'000
Revaluation Reserve (note 29A)	**44,491**	4,815	**49,306**
Capital Adjustment Account (note 29B)	**73,869**	(1,873)	**71,996**
Deferred Capital Receipts (note 29C)	**0**	0	**0**
Pensions Reserve (note 29D)	**(45,029)**	(6,420)	**(51,449)**
Short Term Accumulating Compensated Absences Account (note 29F)	**(156)**	0	**(156)**
Collection Fund Adjustment Account (note 29E)	**(368)**	54	**(314)**
Total Unusable Reserves	**72,807**	**(3,424)**	**69,383**

Note 29A – Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Notes to the Core Financial Statements

	2017/18 £'000	2018/19 £'000
Balance at 1 April	**34,398**	**44,491**
Upward revaluation of assets	14,166	7,008
Downward revaluation of assets and Impairment losses not charged to the surplus/deficit on the Provision of Services.	(3,013)	(1,171)
Difference between fair value depreciation and historical cost depreciation.	(1,053)	(1,022)
Accumulated gains on assets sold or scrapped.	(7)	0
Balance at 31 March	**44,491**	**49,306**

Note 29B – Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations which are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement. The Account has also been credited with all the Housing capital receipts required by regulation to be set aside at the time of the Housing stock transfer in 2003.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 11 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2017/18 £'000	2018/19 £'000
Balance at 1 April	**80,653**	**73,869**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Depreciation and impairment of non-current assets	(11,524)	(3,689)
Amortisation of Intangible assets	(165)	(162)
Revenue expenditure funded from capital under statute	(1,034)	(723)
General Fund expenditure previously recognised as capital expenditure	0	0
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive Income & Expenditure Statement.	(3)	0
Sub-Total	**(12,726)**	**(4,574)**
Adjusting amounts written out of the Revaluation Reserve.	997	1,022
Total net written out amount of the cost of non-current assets consumed in the year	**(11,729)**	**(3,552)**
Capital resource adjustments in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	1,437	510

Notes to the Core Financial Statements

	2017/18 £'000	2018/19 £'000
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	1,720	607
Application of grants to capital financing from the Capital Grants Unapplied Account	0	16
Statutory provision for the financing of capital investment charged against the General Fund	3	3
Capital Receipt – Local Authority Mortgage Scheme loan principal	(1,000)	0
Sub-Total	**2,160**	**1,136**
Movements in the market value of investment properties	2,785	543
Balance carried forward at 31 March	**73,869**	**71,996**

Note 29C – Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. These arise principally from mortgages on sales of Council Houses and form the main part of mortgages held under long term debtors. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2017/18 £'000	2018/19 £'000
Balance at 1st April	**3**	**0**
Transfer to the Capital Receipts Reserve upon receipt of cash	(3)	0
Balance at 31st March	**0**	**0**

Note 29D – Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned, to be financed as the Authority makes employer's contributions to pension funds, or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2017/18 £'000	2018/19 £'000
Balance at 1st April	**(49,323)**	**(45,029)**
Actuarial gains or losses on pension assets and liabilities	6,427	(4,030)
Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(4,664)	(4,958)
Employer's pensions contributions and direct payments to pensioners payable in the year.	2,531	2,568
Capitalisation of Pension Costs	0	0
Balance at 31st March	**(45,029)**	**(51,449)**

Notes to the Core Financial Statements

Note 29E – Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rate income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and non-domestic rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2017/18	2018/19
	£'000	£'000
Balance at 1 April	**(704)**	**(368)**
Movement in the Authority's share of the Collection Fund surplus / deficit	336	54
Balance at 31 March	**(368)**	**(314)**

Note 29F Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2017/18	2018/19
	£'000	£'000
Balance at 1 April	**(147)**	**(156)**
Amounts accrued at the end of the current year	(9)	0
Balance at 31 March	**(156)**	**(156)**

30. NOTES RELATING TO THE CASH FLOW STATEMENT

Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2017/18		2018/19
£'000		£'000
255	Interest Received	405
(57)	Interest Paid	(661)
198	**Net cash flows from operating activities**	**(256)**

The adjustments for non-cash movements are as follows:

2017/18		2018/19
£'000		£'000
2,703	Depreciation	3,400
8,821	Impairments and downward revaluations	289
165	Amortisation of intangible assets	162
(2,052)	Movement in Creditors	(643)
2,008	Movement in Debtors	623
(9)	Movement in Inventories	(78)
2,133	Pension Liability	2,390
3	Carrying amount of non-current assets sold	0
(2,581)	Movement in other provisions	(268)
11,191	**Net Adjustment for non-cash movements**	**5,875**

Notes to the Core Financial Statements

The adjustments for items that are investing or financing activities are as follows:

2017/18 £'000		2018/19 £'000
(1,720)	Grants applied to the financing of capital expenditure	(612)
7,917	Proceeds from the sale of non-current assets	(4,339)
6,197	**Net Adjustment for investing or financing activities**	**(4,951)**

Cash Flow Statement - Investing Activities

2017/18 £'000		2018/19 £'000
(8,618)	Purchase of property, plant and equipment, investment property and intangible assets	(2,477)
(36,130)	Purchase of short-term and long-term investments	(62,339)
(481)	Other payments for investing activities	0
1,306	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	0
36,130	Proceeds from short-term and long-term Investments	62,339
1,807	Other receipts from investing activities	557
(5,986)	**Net cash flows from investing activities**	**(1,920)**

Cash Flow Statement - Financing Activities

2017/18 £'000		2018/19 £'000
0	Cash receipts of short and long-term borrowing	0
545	Council Tax and NNDR adjustments	283
(3)	Cash payments for the reduction of finance leases liabilities	(3)
(25)	Repayments of short and long-term borrowing	(16)
517	**Net Cash flows from financing activities**	**264**

31. TRADING OPERATIONS

The Council has no trading operations.

32. MEMBERS' ALLOWANCES

The following table shows the amount of Members' allowances paid in 2018/19 compared to the previous financial year:

	2017/18 £'000	2018/19 £'000
Allowances	338	335
Expenses	12	12
Total	**350**	**347**

Notes to the Core Financial Statements

33. EMPLOYEES REMUNERATION

Senior Employee Remuneration in 2018/19

The Authority is required to disclose individual remuneration details for senior employees. The first table that follows details the individual remuneration for senior employees in 2018/19. The second table details the equivalent information for the comparative year, 2017/18. The Authority is voluntarily opting to disclose the name of the Chief Executive and Deputy Chief Executive. For senior employees, compensation for loss of office comprises the employer pension contribution amount calculated as part of the redundancy or termination package, as well as any other payments receivable on termination of employment (e.g. redundancy payments and payment in lieu of notice).

Post Title	**Note**	**Salary** (including fees & allowances) **£**	**Expense Allowances** **£**	**Compensation for loss of office** **£**	**Total Remuneration** (excluding pension contributions) **£**	**Pension Contributions** **£**	**Total Remuneration** (including pension contributions 2018/19) **£**
David Scholes Chief Executive	1	121,804	0	0	**121,804**	21,912	143,716
Anthony Roche Deputy Chief Executive		100,285	120	0	**100,405**	17,883	118,288
Head of Finance Performance and Asset Management	2	10,673	0	0	**10,673**	1,877	12,550
Service Director - Resources		57,593	0	0	**57,593**	10,170	67,763
Head of Development and Building Control	3	12,925	0	0	**12,925**	2,296	15,221
Service Director - Regulatory		64,248	0	0	**64,248**	11,408	75,656
Head of Revenues, Benefits & IT	4	12,515	0	0	**12,515**	2,219	14,734
Service Director - Customers		62,784	0	0	**62,784**	11,135	73,919
Head of Leisure and Environmental Services	5	11,555	0	0	**11,555**	2,095	13,650
Service Director - Place		62,630	0	0	**62,630**	11,043	73,673
Corporate Legal Manager	6	9,646	0	0	**9,646**	1,701	11,347
Service Director - Legal and Community		57,638	0	0	**57,638**	10,170	67,808
Service Director Commercialisation	7	55,237	0	0	**55,237**	9,704	64,941
Head of Housing and Public Protection Service	8	6,663	0	99,081	**105,744**	1,066	106,810

1 The Chief Executive also held the position of Returning Officer for the Council and received £3,753 of expense allowances for this role in 2018/19

2 The Head of Finance Performance and Asset Management was in post until 31/05/18. The annualised salary excluding fees and allowances was £60,540. Appointed to the new post of Service Director - Resources from 01/06/18 for which the annualised salary excluding fees and allowances was £66,935

Notes to the Core Financial Statements

3 The Head of Development and Building Control was in post until 31/05/2018. The annualised salary excluding fees and allowances was £62,412. Appointed to the new post of Service Director - Regulatory from 01/06/18 for which the annualised salary excluding fees and allowances was £71,340
4 The Head of Revenues, Benefits & IT was in post until 31/05/2018. The annualised salary excluding fees and allowances was £62,412. Appointed to the new post of Service Director - Customers from 01/06/2018 for which the annualised salary excluding fees and allowances was £71,340
5 The Head of Leisure and Environmental Services was in post until 31/05/2018. The annualised salary excluding fees and allowances was £62,412. Appointed to the new post of Service Director - Place from 01/06/2018 for which the annualised salary excluding fees and allowances was £71,340
6 The Corporate Legal Manager was in post until 31/05/2018. The annualised salary excluding fees and allowances was £52,620. Appointed to the post of Service Director - Legal and Community from 01/06/2018 for which the annualised salary excluding fees and allowances was £66,935
7 The Service Director - Commercial was appointed on 01/06/2018. The annualised salary excluding fees and allowances was £62,532
8 The Head of Housing and Public Protection Service left the Council on 30/04/2018; the annualised salary excluding fees and allowances was £62,412. Amounts paid as Compensation for Loss of Office were recognised within the Provision for Restructure costs created in the 2017/18 accounts.

Senior Employee Remuneration in 2017/18

Post Title	**Note**	**Salary** (including fees & allowances) **£**	**Expense Allowances** **£**	**Compensation for loss of office** **£**	**Total Remuneration** (excluding pension contributions) **£**	**Pension Contributions** **£**	**Total Remuneration** (including pension contributions 2017/18) **£**
David Scholes Chief Executive	1	119,488	0	0	**119,488**	21,481	140,969
Anthony Roche Deputy Chief Executive	2	37,103	52	0	**37,155**	6,584	43,739
Norma Atlay Strategic Director of Finance Policy and Governance	3	38,925	0	0	**38,925**	6,924	45,849
Head of Development and Building Control		74,214	0	0	**74,214**	13,153	87,367
Head of Housing and Public Protection Service		71,218	0	0	**71,218**	12,562	83,780
Head of Finance Performance and Asset Management		61,016	0	0	**61,016**	10,698	71,714
Head of Revenues and Benefits		73,866	0	0	**73,866**	13,088	86,954
Head of Leisure and Environmental Services		69,855	0	0	**69,855**	12,342	82,197
Corporate Human Resources Manager		59,653	0	0	**59,653**	10,532	70,185
Corporate Legal Manager	4	37,828	43	0	**37,871**	6,639	44,510
Corporate Legal Manager	5	23,709	0	0	**23,709**	4,177	27,886

Notes to the Core Financial Statements

1 The Chief Executive also held the position of Returning Officer for the Council and received £7,415 of expense allowances for this role in 2017/18
2 The new post of Deputy Chief Executive was appointed to on 1st November 2017. The annualised salary excluding fees and allowances was £84,960
3 The Strategic Director of Finance Policy and Governance left the Council on 03/09/2017 and this post was deleted from 1st November 2017. The annualised salary excluding fees and allowances was £87,588
4 The Corporate Legal Manager left the post on 31st October 2017 to take up the post of Deputy Chief Executive (see note 2). The annualised salary excluding fees and allowances was £61,188
5 An 'Acting' Corporate Legal Manager was appointed on 1st November 2017. The annualised salary excluding fees and allowances was £53,844

The Authority is also required to disclose the authority's other employees that received more than £50,000 remuneration for the year. For this purpose, remuneration comprises all amounts paid to or receivable by an employee, other than employers pension contributions, and includes sums due by way of taxable expenses, the estimated monetary value of any benefit, and compensation for loss of office. The remuneration is shown in each bracket of a scale in multiples of £5,000.

Remuneration Band	**2017/18** Employees	**2018/19** Employees
£50,000-£54,999	12	16
£55,000-£59,999	2	6
£60,000-£64,999	1	2
£65,000-£69,999	1	0
Total	**16**	**24**

34. TERMINATION BENEFITS AND EXIT PACKAGES

The Authority terminated the contracts of 11 employees in 2018/19, incurring liabilities of £580,860 (£47,090 in 2017/18) that have been charged to the Comprehensive Income and Expenditure Statement in the current year. Banded totals for 2018/19 include amounts charged to the Provision for Restructure costs established in the 2017/18 accounts.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below. The amounts disclosed in the table include redundancy costs, early retirement pension costs and pay in lieu of notice.

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other agreed departures		(d) Total number of exit packages by cost band		(e) Total cost of exit packages in each band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
							£	£
£0 - £49,999	1	5	3	2	**4**	**7**	**47,090**	**93,397**
£50,000 - £99,999	0	1	0	1	**0**	**2**	**0**	**186,061**
£100,000 - £199,999	0	2	0	0	**0**	**2**	**0**	**301,402**
Total Cost included in bandings and in CIES							**47,090**	**580,860**

Notes to the Core Financial Statements

35. FEES PAYABLE TO THE AUTHORITY'S APPOINTED EXTERNAL AUDITORS

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and for non-audit services provided by the Authority's external auditors.

	2017/18 £'000	2018/19 £'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	44	40
Fees payable for the certification of grant claims and returns for the year	8	6
Total	**52**	**46**

36. GRANT INCOME RECOGNISED IN THE COST OF SERVICES

The Authority credited the following **capital** grants, contributions and donations to the net cost of services in the Comprehensive Income and Expenditure Statement:

	2017/18 £'000	2018/19 £'000
Disabled Facilities Grant	646	122
Developer Contribution	171	159
Performance Reward Grant	0	16
Careline Equipment	59	0
Total	**876**	**297**

The Authority credited the following **revenue** grants, contributions and donations to the net cost of services in the Comprehensive Income and Expenditure Statement:

	2017/18 £'000	2018/19 £'000
Benefits Administration and Fraud Initiative Grants	918	851
Housing and Council Tax Benefit Subsidy	33,669	32,100
Waste minimisation – Herts County Council contribution	391	423
Waste Service Transport Subsidy	31	4
National Non-Domestic Rates Administration Grant	180	180
Refugees Syrian Project	157	172
Homelessness Prevention Grant	168	212
Individual Electronic Registration Grant	24	19
Planning Control Grants – MHCLG	35	126
MHCLG Neighbourhood Plans	20	0
Public Health Grant	20	23
Get Active Grant	148	51
Spring In Your Step Grant	0	2
Local Land Charges	0	33
MHCLG Waste Grants for Flats Recycling	82	81
Hertfordshire Museums – Lottery Fund	8	0
Brexit Preparations	0	17
Total	**35,851**	**34,294**

Notes to the Core Financial Statements

Capital Grants Received In Advance

The Authority received a grant in 2012/13 from the DCLG for the Weekly Collection Support Scheme. This grant is recognised as income in the Comprehensive Income and Expenditure Statement over the life of the scheme as there are conditions attached that may require the monies to be returned if the criteria of the grant are not met. The balance at the 31 March 2019 is £32,794.

37. RELATED PARTY TRANSACTIONS

The Authority is required to disclose material transactions with related parties, bodies or individuals that have potential to control or influence the Authority or to be controlled or influenced by the Authority.

Central Government
Central Government has significant influence over the general operations of the Authority - it is responsible for providing the statutory framework within which the Authority operates, provides the majority of funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. housing benefits). Grants received from government departments are detailed in Note 36.

Members
Members have direct control over the Authority's financial and operating policies. The total of members' allowances paid in the year is shown in Note 32. Six members are also members of Hertfordshire County Council. During 2018/19, grants totalling £232k were paid to organisations in which 12 members are Trustees, board members or otherwise involved, Works and services to the value of £51k (2017/18: £18k) were commissioned from organisations in which 7 members had an interest.

One member has a place on the board of the settle Group (formerly North Hertfordshire Homes Ltd). Income recorded from Service Level Agreements (SLA's) between the Authority and settle totalled £289k (2017/18: £278k), with an outstanding debtor balance at 31st March 2019 of £11k (2017/18: £29k). £78k (2017/18: £123k) was paid to NHH under reciprocal SLA's.

Details of all of these transactions are recorded in the Register of Members' Interest and Disclosure of Personal Interest at Meetings. Both these documents are available for public inspection at Council Offices, Gernon Road, Letchworth Garden City, Hertfordshire.

Officers
Officers are obliged under the code of conduct in the Council's constitution to declare any personal interest, financial and/or otherwise, in any business of the Council. They are also required to record any gifts and/or hospitality received in a format prescribed and held by the Monitoring Officer. In addition, senior officers are required to complete an annual return disclosing the details of any interest of themselves or close family members which may have an impact on their activities on behalf of the Council. There were no transactions considered of material significance to warrant separate disclosure in the accounts.

Hertfordshire Building Control Limited
The Council partnered with six local authorities across Hertfordshire to create a new fully integrated building control service, which was launched in August 2016. The Council holds 14% of the share capital (£7) and is represented on the board. The company aims to provide a more flexible and efficient response to building control issues across the county. Control is shared equally among the seven partners. In 2018/19 the Council's share of the profit for the year amounted to £21.7k (2017/18 £95.6k loss). In August 2016 the council made a loan to the company of £107k, which is held in Long Term Debtors (other loans) on the balance sheet.

Notes to the Core Financial Statements

Hertfordshire CCTV Partnership
The Authority is engaged in a jointly controlled operation for the provision and management of CCTV in the Hertfordshire area. This arrangement is with Stevenage Borough Council, North Hertfordshire Council, East Hertfordshire Council and Hertsmere Borough Council. Each member of the partnership arrangement accounts for their share of the assets, liabilities and cash flows of the CCTV in their accounts. In 2018/19 total payments to the Partnership of £98k (£120k 2017/18, including a deficit contribution of £20k) were charged to the Council's Comprehensive Income and Expenditure Statement. In 2018/19 NHDC received £5k in respect of its share of the Partnership surplus for the year.

Hertfordshire CCTV Partnership Limited
In 2013/14 all partner authorities within the Hertfordshire CCTV Partnership agreed to incorporate a new company to conduct the commercial trading affairs of the CCTV partnership. The new limited company, Hertfordshire CCTV Partnership Ltd, started trading on the 1 April 2015. The Council holds 27% of the share capital (£27) and is represented on the board. For the year ended 31 March 2019 the company produced a profit after tax of £21.1k. NHDC's share of the profit is £5.7k with the remainder belonging to the partner councils. In 2018/19 £19k (£25k 2017/18) was paid by the Council for services provided by Hertfordshire CCTV Partnership Limited and charged to the CIES.

38. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Of the total expenditure of £5.574million, only £1.233million has been financed immediately, resulting in an increase of £4.3million in the Capital Financing Requirement (CFR). This is a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR remains negative (£6.0million at 31 March 2019) because the Authority has set aside capital receipts which exceed the amount of outstanding loans and borrowings.

	2017/18 £'000	2018/19 £'000
Capital Investment:		
Operational Assets		
Land & Buildings	7,558	1,306
Vehicles, Plant & Equipment	651	3,484
Community Assets	0	0
Investment Properties	0	0
Non-Operational Assets		
Assets Under Construction	204	53
Intangible Assets - Software	37	8
Revenue Expenditure Funded from Capital under Statute	1,034	723
Total Capital Investment	**9,484**	**5,574**
Sources of Finance:		
Capital Receipts	1,437	626
Government Grants and Other Contributions	1,657	607
Sums set aside from Revenue	0	0
Total Finance Sources	**3,094**	**1,233**
Increase / (Decrease) in CFR	**6,390**	**4,341**

Capital expenditure and income is accounted for on an accruals basis, and is financed in the year the accrual appears in the accounts.

39. ASSETS HELD UNDER LEASE AND FOR LEASE

Operating Leases

Vehicles, Plant and Equipment
The Authority uses service vans and I.T. equipment financed under terms of an operating lease. The amount paid under these arrangements in 2018/19 was £68,744 (2017/18 at £65,084).

Property
The Authority paid £49,663 in rent / leasing charges for properties in 2018/19. The most significant amount of £20,150 was paid for the King James Way Car Park. This agreement is due to expire in January 2024.

Commitments under operating leases
The Authority was committed at 31 March 2019 to making payments of £1.239 million under operating leases over the following periods:

	31 March 2018 £'000	31 March 2019 £'000
Not later than one year	118	104
Later than one year and not later then five years	197	154
Later than five years	1,020	981
	1,335	**1,239**

Authority as Lessor

The Authority has granted various leases to commercial and industrial organisations under terms of an operating lease. The amount received under these arrangements in 2018/19 was £1.1million (2017/18 £1.1 million). The gross value of assets held for these leases is £18.839 million.

The future minimum lease payments (rental income) expected from contractual obligations are:

	2017/18 £'000	2018/19 £'000
Not later than one year	(1,053)	(1,133)
Later than one year and not later than five years	(4,091)	(4,384)
Later than five years	(78,695)	(82,494)

Finance leases

The Authority leases the Letchworth multi-storey car park from the Letchworth Garden City Heritage Foundation. The lease term is 60 years from 19 April 1977.

The Authority considers the vehicles used in the delivery of the refuse and recycling service as held under a finance lease (see note 2). The vehicles had an initial value of £3.178 million.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts.

	31 March 2018 £'000	31 March 2019 £'000
Land and Buildings	6	5
Vehicles, Plant & Equipment	0	2,724
	6	**2,729**

Notes to the Core Financial Statements

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest and the finance costs payable in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2018 £'000	31 March 2019 £'000
Finance Lease Liabilities	134	3,055
Finance costs in future years	140	2,362
Minimum Lease Payments	**274**	**5,417**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
Not later than one year	14	874	3	305
Later than one year and not later than five years	58	3,496	15	1,918
Later than five years	202	1,047	115	833
	274	**5,417**	**133**	**3,056**

40. PENSION SCHEMES

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in one pension scheme; the Local Government Pension Scheme (LGPS), administered locally by Hertfordshire County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Further information concerning the scheme can be found in Hertfordshire County Council Pension Fund's Annual Report, which is available upon request from Herts Finance Service, Hertfordshire County Council, County Hall, Hertford, Herts. SG13 8DQ.

The Authority recognises the cost of retirement benefits in the Cost of Services when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge the Authority is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Local Government Pension Scheme	**2017/18**	**2018/19**
Comprehensive Income and Expenditure Account:	**£'000**	**£'000**
Cost of Services:		
Service cost comprising:		
Current Service Cost *	3,420	3,384
Past Service Costs	0	389
Financing and Investment Income and Expenditure:		
Net Interest Expense	1,244	1,185
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**4,664**	**4,958**

Notes to the Core Financial Statements

Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
Re-measurement of the net defined liability comprising:		
Return on Plan Assets	(3,498)	(5,291)
Actuarial (gains) and losses arising on changes in demographic assumptions	0	0
Actuarial (gains) and losses arising on changes in financial assumptions	(2,921)	9,327
Other	0	0
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(1,755)**	**8,994**

* The service cost figures include an allowance for administration expenses of 0.5% of payroll.

Movement in Reserves Statement:	**2017/18 £'000**	**2018/19 £'000**
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(4,664)	(4,958)
Actual Amount charged against the General Fund balance for pensions in the year:		
• Employers' contributions payable to the scheme **	2,539	2,574
Net chargeable amount against the General Fund balance	**2,539**	**2,574**

** The figure of £2.574million for employers contributions to the scheme in 2018/19 was an estimate for the year, used by the Actuary, based on the first nine months contributions. The actual amount paid in the general fund in 2018/19 was £2.568million (£6k less than shown). There is a corresponding adjustment in the actuarial gain recognised in the Income and Expenditure Statement.

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

Local Government Pension Scheme	**2017/18**	**2018/19**
	£'000	**£'000**
Present value of the defined benefit obligation	(165,274)	(178,029)
Fair Value of plan assets	120,245	126,580
Sub-total	(45,029)	(51,449)
Other movements in the liability (asset)	0	0
Net liability arising from defined benefit obligation	**(45,029)**	**(51,449)**

Reconciliation of the Movements in the Fair Value of Scheme Assets:

Local Government Pension Scheme	**2017/18**	**2018/19**
	£'000	**£'000**
Opening fair value of scheme assets	115,748	120,245
Interest Income	2,868	3,098
Re-measurement gain / (loss):		
The return on plan assets, excluding the amount included in the net interest expense	3,498	5,291
Other		
The effect of changes in foreign exchange rates		
Contributions from employer	2,539	2,574
Contributions from employees into the scheme	580	589
Benefits paid	(4,988)	(5,217)
Closing fair value of scheme assets	**120,245**	**126,580**

Notes to the Core Financial Statements

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Local Government Pension Scheme	2017/18 £'000	2018/19 £'000
Opening balance at 1 April	165,071	165,274
Current service cost	3,420	3,384
Interest cost	4,112	4,283
Contributions from scheme participants	580	589
Re-measurement (gains) and losses:		
Actuarial (gains) / losses arising from changes in demographic assumptions	0	0
Actuarial (gains) / losses arising from changes in financial assumptions	(2,921)	9,327
Other	0	0
Past Service Cost	0	389
Benefits paid	(4,988)	(5,217)
Closing balance at 31 March	**165,274**	**178,029**

Local Government Pension Scheme assets comprised:

	Fair Value of scheme assets (Quoted Prices) 31 March 2018 Active Markets £'000	Not in Active Markets £000	% of total assets	31 March 2019 Active Markets £'000	Not in Active Markets £000	% of total assets
Cash and cash equivalents	4,013	0	3%	4,096	0	3%
Equity instruments:						
Consumer	5,494	0	5%	5,630	0	4%
Manufacturing	4,726	0	4%	4,908	0	4%
Energy and utilities	1,261	0	1%	1,307	0	1%
Financial Institutions	5,364	0	4%	5,219	0	4%
Health and care	761	0	1%	1,030	0	1%
Information technology	3,749	0	3%	3,960	0	3%
Other	286	0	0%	338	0	0%
Sub-total equity	21,641	0	18%	22,392	0	17%
Bonds:	0	48	0%	0	58	0%
Private equity:						
All	0	4,562	5%	0	5,935	5%
Real Estate:						
UK Property	0	3,983	3%	0	4,484	4%
Overseas Property	0	3,926	3%	0	4,801	4%
Sub-total real estate	0	7,909	6%	0	9,285	8%
Investment funds and Unit Trusts:						
Equities	31,605	0	26%	31,940	0	25%
Bonds	43,246	0	36%	44,038	0	35%
Commodities	0	0	0%	0	0	0%
Infrastructure	0	287	0%	0	1,227	1%
Other	895	6,135	6%	1,070	6,690	6%
Sub-total other investment funds	75,746	6,422	68%	77,048	7,917	67%
Derivatives:						
Forward foreign exchange contracts	0	(96)	0%	0	(151)	0%
Total assets	**101,400**	**18,845**		**103,536**	**23,044**	

Notes to the Core Financial Statements

All scheme assets have fair values based on quoted prices. Some of these assets are in active markets and some are in non-active markets. An active market has a high volume and frequency of transactions which provides better pricing information and means that the asset is more liquid.
The scheme history is as follows:

	31 March 2015 £'000	31 March 2016 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2019 £'000
Present Value of Liabilities	(161,422)	(152,804)	(165,071)	(165,274)	(178,029)
Fair Value of Assets	105,790	104,968	115,748	120,245	126,580
Deficit in the scheme	**(55,632)**	**(47,836)**	**(49,323)**	**(45,029)**	**(51,449)**

The liabilities show the underlying commitments that the Authority has in the long run to pay for post employment (retirement) benefits. The total liability of £178,029million has a substantial impact on the net worth of the Authority, as recorded in the Balance Sheet, resulting in a negative overall balance of £51,449million. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The contributions paid by the Authority are set by the Fund Actuary at each triennial actuarial valuation (the most recent being as at 31 March 2016), or at any other time as instructed to do so by the Administering Authority. The contributions payable over the period to 31 March 2020 are set out in the Rate and Adjustments certificate. Further details on the approach adopted to set contribution rates for the Authority are available in the 2016 actuarial valuation report.

The total contributions expected to be made to the Local Government Pension scheme by the Authority in the year to 31 March 2020 is £2,575,000.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The pension fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates being based on the latest formal valuation of the Fund as at 31 March 2017. The significant assumptions used in their calculations are:

	31 March 2018 %	31 March 2019 %
Mortality Assumptions:		
Longevity at 65 for current pensioners*:		
Men	22.5	22.5
Women	24.9	24.9
Longevity at 65 for future pensioners**		
Men	24.1	24.1
Women	26.7	26.7
Rate of increase in salaries	2.5	2.6
Rate of increase in pensions	2.4	2.5
Rate for discounting scheme liabilities	2.6	2.4
Proportion of Employees opting to take a commuted sum		
- pre April 2008 service	50.0	50.0
- post April 2008 service	75.0	75.0

* Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2013 model assuming current rates of improvement have peaked and will converge to a long term rate 1.25% p.a. Based on these assumptions the average future life expectancies at age 65 are as shown.

** Figures assume members aged 45 as at the last formal valuation date.

Notes to the Core Financial Statements

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, is on an actuarial basis using the projected unit credit method.

	Impact on the Defined Benefit Obligation in the scheme	
	% Increase to Liability £'000	**Monetary amount £'000**
Real Discount Rate (decrease by 0.5%)	10%	16,917
Rate of increase in salaries (increase by 0.5%)	1%	2,248
Rate of increase in pensions (increase by 0.5%)	8%	14,405

The table below shows the maturity profile of the defined benefit obligation. The figures below are for the funded obligations only and do not include any unfunded pensioner liabilities. The durations are as they stood at the date of the most recent actuarial valuation.

	Liability split (£'000) as at 31 March 2019	Liability split (%) as at 31 March 2019	Weighted Average Duration (Years)
Active members	67,197	37.7%	22.4
Deferred members	42,623	24.0%	20.1
Pensioner members	68,209	38.3%	10.0
Total	**178,029**	**100.0%**	**15.4**

41. CONTINGENT ASSETS

There are no contingent assets for 2018/19.

42. CONTINGENT LIABILITIES

Contractor Pension Fund Contributions

The Council has transferred the management of its waste collection service, leisure centres and grounds maintenance services to Urbaser, Stevenage Leisure Ltd and John O'Connor Ltd, respectively. All of these bodies administer contributions to the Hertfordshire Local Government Pension Fund. In order for these bodies to be admitted to the Pension Fund the Council has given a commitment to be ultimately liable for payments to the fund. In the event that the Contractor fails to make payment and there is no bond in place to cover the default, the Council would seek to offset the amount due from the contract price in the first instance. With regards to the contract with John O'Connor Ltd there is a bond in place with a value of £43,000 and that value is due for reassessment after 31 March 2020. The Council is liable only for the existing staff at the time of transfer of services to these bodies and as at the 31 March 2019 the Council has not been called upon to make any such payments.

Municipal Mutual Insurance Ltd Scheme of Arrangement

The Council has paid a 25% levy for the claw-back of claims under the MMI Scheme of Arrangement. The Council will still be liable to pay a levy on any future claims, and could also be required to pay an increased levy on the claims settled so far, however as at 31st March 2019 the council had no outstanding claims with MMI.

Notes to the Core Financial Statements

43. TRUST FUNDS AND THIRD PARTY FUNDS

Trust Funds

The Authority acts as the sole managing trustee for the following trusts:

- Hitchin Town Hall Gymnasium and Workman's Hall Trust
- King George V Playing Fields Trust.
- Smithson Recreation Ground Trust

Without the annual contribution from the Council, the Trusts would not have had adequate resources to manage the facilities during the year. The Trust's accounts reflect the fixed assets and the in year expenditure and income incurred in running the facilities. The net balance of these transactions, as at the 31 March 2019, is included in the Authority's accounts. A summary of the value of assets held by the trusts and the amounts administered by the authority is provided in the table below;

	Fixed Assets Closing Net Book Value	**Directly Attributable Expenditure**	**Externally Generated Income**
	£'000	**£'000**	**£'000**
Hitchin Town Hall Gymnasium and Workman's Hall Trust	2,517	20	-
King George V Playing Fields Trust	89	44	-
Smithson Recreation Ground Trust	24	3	-

Third Party Funds

The Authority holds income received for S106 legal agreements or unilateral undertakings relating to the submission of planning applications. This income is 'ring-fenced' to different types of capital expenditure/locations within the district. The funds will be used to finance the Council's capital programme, when schemes meet the funding criteria. Until then the funds are treated as a receipt in advance in the Balance Sheet, under current liabilities.

The total value of all S106 contributions as at the 31 March 2019, available to fund capital and revenue activities is £3,158,744 (2017/18 £2,950,537).

Collection Fund Accounts

The Collection Fund is a separate statutory fund under the provisions of the Local Government Act 1988. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and National Non-Domestic Rates and its distribution to local government bodies and the Government. The Authority's share of the assets and liabilities are included in the Authority's Balance Sheet and its income and expenditure is included within the cash flow statement.

The accounts have been prepared on an accruals basis.

INCOME AND EXPENDITURE ACCOUNT

	2017/18					2018/19	
Council Tax £'000	Business Rates £'000	Total £'000		Note	Council Tax £'000	Business Rates £'000	Total £'000
			Income				
(80,559)		(80,559)	Council Tax Receivable	2	(85,604)		(85,604)
			Council Tax Benefit				
	(37,694)	(37,694)	Business Rates Receivable	1		(37,566)	(37,566)
	0	0	Transitional Protection Payments Receivable			0	0
			Contribution towards previous year deficit:				
0	(185)	(185)	Hertfordshire County Council	3	0	(164)	(164)
0		0	Hertfordshire Police Authority	3	0		0
	(926)	(926)	DCLG	3		(821)	(821)
0	(741)	(741)	North Hertfordshire District Council	3	0	(656)	(656)
(80,559)	**(39,546)**	**(120,105)**	**Total Income**		**(85,604)**	**(39,207)**	**(124,811)**
			Expenditure				
			Precepts, Demands and Shares	4			
60,608	3,752	64,360	Hertfordshire County Council		64,859	3,824	68,683
7,394		7,394	Hertfordshire Police Authority		8,055		8,055
10,554	15,010	25,564	North Hertfordshire District Council		10,975	15,294	26,269
1,068		1,068	Parishes, Town & Community Councils		1,096		1,096
	18,762	18,762	Central Government			19,118	19,118
			Distribution of previous years Surplus				
457		457	Hertfordshire County Council		288		288
57		57	Hertfordshire Police Authority		35		35
			Charges to Collection Fund				
0	0	0	Interest on Accruals		0	0	0
0	180	180	Cost of Collection Allowance	1	0	180	180
	379	379	Transitional relief Payable			(438)	(438)
	31	31	Energy Payments			42	42
796	391	1187	Write off uncollectible amounts	1/2	504	231	735
	494	494	Increase / (decrease) in provision for appeals	1		935	935
(190)	58	(132)	Increase / (decrease) in bad debt provision	1/2	(41)	(30)	(71)
80,744	**39,057**	**119,801**	**Total Expenditure**		**85,771**	**39,156**	**124,927**
185	**(489)**	**(304)**	**Movement on Fund Balance**		**167**	**(51)**	**116**
(677)	2,050	1,373	Balance at beginning of year		(492)	1,561	1,069
(492)	**1,561**	**1,069**	**Balance at end of year**		**(325)**	**1,510**	**1,185**
			Share of Balance:				
(210)	156	(54)	Hertfordshire County Council		(40)	151	111
(25)		(25)	Hertfordshire Police Authority		(5)		(5)
(257)	624	367	North Hertfordshire District Council		(280)	604	324
	781	781	Central Government			755	755
(492)	**1,561**	**1,069**			**(325)**	**1,510**	**1,185**

Collection Fund Accounts

1. INCOME FROM BUSINESS RATES

The Council collects non-domestic rates (NNDR) from business across the District based on local rateable values provided by the Valuation Office Agency (VOA) and multiplied by a uniform rate set nationally by Central Government.

In previous financial years the total amount due, less certain allowances, was paid to a central pool (the NNDR pool) administered by Central Government, which, in turn, paid to Local Authorities their share of the pool, such shares being based on a standard amount per head of the local adult population.

In 2013/14, the local government finance regime was revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give Councils a greater incentive to grow businesses in the District. It does, however, also increase the financial risk to Councils, due to non-collection and the volatility of the NNDR tax base.

The scheme allows the Council to retain a proportion of the total NNDR received. The North Herts share is 40% with the remainder paid over to Hertfordshire County Council (10%) and Central Government (50%).

NNDR surpluses in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year.

The business rates shares payable for 2018/19 were estimated before the start of the financial year as £19.117 million to Central Government, £3.823 million to Hertfordshire County Council and £15.294 million to North Hertfordshire District Council. These sums have been paid in 2018/19 and charged to the collection fund.

When the scheme was introduced, Central Government set a baseline level for each Authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive the set baseline amount. North Hertfordshire paid a tariff of £12.480 million to Central Government from the General Fund in 2018/19.

The total net amount of NNDR income collectable in 2018/19, after all reliefs and deductions, was £37.566 million. An increase of £201k has been made for the provision of outstanding amounts that are not subsequently paid (bad debts) bringing the total provision to £603k as at 31 March 2019. A total of £231k of outstanding business rates were written off during 2018/19.

In addition to the tariff arrangement the Council must pay a levy of 50% to Central Government for income received above the baseline. If income from business rates should fall to 92.5% of the set baseline then the safety net will ensure the Council is reimbursed. In 2018/19 the authority was part of the Hertfordshire Business Rates Pool, which has reduced the levy payment. The levy due to the MHCLG is £528k if North Herts was not in the pool. The pooling gain of £368k, as calculated by the pool lead authority Hertfordshire County Council, reduces the levy payable to £160k.

The retained business rates scheme has also meant responsibility for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list has transferred to the Authority, as the agent. As such it is necessary for the Authority to make provision for future successful appeals on behalf of itself the major preceptor and Central Government. A reduction of £15k has been made to the provision of outstanding appeals, bringing the total provision for appeals to £2.09 million. This amount is based on the amount of outstanding appeals with the Valuation Office Agency, as at 31 March 2019, after applying an estimated overall success factor of 25%. In addition, an increase of £951k has been made for the provision of appeals not yet lodged, bringing the total movement on the appeals figure (both lodged and unlodged) to £935k for 2018/19.

The total non-domestic rateable value for North Hertfordshire District Council is £85.8 million, (£97.5 million 2017/2018). The NNDR multiplier is 49.3p in the pound (47.9p in the pound in 2017/2018). The small business non domestic rating multiplier is 48.0p in the pound (46.6p in the pound in 2017/2018).

Collection Fund Accounts

2. COUNCIL TAX

The amounts credited to the Collection Fund can be analysed as follows:

	2017/18		2018/19	
	£'000	£'000	£'000	£'000
Original Debt	94,857		100,960	
Additional Debt	9,965		10,209	
		104,822		**111,169**
Less:				
Council Tax Reductions		6,496		6,685
Transitional Relief		0		0
Discounts		7,165		7,590
Amounts Written-off, Exemptions & Allowances		10,603		11,291
		80,558		**85,603**

Council tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Hertfordshire County Council, The Police and Crime Commissioner and the Council for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts). This basic amount of council tax for a Band D property, £1,707.91, (£1,614.79 2017/2018) is multiplied by the proportion specified for a particular band to give an individual amount due.

Council tax bills were based on the following proportions for Bands A to H:

Proportion of Band D charge

Band	Property Numbers	Proportion	Basic Amount £
A	3,331	0.67	1,138.61
B	8,904	0.78	1,382.37
C	19,844	0.89	1,518.14
D	10,068	1.00	1,707.91
E	7,161	1.22	2,087.45
F	4,539	1.44	2,466.98
G	3,318	1.67	2,846.52
H	342	2.00	3,415.82
Total	**57,507**		

An increase of £462k has been made for the provision of outstanding amounts that are not subsequently paid (bad debts) bringing the total provision to £1.63million as at 31 March 2019. A total of £504k of outstanding council tax was written off during 2018/2019.

3. PAYMENT OF SURPLUS/ DEFICITS FROM THE COLLECTION FUND

The element of the surplus/ deficit on the Collection Fund at 31 March 2019 will be distributed in subsequent financial years to Hertfordshire County Council, The Police and Crime Commissioner and the Council. The apportioned (surplus)/deficit is shown at the bottom of the Income and Expenditure Statement.

Collection Fund Accounts

4. PRECEPTS

	2017/18 £'000	2018/19 £'000
Hertfordshire County Council	60,608	64,859
Hertfordshire Police	7,394	8,055
North Hertfordshire District Council and Local Town and Parish Councils	11,623	12,071
	79,625	**84,985**

Following the introduction of Council Tax on 1 April 1993, parish precepts are now payable from the Council's General Fund and not the Collection Fund.

Glossary of Financial Terms

Term	Definition
Accruals	The concept that Income & Expenditure are recognised as they are earned or incurred, not as money is received or paid.
Actuarial Gains and Losses	For a defined benefit pension scheme the changes in actuarial deficits or surpluses that arise because: • Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses). • The actuarial assumptions have changed.
Accumulated Absences	Holiday entitlements (or any form of leave such as time off in lieu) earned by employees but not taken before the year end which can be carried forward into the following year.
Agency Arrangements	Services which are performed by or for another Council or public body, where the agent is reimbursed for the cost of the work done.
Asset	Anything which somebody owns which can be given a monetary value, for example buildings, land, vehicles, machinery, cash, investments etc. It is always considered in comparison with liabilities in an organisation's accounts.
Balances	The capital or revenue reserves of the Council made up of the accumulated surplus of income over expenditure on the General Fund, Earmarked Reserves etc.
Capital Expenditure	Expenditure on the acquisition of a fixed asset, or expenditure, that adds to the life, or value, of an existing fixed asset.
Capital Financing Requirement	A measure of the capital expenditure incurred historically by an authority that has yet to be financed by capital receipts, capital grants or revenue financing. The Prudential Code requires that the Council monitors and controls its CFR through its Treasury Management Strategy and Medium Term Financial Strategies.
Capital Receipts	Monies received from the sale of assets, which may be used to finance capital expenditure or to repay outstanding loan debt as prescribed by Central Government, but they cannot be used to finance day-to-day spending.
Cash Equivalents	Cash investments which are held on deposit and are repayable on demand without financial penalty.

Glossary of Financial Terms

Term	Definition
CIPFA	Chartered Institute of Public Finance and Accountancy. The principal accountancy body dealing with local government finance
Collection Fund	A fund administered by charging authorities into which Council Tax income and Business Rates collected locally are paid. Precepts are paid from the fund as is a charge in respect of the Council's own requirements.
Collection Fund Adjustment Account	This account holds the difference between the income (including accruals) held in the Comprehensive Income and Expenditure Statement and the amount required by statutory regulation to be credited to the Collection Fund.
Community Assets	Assets that a local Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.
Consistency	The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.
Contingent Assets	A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the local authority's control.
Contingent Liability	A contingent liability is a possible liability arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the local authority's control.
Council Tax	This is a local tax set by local Councils to help pay for local services.
Creditor	An amount owed by the Council for work done, goods received, or services rendered to the Council within the accounting period and for which payment has not been made at the Balance Sheet date.
Current Assets	Assets which can be classified as cash or cash equivalents, assets held primarily for the purposes of trading (e.g. inventories), or any asset which is expected to be realised within the next financial year.

Glossary of Financial Terms

Term	Definition
Current Service Cost (Pensions)	The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.
Curtailment	For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include: • Termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business. • Termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees no longer qualifies or only qualifies for a reduced benefit.
Deficit	An excess of expenditure over income (or liabilities over assets
Debtors	Amounts due to the Council before the end of the accounting period but for which payments have not yet been received by the end of that accounting period.
Defined Benefits Scheme	A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
Depreciation	The measure of the cost or revalued amount of the benefit of the non-current assets that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time obsolescence through either changes in technology or demand for the goods and services produced by the asset.
MHCLG (DCLG)	Ministry for Housing, Communities and Local Government, successor to Department for Communities & Local Government (DCLG).
Earmarked Reserves	These are reserves set aside for a specific purpose or a particular service or type of expenditure.

Glossary of Financial Terms

Term	Definition
Employee Benefits	Entitlements accrued by employees as part of their employment rights, e.g. annual leave (holiday), sick pay and payments as a result of their employment being terminated before normal retirement age.
Exceptional Items	Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.
Expected Rate of Return on Pension Assets	For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.
Extraordinary Items	Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.
Finance and Operating Lease	A finance lease transfers all of the risks and rewards of ownership of a fixed asset to the lessee and such assets have been valued and included within Non-current assets in the Balance Sheet. With an operating lease the ownership of the asset remains with the Leasing Company and the annual rent is charged to the relevant service account.
Financial Instruments	Any document with monetary value. For example, securities such as bonds and stocks which have value and may be traded in exchange for money.
General Fund	The main revenue account of the Council. It contains the excess to date of income over expenditure in the Income and Expenditure Account.
Government Grants	Assistance by Central Government and inter-government agencies and similar bodies, whether local, national or international, towards either revenue or capital expenditure incurred in providing local Council services.

Glossary of Financial Terms

Term	Definition
Heritage Asset	An asset which is held solely for its cultural, environmental or historic associations. This encompasses such things as civic regalia, historical buildings and monuments, museum collections and works of art. Any asset which is used for operational purposes would not be classified as a Heritage Asset.
Housing Benefits	A system of financial assistance to individuals towards certain housing costs, which is administered by Local Authorities. Assistance takes the form of rent rebates, rent allowances, and council tax rebates toward which central government pays a subsidy.
Impairment	A reduction in the value of a non current asset below its carrying amount on the balance sheet.
Infrastructure Assets	Expenditure on works of drainage, construction or improvement to highways, cycle ways, footpaths or other land owned by the Council.
Intangible Assets	An asset that brings benefit for more than one financial year, that does not have physical substance but is identifiable and controlled by the owner (e.g. software licences).
Interest Cost (Pensions)	For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.
Inventories	The amount of unused or unconsumed inventories (stock) held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Stocks comprise the following categories: • Goods or other assets purchased for resale; • Consumable stores; • Raw materials and components purchased for incorporation into products for sale; • Products and services in intermediate stages of completion • Long term contract balances; and Finished goods.

Glossary of Financial Terms

Term	Definition
Investments (Non-Pension Fund)	A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments, other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.
Investments (Pension Fund)	The investments of the Pensions Fund will be accounted for in the statements of that fund. However, authorities (other than Town Parish and Community Councils) are required to disclose, as part of the transitional disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.
Investment Property	Property which is held solely to earn rentals and/or for capital appreciation but not used for the purpose of service delivery.
Levy	The Council's Comprehensive Income and Expenditure Statement include a share of any surplus or deficit arising for the year on the collection of business rates. Where, after taking into account any surpluses on collection, the Council's income exceed a threshold set by Central Government, a levy is payable to Central Government but the Council may retain a proportion of the surplus.
Liabilities	Money owed to somebody else.
Minimum Revenue Provision	A charge made to the General Fund to repay borrowing taken out for capital expenditure, effectively replacing depreciation (which is reversed out in the MiRS). Authorities determine their own prudent MRP charge.
Net Book Value	The amount at which non-current assets are included in the Balance Sheet, i.e. their historical or current value less the cumulative amounts provided for depreciation.
Net current replacement cost	The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or the nearest equivalent, adjusted to reflect the current condition of the existing asset.

Glossary of Financial Terms

Term	Definition
Net Realisable Value	The open market value of the asset in its existing use (or open market value in the case of non operational assets), less the expenses to be incurred in realising the asset.
NNDR (National Non Domestic Rates)	These are rates charged on properties other than domestic property. The business rate poundage is set annually by Central Government and is a flat rate throughout the country.
Non-current assets	Tangible assets that yield benefits to the Council for a period of more than one year.
Non-operational assets	Non-current assets held by a local Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are commercial and industrial properties.
Obligating Event	An event which creates a legal or constructive obligation that results in the Council having no realistic alternative to settling that obligation.
Operational assets	Non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.
Past service cost	For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.
Post balance sheet events	Those events, both favourable and unfavourable, which occur between Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible officer.
Precepts	The levy made by one Council on another. Hertfordshire County Council and Police and Crime Commissioner, who do not administer the council tax system, each levy an amount on North Herts, which collects the required income from local taxpayers on their behalf.
Prior year adjustments	Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.
Projected unit method	An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

Glossary of Financial Terms

Term	Definition
Provisions	An amount set aside to provide for a liability that is likely to be incurred but the exact amount and the date on which it will arise is uncertain.
Prudence	The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty. The overall objective of this principle is not to overstate the net worth shown in the Statement of Accounts.
Related Parties	Two or more parties are related parties when at any time during the financial period: • One party has direct or indirect control of the other party. • The parties are subject to common control from the same source. • One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests. • The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.
Related Party Transaction	A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for a related party irrespective of whether a charge is made. Examples of related party transactions include: • The purchase, sale lease, rental or hire of assets or loans, irrespective of any direct economic benefit to the pension fund. • The provision of a guarantee to a third party in relation to a liability or obligation of a related party. • The provision of services to a related party, including the provision of pension fund administration services. • Transactions with individuals who are related parties of the Council or a pension fund, except those applicable to other members of the community or pension fund, such as council tax, rents and payments of benefits. • The materiality of related party transactions is judged not only in terms of their significance to the Council, but

Glossary of Financial Terms

Term	Definition
	also in relation to its related party.
Rent Allowances	Subsidies payable by local authorities to tenants in private rented accommodation (either furnished or unfurnished) whose incomes fall below prescribed amounts.
Rent Rebates	Subsidies payable by local authorities to their own housing tenants whose incomes fall below prescribed amounts.
Reserves	A reserve is an amount set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years.
Retirement Benefits	All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.
Revaluation Reserve	An account containing any unrecognised gains or losses arising from the revaluation of non current assets held by the Council. When assets are sold, the gain or loss on sale will be recognised in the Comprehensive Income and Expenditure Statement once all previous entries relating to unrecognised gains or losses have been removed from the accounts.
Revenue Expenditure	Day to day expenses, mainly salaries and wages, general running costs and debt charges.
Revenue Expenditure Funded from Capital Under Statute	Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non current asset.
Revenue Support Grant	Central Government Grant towards the cost of Local Council Services.
Scheme Liabilities	The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.
Surplus	An excess of income over expenditure (or assets over liabilities)

Glossary of Financial Terms

Term	Definition
Usable Capital Receipts	This is generally the balance of any capital receipt after deducting the reserved part and any repayment to the Central Government of grants made to the Council on disposal of the asset.
Useful Life	The period over which the authority will derive benefits from the use of a non current asset.

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FINANCE AUDIT AND RISK COMMITTEE
29 July 2019

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: RISK AND OPPORTUNITIES MANAGEMENT UPDATE

REPORT OF: THE SERVICE DIRECTOR – RESOURCES

EXECUTIVE MEMBER: FINANCE AND IT

COUNCIL PRIORITY: / PROSPER AND PROTECT / RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

1.1 To provide the Committee with an update on the Corporate risks and the proposed changes to these risks.
1.2 To present the Annual Report on Risk and Opportunities Management.

2. Recommendations

2.1 That the Committee notes the review /changes to the Corporate risks for the quarter, namely
- New Risk for the impact of Anti Social Behaviour on Council facilities proposed as a Service Risk
- Workforce Planning to retain its current Risk score of 5.

2.2 That the Committee notes and refers the Annual report on Risk & Opportunities Management to Cabinet and then Full Council.

3. REASONS FOR RECOMMENDATIONS

3.1 The responsibility for ensuring the management of risks is that of Cabinet.

3.2 This Committee has responsibility to monitor the effective development and operation of risk and opportunities management.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 There are no alternative options that are applicable.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 Consultation has been undertaken with the Senior Management Team (SMT) and the Risk Management Group (this includes the Executive Member for Finance and IT as Risk Management Member 'champion') and these recommendations were supported. Lead Officers discuss these risks with the relevant Executive Member

6. FORWARD PLAN

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

7. BACKGROUND

7.1 At the March meeting of the Finance, Audit and Risk Committee, the Committee noted the reduction in Risk score for North Hertfordshire Museum and Hitchin Town Hall from a 9 to a 3, and the introduction of a new Brexit risk with a risk score of 9. The report was approved and referred on to Cabinet. The report was subsequently approved by Cabinet

8. RELEVANT CONSIDERATIONS

8.1 Corporate Risks

8.1.1 The Corporate risks summarised in Table 1 have been reviewed and agreed by SMT. Members are able to view the current risk descriptions on Pentana, the Council's performance and risk management software. Table 1 shows the last date that each Corporate risk was reviewed by the risk owner

8.1.2 At the Risk Management Group meeting on 29 May, a new risk for the impact of Anti Social Behaviour on Council facilities was discussed. The introduction of the risk was to reflect the rise of Anti Social behaviour at various locations in the District and the impact this has had on service provision and property maintenance. Although introduced as a Service Risk, a proposed high score of 7 on the Risk Matrix promoted some discussion within the Group as to whether this should be a Corporate Risk. After some debate, it was decided that this would be presented as a Service risk to this Committee, with the opportunity to discuss whether it should be increased to a Corporate Risk (subject to referral and approval by Cabinet). The detail of this risk is included in Appendix A.

8.1.3 The Workforce Planning Risk was discussed in detail. It was agreed that the current risk score of 5 remained appropriate.

8.1.4 The Annual report on Risk and Opportunities Management was reviewed and agreed by the Group. The report summarises all the changes to the Corporate Risks approved by Cabinet (and monitored by Finance, Audit and Risk Committee) throughout 2018/19. The report is included as Appendix B. Recommendation 2.2 is that this report is referred to Cabinet and Full Council.

Table 1: Risk and Opportunities Matrix
The dates specified relate to the date that officers last reviewed the risk.
Risks that officers have reviewed since the last FARC meeting have been given a direction of travel arrow.

Likelihood	1 Low (Impact)	2 Medium (Impact)	3 High (Impact)
3 High	**4**	**7** • Income Generation (14.03.19) ←→ • Sustainable Development (24.04.19) ←→	**9** • Brexit (29.04.19) ←→ • Local Plan (24.04.19) ←→ • Managing the Council's Finances (21.12.18) • Waste Management, Recycling and Street Cleansing (20.03.19) ←→
2 Medium	**2**	**5** • Increased Homelessness (16.04.19) ←→ • Workforce Planning (05.04.19) ←→	**8** • Cyber Risks (25.03.19) ←→
1 Low	**1**	**3** • North Hertfordshire Museum and Hitchin Town Hall Project (07.02.19)	**6**

Impact

9. LEGAL IMPLICATIONS

9.1 The Committee's Terms of Reference include monitoring the effective development and operation of risk management and corporate governance, agreeing actions (where appropriate) and making recommendations to Cabinet This report gives the Committee the opportunity to review and comment on the high level risks and how they are proposed to be managed.

10. FINANCIAL IMPLICATIONS

10.1 There are no direct financial implications arising from this report.

11. RISK IMPLICATIONS

11.1 The Risk and Opportunities Management Strategy requires the Finance Audit and Risk Committee to consider regular reports on the Council's Corporate risks. Failure to provide the Committee with regular updates would be in conflict with the agreed Strategy and would mean that this Committee could not provide assurances to Cabinet that the Councils identified Corporate Risks are being managed.

12. EQUALITIES IMPLICATIONS

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

12.2 Reporting on the management of risk provides a means to monitor whether the council are meeting the stated outcomes of the district priorities, its targets or delivering accessible and appropriate services to the community to meet different peoples needs. The risks of NHDC failing in its Public Sector Equality Duty are recorded on the Risk Register. The Councils risk management approach is holistic, taking account of commercial and physical risks. It should also consider the risk of not delivering a service in an equitable, accessible manner, and especially to its most vulnerable residents, such as those who are homeless.

13. SOCIAL VALUE IMPLICATIONS

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

14. HUMAN RESOURCE IMPLICATIONS

14.1 There are no direct human resource implications relating to this report, but is should be noted that there is a separate Corporate risk relating to Workforce Planning.

15. APPENDICES

5.1 Appendix A – New Service Risk – Anti Social Behaviour
Appendix B – Annual Report on Risk Management 2018-2019

16. CONTACT OFFICERS

16.1 Rachel Cooper, Controls, Risk & Performance Manager
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Ian Couper, Service Director – Resources
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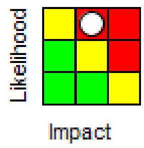
17. BACKGROUND PAPERS

17.1 The risks held on Pentana, the Councils Performance and Risk Management IT system.

Risk Code	RR564	**Risk Title**	Impact of Anti-Social Behaviour on Council Facilities
Risk Owner	Ian Couper	**Updated By**	Ian Couper
Year Identified	2019	**Corporate Priority**	Attractive and Thriving
Risk Description	As a result of anti-social behaviour in or around Council facilities, there is a risk that: - Council facilities suffer from criminal damage - Customer use of facilities reduces, e.g. multi-storey car parks, toilets at Howard Park - Users of facilities experience verbal abuse and intimidation - Members of the public suffer personal injury - Staff, service users and local residents suffer distress This could lead to: - Loss of income - Additional expense to rectify resulting damage - An increase in the number of insurance claims - An increased number of complaints - Damage to the Council's reputation		
Opportunities	- The Council optimises the use of its facilities - Council facilities provide an attractive and safe environment for service users - Achievement of relevant budgeted income		
Consequences	- Loss of income - Additional costs - Poor publicity - Detrimental effect on staff, service users and local residents		
Work Completed	- Multi-storey car parks and Howard Park added to police patrol plans - Community Protection Manager sent a letter to all head teachers of secondary schools in Baldock, Hitchin and Letchworth regarding anti-social behaviour in multi-storey car parks (February 2019) - Decided to implement a temporary measure to close both multi-storey car parks early each day, with effect from 25 March 2019 - Updated plan for Careline staff who need to park out of hours - Introduced additional patrols by Arena Security at multi-storey car parks - 2019 North Hertfordshire Community Safety Partnership Survey highlighted that in general, people were satisfied that the district was a safe place to live - NHDC officers (Grounds Maintenance and Community Safety) attended Howard Park key stakeholders meetings, which included the police, to discuss issues and links with other incidents in Letchworth and to agree related actions - Ensured that all current lighting at Howard Park is operating effectively - Use of mobile camera at Howard Park to ensure effective coverage of area		
Ongoing Work	- Central logging of incidents to track the scale of any issues - Encouraging any criminal incidents to be reported to the police - Officer working group investigating longer term options for both multi-storey car parks - Officer working group implementing agreed actions to help address identified issues - Monitoring the impact of the temporary measure to close both multi-storey car parks early - Arranging to link the Park Ranger into the Letchworth town centre radio system to enable communication with shop owners and others if there are issues in the town (the system is also linked to the CCTV control room) - Review permanent cameras (with Heritage Foundation) and lighting at Howard Park to balance effectiveness and cost		
Current Impact Score	2	**Current Likelihood Score**	3

Overall Risk Score	7	**Current Risk Matrix**	
Date Reviewed	13-Mar-2019	**Next Review Date**	13-Sep-2019
Notes	15-May-2019 Since the creation of the Risk Register entry and the implementation of various mitigating measures, anti-social behaviour issues have reduced at both Howard Park and the multi-storey car parks.		
	16-Apr-2019 Since Christmas 2018, the toilets in Howard Park have been closed on and off for a period of over six weeks. Currently, they are open.		
	12-Apr-2019 Following further comments from Becky, Ian and Andrew Mills, the risk entry was updated and subsequently published on the Risk Register.		
	18-Mar-2019 Draft new risk entry created following a recommendation by the Risk Management Group on 20 February 2019 and subsequent discussions with Becky Coates, Community Safety Manager and Ian Couper. Draft risk entry circulated to Becky and Ian for further comment.		

NORTH HERTFORDSHIRE
DISTRICT COUNCIL

Annual Report on Risk Management

April 2018 to March 2019

A progress report on Risk and Opportunity Management at North Hertfordshire District Council

Annual Report on Risk Management 2018/19

Annual Report on Risk Management

April 2018 to March 2019

1 Summary

1.1 To provide Full Council with an annual report on risk and opportunities management at NHDC during the financial year 2018/19, as outlined in the Risk and Opportunities Management Strategy.

1.2 This report aims to:

- Confirm the Council's ongoing commitment to the management of risks and opportunities to enable the achievement of its objectives, projects, service delivery and performance management.

- Summarise the significant changes to the Corporate Risks during the year.

- Summarise the achievements against the significant actions for 2018/19 identified in last year's Annual Report.

- Propose further significant actions for 2019/20, in order to maintain the Council's strong and effective risk and opportunities management processes.

2 Background

2.1 Throughout 2018/19, the Finance, Audit and Risk Committee (FARC) received reports on the management of the Council's Corporate Risks and where necessary, referred these reports to Cabinet.

2.2 In November 2018, the Risk Management Group approved minor revisions to the Risk and Opportunities Management Strategy. These amendments consisted of changing job titles to reflect the 2018 senior management restructure. The strategy is available on the Risk Management intranet page. Officers will undertake a detailed review of the strategy in 2019/20, which will include ensuring that it reflects the new Commercial Strategy and the approach to managing risks associated with major contracts.

2.3 Throughout the year, the Performance and Risk Officer provided ongoing training and support to officers and Members.

2.4 On request, the Performance and Risk Officer is able to provide 1:1 sessions to members of the FARC, covering topics such as accessing Risk Register entries on Pentana Risk, the Council's performance and risk management system.

2.5 The Executive Member for Finance and IT, in his role as the Member "Risk Management Champion", was a regular attendee at Risk Management Group meetings.

2.6 The risk management function at both a strategic and operational level is delivered and supported by the Service Director - Resources, the Controls, Risk and Performance Manager and the Performance and Risk Officer.

2.7 Hertfordshire County Council (HCC) continues to deliver the Council's insurance services and HCC's Risk and Insurance Manager continues to attend Risk Management Group meetings. This enables the Council to obtain an insight into emerging risks and related issues at HCC and other local authorities in Hertfordshire. The Performance and Risk Officer is a member of ALARM, the national organisation dedicated to supporting risk professionals in the public sector. Membership of ALARM provides training opportunities and enables the sharing of best practice and benchmarking data with other public sector organisations.

3 Significant Changes to the Corporate Risks

3.1 There is a single set of Corporate Risks, which Cabinet owns and monitors. These risks (such as key projects and risks directly related to the Council's objectives) require a high level of resources to manage and mitigate and need to be managed at a strategic level within the Council.

3.2 At each meeting, officers provided the FARC with updates on the assessment and management of the Council's Corporate Risks. Section 14 of this report presents a summary risk matrix, which shows the position of each Corporate Risk as at 31 March 2019 (the last meeting of the FARC for 2018/19 was on 21 March 2019). The following paragraphs summarise the changes that were reported in the past year.

3.3 **Deleted Corporate Risks**
The following Corporate Risks were deleted in 2018/19.

3.4 **Office Accommodation**
Practical completion of the District Council Offices took place on 31 May 2018 and the whole building had been handed over to NHDC. A closure report, including lessons learned, had been reported at the last Project Board meeting on 11 June 2018.
Recommended by the FARC on 24 September 2018
Approved by Cabinet on 25 September 2018

3.5 **Waste**
Officers had undertaken a comprehensive review of the Waste risks following the award and commencement of the new contract, which had resulted in the creation of a new parent risk and a new sub-risk, the redrafting of four existing sub-risks and the deletion of the original parent risk and five sub-risks:

- Waste and Street Cleansing Contract Renewal (Parent Risk)
- Trade Waste (Sub-Risk)
- Waste and Recycling Services for Flats (Sub-Risk)
- Commingled Waste (Sub-Risk)
- Street Cleansing (Sub-Risk)
- Shared Procurement Opportunity (Sub-Risk)

Recommended by the FARC on 24 September 2018
Approved by Cabinet on 25 September 2018

3.6 **New Corporate Risks**
The following Corporate Risks were introduced in 2018/19.

3.7 **Waste and Street Cleansing Contract Renewal - Food and Garden Waste**
Officers had created the new “Food and Garden Waste” sub-risk with an overall risk score of “5” to reflect the introduction of charging for Garden Waste, which commenced in May 2018. The overarching “Waste and Street Cleansing Contract Renewal” Corporate Risk remained at the same assessment level of “8”.
Recommended by the FARC on 18 June 2018
Approved by Cabinet on 19 June 2018

3.8 **Waste**
Officers had created a new parent risk, “Waste Management, Recycling and Street Cleansing” with an overall risk score of “9” and a new sub-risk, “Route Optimisation of Collection Rounds”, with an overall risk score of “7”. The creation of these new risk entries was one of the outcomes from the comprehensive review of the Waste risks that followed the award and commencement of the new contract (previously referred to in paragraph 3.5).
Recommended by the FARC on 24 September 2018
Approved by Cabinet on 25 September 2018

3.9 **Brexit**
Officers had created a new risk entry with an overall risk score of “9”, which reflected the current high level of uncertainty surrounding the Brexit process and the possible implications for the Council.
Recommended by the FARC on 21 March 2019
Approved by Cabinet on 26 March 2019

3.10 **Corporate Risks with Amended Assessments**
The regular review of the Council’s Corporate Risks includes an assessment of the impact and likelihood scores. Section 13 of this report details the definitions used for assessing scores at NHDC, which ensure a consistent approach to risk scoring.

3.11 **Waste and Street Cleansing Contract Renewal – Depot/Transfer Station**
Officers had increased the likelihood risk score from “Medium” to “High” and subsequently, increased the overall sub-risk score from “8” to “9”. This was to reflect the emerging issues relating to the installation of a fire suppression system and the Environment Agency permit/licence at the Buntingford Depot. Despite the change to the sub-risk score, the overarching “Waste and Street Cleansing Contract Renewal” Corporate Risk remained at the same assessment level of “8”.
Recommended by the FARC on 18 June 2018
Approved by Cabinet on 19 June 2018

3.12 **Waste and Street Cleansing Contract Renewal - Sale of Recyclable Materials**
Officers had increased the likelihood risk score from “Medium” to “High” and subsequently, increased the overall sub-risk score from “8” to “9”. Officers had updated the sub-risk as part of the comprehensive review of the Waste risks that followed the award and commencement of the new contract (previously referred to in paragraph 3.5) and it now incorporated commingled waste.
Recommended by the FARC on 24 September 2018
Approved by Cabinet on 25 September 2018

3.13 **North Hertfordshire Museum and Hitchin Town Hall Project**
Officers had reduced the likelihood risk score from "High" to "Low" and the impact risk score from "High" to "Medium" and subsequently, reduced the overall risk score from "9" to "3". This reflected the completion of the purchase of 14 and 15 Brand Street and the fact that the remainder of the project was now under NHDC's full control.
Recommended by the FARC on 21 March 2019
Approved by Cabinet on 26 March 2019

4 Risk Appetite

4.1 The Council's "risk appetite" is its willingness to accept risks in order to realise opportunities and achieve its strategic objectives. The Council has to take risks in order to evolve and deliver its services effectively. The Council's risk management framework ensures that it recognises the risks that accompany new objectives and opportunities, and that it manages them appropriately. The Council has to decide what risks it wants to take and what risks it wants to avoid, although it cannot or should not avoid all risks.

4.2 The Council will have a range of different appetites for different risks depending on the circumstances, and these can vary over time. The reporting of the Council's Corporate Risks to Cabinet via the FARC, allows the significant risks the Council is prepared to take to be approved and monitored accordingly. Generally, risks with a score of "7" or above will exceed the Council's risk tolerance and will require further controls and mitigation. As at 31 March 2019, the following Corporate Risks, which have clear links to the Council's objectives, had a score of "7" or above:

- Brexit (9)
- Local Plan (9)
- Managing the Council's Finances (9)
- Waste Management, Recycling and Street Cleansing (9)
- Cyber Risks (8)
- Income Generation (7)
- Sustainable Development (7)

5 Insurance Review

5.1 Hertfordshire County Council handles the Council's insurance arrangements under a shared service arrangement.

5.2 The Council transfers some financial risks to its insurers. Public liability insurance provides the Council with insurance cover for claims made by the public for personal injury and/or property damage. These are each subject to a £10,000 excess that is charged to the responsible service area. Areas that have been subject to a claim are identified and wherever possible, action is taken to prevent future damage to property or personal injury.

5.3 Fifteen claims were received from the public relating to the policy year 2018/19. Although claims are made, these are not always successful for the claimant, as payments of compensation are made only when there is a proven legal liability. As at the end of March 2019, five of the fourteen claims relating to minor property damage had been settled. One personal injury claim was made and this was declined.

5.4 The Municipal Mutual Insurance (MMI) Scheme of Arrangement was triggered in 2013 and the Council now pays 25% of any new claims dating back to the period that MMI was the Council's insurers (1974 to 1993). The Council's Financial Risks make provision for any new claims and any further levy demands relating to the period that MMI were the Council's insurers.

6 Business Continuity

6.1 **Business Impact Analysis**

As part of the process, the core critical functions were identified and the risks mitigated (SMT - June 2018). SMT monitor these critical functions, whilst individual Service Directors retain responsibility for lower scale risks in their areas. The revised Business Continuity Plan structure is:

<u>Corporate Level Plans</u>

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

<u>Ten Core Critical Functions</u>

- Burials
- Careline
- Emergency Planning
- Housing – Dealing With Homelessness Approaches
- Customer Service
- Communications
- IT
- Safeguarding – Managing Alerts/Concerns
- Revenues and Benefits - Payments
- Waste Management (Waste Contract/Loss of Buntingford Depot)

6.2 A major change to Business Continuity Planning arrangements during 2018/19 was the move back to the refurbished DCO. A storage facility is now available at Works Road, Letchworth, which houses the emergency planning equipment, IT disaster recovery and has suitable facilities to be converted to a secondary Incident Control Centre.

6.3 **Business Continuity Training**

The 2018/19 Resilience training programme was completed. Training focused on key response roles including Incident Manager and Reception Centre Management and staff training. With the return to the refurbished DCO complete and senior management changes in place following the restructure, training for 2019/20 will include Business Continuity sessions.

6.4 **Working in Partnership**

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

6.5 **Business Continuity Preparedness**

NHDC has a robust Business Continuity Planning framework. Despite uncertainty, work is ongoing to prepare NHDC for Brexit, with waste and food being the key areas impacted. Work with Environmental Health assisted in the promotion of a countywide Food Officer Group to examine the significant risks and work with Urbaser is taking place around waste. Brexit concerns have been raised at SMT level and recorded on the Risk Register as a Corporate Risk.

6.6 **Business Continuity Promotion**

Awareness work was carried out for Business Continuity Awareness Week in May 2018 (14 to 18 May). The theme was Organisational Resilience and NHDC published a series of key messages for businesses via Twitter. Internally, an article in the Insight magazine promoted key information for staff. The NHDC Resilience Planning booklet containing advice on Business Continuity is available on the NHDC website along with additional information and direction to Hertfordshire County Council for further guidance.

6.7 Business Continuity actions planned for 2019/20 include:

- Continue to monitor and assess potential impacts of Brexit
- Business Impact Assessments and key activities to be reviewed by SMT
- Business Continuity Plans for critical functions to be reviewed and updated as required
- Business Continuity training to be provided
- Resilience Direct will be used as a secure online external repository for NHDC's Resilience Plan documents
- Further promotion of Business Continuity Planning to the business community

7 Health and Safety

7.1 **DCO Heating**

The heating/cooling in the DCO continues to be a problem. Property Services are working closely with the installation company to find the optimum settings for the system. There is a trial of a retro fitted air deflector on the fifth floor and this is designed to redirect the air from the units away from desktops and disperse it across the ceiling.

7.2 **Display Screen Equipment (DSE) Risk Assessment Software**

The contract for the DSE risk assessment software provided by Cardinus has been renewed and is due for roll out at the end of May 2019. The updated programme now includes modules on working with hot desks, dual screens, rising desks, use of tablets and home working.

7.3 **Letchworth Multi-Storey Car Park**

The latest fire risk assessment highlighted a potential emergency egress issue from the town centre side of the car park after 1900 hours. The town centre gates are closed for security reasons at this time each evening and therefore the exit route from the car park through the town centre becomes unavailable.

7.4 Due to the loss of this exit, the re-routing of pedestrians across the vehicle decks to the DCO side stairs and a safe exit route increases the travel distances. The distances needed to travel will be increased further by the planned decoration works to the DCO side stairs, which will require the stairs to be closed off for approximately two weeks. The proposed routes for pedestrian exit to the DCO side of the car park after 1900 hours will be via the town centre stairs and vehicle ramps with exit from the Level 1 vehicle entrance. It is proposed to close the left side vehicle entrance to vehicles to accommodate this. The increased travel distances have been assessed by the Herts Fire and Rescue Service Fire Officer and have been deemed acceptable and within the guidelines for normal use of the car park. The Fire Officer also agreed with the proposals for management of pedestrian egress during the stairwell refurbishments.

7.5 Alternative arrangements for completion of the works have been considered. However, there would be increased costs for the Council for out of hours working and potential risks to staff and members of the public if the stairs were to remain open for the duration of the works.

7.6 **Bury Mead Road Museum Store**
The latest fire risk assessment review for the building highlighted several concerns around fire safety within the building. Discussions have taken place with the Service Director and both the Museum Manager and the Operations and Facilities Manager for Hitchin Town Hall and temporary measures have been implemented to reduce the level of risk. These include a reduction of unwanted combustible materials from the site, restricted access controlled by the Museum Manager and the relocation of all items used or loaned out on a regular basis to North Hertfordshire Museum. The regular volunteer worker engaged to catalogue items has also been relocated to the main museum in Hitchin. More works are planned to reduce the fire loading on the building further. However, due to priority being placed on the opening of the North Hertfordshire Museum, no timescales have been set for the completion of this work.

8 Review of the Risk Management Framework at NHDC

8.1 The latest risk management audit, reported by the Shared Internal Audit Service (SIAS) in March 2017, provided a substantial level of assurance and highlighted the Council's commitment to ensuring that effective risk management underpinned all activities and supported the Council in achieving its stated objectives. The subsequent implementation of the two "Merits Attention" recommendations enhanced the risk management processes further.

9 Achieving the Significant Actions for 2018/19

9.1 Last year's Annual Report detailed the following key action for 2018/19, to enhance implementation and development of the risk management framework:

Action	Due Date
To review the structure of the Risk Management Group following publication of the details of the corporate restructure and to make any required changes to the group's Terms of Reference	31/08/18

9.2 On 22 November 2018, the Risk Management Group reviewed its structure and agreed two options for future membership. The Service Director – Resources subsequently presented these options to the Senior Management Team and it agreed that the Service Director – Commercial would join the Risk Management Group to represent the commercial side of the organisation and that the Strategic Infrastructure and Projects Manager would no longer be required to regularly attend meetings. These were the only changes required to the current membership.

9.3 The Risk Management Group will review its Terms of Reference during 2019/20 and agree the changes required.

10 Significant Actions for 2019/20

10.1 The implementation of the following key actions in 2019/20 will ensure the continued development of the risk management framework at NHDC:

Action	Due Date
To review the Risk Management Group's Terms of Reference and agree the changes required.	30/09/19
To review the Risk and Opportunities Management Strategy, including the need for changes to reflect the Council's adopted approach to commercialisation.	31/12/19

11 Conclusion

11.1 The Council continued to maintain robust risk management practices throughout 2018/19, including the regular review of the Corporate Risks. Section 3 of this report summarises the changes made to the Corporate Risks during the year. The outcome from the risk management framework is to ensure a better understanding of the risks and opportunities the Council faces and to determine the most effective way to manage and exploit them. As a result, the Council is more risk aware.

12 Recommendations

12.1 Full Council notes the continuing strong processes of the risk management framework at NHDC that supports the Council's governance framework.

12.2 Full Council notes the changes to the Council's Corporate Risks during 2018/19.

13 Definitions

13.1 The following are the definitions of likelihood and impact used in NHDC's Risk Management Framework.

Likelihood

1. Low	Unlikely in the next 12 months.
2. Medium	Possible in the next 12 months.
3. High	Likely in the next 12 months.

Impact

Severity of Impact Guide							
Score	**General**	**Personal Safety**	**Service Disruption**	**Financial Loss £**	**Project Delay**	**Impact on Stakeholders /Environment**	**Reputation**
1. Low	Consequences will not be severe and associated losses will be small	Minor injury (first aid)	Negligible affect on service provision but may have a more significant cumulative affect if action is not taken	Up to £10,000	Delivery of project delayed by weeks	No impact on stakeholders Minor damage to local environment	Minimal reputation damage (local press article)
2. Medium	Will have a noticeable affect on services	Injury (external medical treatment required)	Will cause a degree of disruption to service provision and impinge on budgets	Medium financial loss £10,000 to £100,000	Delivery of project may be delayed by months	Some impact to stakeholders Moderate damage to local environment	Coverage in national tabloid press
3. High	Can have a catastrophic affect	Serious injury or loss of life	May result in significant financial loss or major service disruption	Major financial loss exceeding £100,000	Delivery of project no longer attainable	Significant impact on stakeholders Major damage to local environment	Extensive coverage in national press/national TV item

14 Risk Matrix for Corporate Risks as at 31 March 2019

14.1 As reported to the Finance, Audit and Risk Committee on 21 March 2019 and Cabinet on 26 March 2019.

Summary Matrix

Likelihood			
3 High	**4**	**7** • Income Generation • Sustainable Development	**9** • Local Plan • Managing the Council's Finances • Waste Management, Recycling and Street Cleansing • Brexit
2 Medium	**2**	**5** • Increased Homelessness • Workforce Planning	**8** • Cyber Risks
1 Low	**1**	**3** • North Hertfordshire Museum and Hitchin Town Hall Project	**6**
	1 Low	**2 Medium**	**3 High**

Impact

Agenda Item 12

FINANCE, AUDIT & RISK COMMITTEE
29 July 2019

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: FIRST QUARTER REVENUE MONITORING 2019/20

REPORT OF : THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER : EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY : RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

1.1. The purpose of this report is to inform Cabinet of the summary position on revenue income and expenditure forecasts for financial year 2019/20, as at the end of the first quarter. The forecast variance is a **£239k decrease** on the net working budget of £15.797million for 2019/20, with an ongoing impact in future years of a **£130k 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 progress with the delivery of planned efficiencies (paragraph 8.3)
- the use of budget approved to be carried forward from 2018/19 (paragraph 8.4)
- performance against the four key corporate 'financial health' indicators (paras 8.5 -8.7)
- the overall forecast funding position for the Council and factors that may affect this (paras 8.8 – 8.14)

2. Recommendations

1.1. That Cabinet note this report.

1.2. That Cabinet approves the changes to the 2019/20 General Fund budget, as identified in table 3 and paragraph 8.2, a £239k decrease in net expenditure.

1.3. That Cabinet notes the changes to the 2020/21 General Fund budget, as identified in table 3 and paragraph 8.2, a £130k decrease in net expenditure. These will be incorporated in the draft revenue budget for 2020/21.

3. REASONS FOR RECOMMENDATIONS

1.1. 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.

1. ALTERNATIVE OPTIONS CONSIDERED

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

2. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

2.1. 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.

3. FORWARD PLAN

3.1. This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 7th June 2019.

4. BACKGROUND

7.1. Council approved the revenue budget for 2019/20 of £15.251 million in February 2019. As at quarter 1 the working budget has increased to £15.797 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 2019/20	15,251
Quarter 3 2018/19 Revenue Monitoring report – 2019/20 budget changes approved by Cabinet (March 2019)	25
2018/19 Revenue Outturn Report – 2019/20 budget changes approved by Cabinet (June 2019)	521
Current Working Budget	**15,797**

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	Original Budget	Changes approved at Q3 2018/19	Changes approved at Outturn 2018/19	Other Budget Transfers	Current Net Direct Working Budget
	£k	£k	£k	£k	£k
Chief Executive	1,599	0	349	(129)	1,819
Commercialisation	(494)	(17)	0	(2)	(513)
Customers	3,498	0	(13)	80	3,565
Legal & Community	2,283	2	17	13	2,315
Place	4,683	41	69	18	4,811
Regulatory Services	1,145	(1)	58	10	1,212
Resources	2,537	0	41	10	2,588
TOTAL	**15,251**	**25**	**521**	**0**	**15,797**

8. RELEVANT CONSIDERATIONS

REVENUE INCOME AND EXPENDITURE

3.1 Service Managers are responsible for monitoring their expenditure and income against their working budget. Table 3 below highlights those areas where there are forecast to be differences. An explanation is provided for each of the most significant variances, which are generally more than £25k. The final column details if there is expected to be an impact on next year's (2020/21) budget:

Table 3 - Summary of significant variances

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Estimated Impact on 2020/21 £k
Employee Costs – Voluntary Redundancies	355	274	(81)	Variance represents the saving in employee costs from the two voluntary redundancies agreed by Full Council in February 2019. Part of the saving in 2019/20 has been used to fund some temporary additional staffing resource.	(107)
Business Rates Expenditure	619	550	(69)	Underspend variance in 2019/20 is primarily due to a backdated adjustment to rates payable on the North Hertfordshire Museum and Community Facility. This reduction however is estimated to be more than offset in future years by the phased withdrawal of transitional relief. Relief was granted where there were significant changes in the rateable value of Council assets from the 2017 revaluation, most notably in respect of several Council car parks.	10
Investment Interest Income	(300)	(372)	(72)	Increase in forecast income is due to higher than planned cash balances available for investment at the start of the year following the re-profiling of the Capital Programme reported in the second half of 2018/19.	0
Total of explained variances	**674**	**452**	**(222)**		**(97)**
Other minor balances	+15,123	+15,106	(17)		(33)
Overall Total	**+15,797**	**+15,558**	**(239)**		**(130)**

8.2. Cabinet are asked approve the differences highlighted in the table above (a £239k decrease in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to note the estimated impact on the 2020/21 budget (a £130k decrease in budget) which will be incorporated in to the 2020/21 budget setting process (recommendation 2.3).

8.3. The original approved budget for 2019/20 (and therefore working budget) included efficiencies totalling £610k, which were agreed by Council in February 2019. Any under or over delivery of efficiencies will be picked up by any budget variances (table 3 above). However there can be off-setting variances which mean that is unclear whether the efficiency has been delivered. Where this is the case, this will be highlighted. The current forecast is that all the efficiencies approved in February will be delivered.

8.4. The working budget for 2019/20 includes budgets totalling £689k 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 2018/19 but was delayed into 2019/20. At quarter one, it is forecast that all carry forward budgets will be spent in 2019/20.

8.5. There are 4 key corporate ‘financial health’ indicators identified in relation to key sources of income for the Council. Table 4 below shows the income to date and forecasts for the year. A comparison is made to the original budget to give the complete picture for the year. Each indicator is given a status of red, amber or green. A green indicator means that they are forecast to match or exceed the budgeted level of income. An amber indicator means that there is a risk that they will not meet the budgeted level of income. A red indicator means that they will not meet the budgeted level of income. Currently three of the indicators are green and one is amber.

8.6. The amber status for Land Charges income is based on the actual income to date. Activity in quarter one was similar to that of the last financial year, where a total income outturn of £145k for 2018/19 was reported. A similar outturn for 2019/20 would represent approximately a £20k shortfall on the original budget expectation. Whilst the income budget may still be achieved from an increase in activity over the remainder of the year, there is a risk that the budgeted level of income may not be met.

8.7. The actual income to date for planning application fees is increased by the reversal in the current year of the £335k accounting adjustment posted at the end of 2018/19, as highlighted and explained in the Outturn Report 2018/19. Income receipts received in the first quarter in respect of planning applications totalled £262k, which is slightly above the budget expectation. As in 2018/19, an accounting adjustment will be posted at the end of 2019/20 to ensure that the reported income total reflects only the income received from planning applications resolved in this financial year, in accordance with accounting policy. Accounting adjustments do not affect the cash the Council receives.

Table 4 - Corporate financial health indicators

Indicator	Status	Original Budget £k	Actual income to date £k	Forecast income for the year	Projected Variance £k
Planning Application Fees (including fees for pre-application advice)	Green	(950)	(597)	(950)	0
Land Charges	Amber	(164)	(38)	(164)	0
Car Parking Fees	Green	(1,809)	(454)	(1,897)	(88)
Parking Penalty Charge Notices	Green	(532)	(137)	(532)	0

FUNDING, RISK AND GENERAL FUND BALANCE

8.8. The Council's revenue budget is funded from the following main sources; Council Tax, New Homes Bonus and Retained Business Rates income. The Council was notified by Central Government in February 2019 of the amount of New Homes Bonus it could expect to receive in 2019/20 and planned accordingly.

8.9. Council Tax and Business Rates are accounted for in the Collection Fund rather than directly in our accounts, as we also collect them on behalf of other bodies. Each organisation has a share of the balance on the Collection Fund account. At the end of 2018/19 there was 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.

8.10. It was expected in the budget report for 2019/20 that the Council Tax Collection Fund would have a surplus recorded at the end of 2018/19 of £300k. This total included the accumulation of annual surpluses recorded for prior financial years. The budget for 2019/20 built in the transfer of this £300k surplus from the Collection Fund to fund the Council's General Fund activities in 2019/20 and this amount is therefore included in the funding total in table 5 below. The £11k shortfall between the £300k surplus anticipated at the end of 2018/19 and the actual surplus recorded of £279k will be incorporated in the calculation of the surplus or deficit recorded for 2019/20, with any impact affecting the Council Tax income total for 2020/21.

8.11. 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, as shown in table 5, 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. The increase in the deficit was based on the Council being more prudent about the level of appeals it should make provision for.

8.12. As has been previously notified, Hertfordshire was successful in becoming a Business Rate pilot in 2019/20. The overall benefits to the Council of being part of the pilot were set out in a report to the Cabinet meeting on 10th September 2018. The actual gain will be dependent on the overall Business Rates collected across Hertfordshire, as well as within North Hertfordshire. Monthly monitoring of the expected gain is being developed by Hertfordshire County Council. These forecasts will be a guide only as Business Rate income can be subject to significant fluctuations, particularly across 10 billing authorities. Therefore the final position will not be known until after the end of the current year and hence after the 2020/21 budget has been set. Depending on the confidence in forecasts and the margin for error, it may be possible to incorporate some of the gain into the 2020/21 budget, but most of it would only be available in 2021/22. It should also be noted that any gain will be a one-off.

8.13. 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. In 2018/19 NHDC received grant totalling £1.435m and the current expectation for 2019/20 is £1.922m. We are holding the grant received 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 this year to fund the repayment of the £58k deficit highlighted above.

8.14. Table 5 below summarises the impact on the general fund balance of the position at quarter one detailed in this report.

Table 5 – General Fund impact

	Working Budget £k	Q1 Projected Outturn £k	Difference £k
Brought Forward balance (1st April 2019)	**(7,862)**	**(7,862)**	**-**
Net Expenditure	15,797	15,558	(239)
Funding (Council Tax, Business Rates, NHB)	(15,319)	(15,319)	0
Contribution to Funding Equalisation Reserve	68	68	0
Contribution to Collection Fund	58	58	0
Funding from Reserves (including Business Rate Relief Grant)	(58)	(58)	0
Carried Forward balance (31st March 2020)	**(7,316)**	**(7,555)**	**(239)**

8.15. 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 £1,203k, and by the end of quarter one a total of £17k has come to fruition. The identified risk realised in the first quarter relates to;

- Elections team staffing resource. Due to unforeseen turnover of staff, a consultant was employed to assist with the preparations for the District and European elections (included within other minor variances in table 3). £17k

Table 6 – Known financial risks

	£'000
Original allowance for known financial risks	**1,203**
Known financial risks realised in Quarter 1	(17)
Remaining allowance for known financial risks	**1,186**

9. LEGAL IMPLICATIONS

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

10. FINANCIAL IMPLICATIONS

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

11. RISK IMPLICATIONS

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

12. EQUALITIES IMPLICATIONS

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

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

13. SOCIAL VALUE IMPLICATIONS

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

14. HUMAN RESOURCE IMPLICATIONS

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

15. APPENDICES

15.1. None.

16. CONTACT OFFICERS

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FINANCE, AUDIT & RISK COMMITTEE
29 July 2019

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: MEDIUM TERM FINANCIAL STRATEGY

REPORT OF : *SERVICE DIRECTOR - RESOURCES*

EXECUTIVE MEMBER : *FINANCE AND IT*

COUNCIL PRIORITY : ATTRACTIVE AND THRIVING / PROSPER AND PROTECT / RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

This report recommends the Medium Term Financial Strategy (MTFS) for 2020/21 to 2024/25 to guide and inform the Corporate Business Planning Process. The strategy highlights the significant uncertainties faced by the Council in forecasting its funding, expenditure and income in 2020/21 and beyond. It recommends a budget strategy based on estimates of a number of factors, but that amendments to that strategy may be required as further information becomes available.

2. Recommendations

2.1 That Cabinet recommends to Full Council the adoption of the Medium Term Financial Strategy 2020-25 as attached at Appendix A.

3. REASONS FOR RECOMMENDATIONS

3.1 Adoption of a MTFS and communication of its contents will assist in the process of forward planning the use of Council resources and in budget setting for 2020/2021 to 2024/2025, culminating in the setting of the Council Tax precept for 2020/21 in February 2020.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 The Council needs to have a strategy for setting its budget to ensure that it meets its statutory duty to set a balanced budget over the medium term, and ensure that spend is prioritised towards delivering statutory services and its strategic aims (as set out in the Council Plan). It was considered whether to delay this MTFS to follow the same timeline as the Council Plan. However, the development of savings ideas takes time and it was felt necessary to commence this as early as possible. Having a MTFS provides a structure for formulating, discussing and agreeing savings ideas. To avoid conflict with the Council Plan, the MTFS is focused on headline information and refers to a net savings target, to allow opportunities for investments.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 The Executive Member for Finance and IT, the Deputy Executive Member for Finance and IT and the Leader of the Council have been consulted in developing this Strategy.

5.2 No external consultation has been undertaken in the preparation of this report.

5.3 Members will be aware that consultation is an integral part of the Corporate Business Planning process, and consultation on the individual actions and projects planned to support the Objectives will be carried out in accordance with the Corporate Business Planning Timetable and the Council's Consultation Strategy.

5.4 As in previous years, Member workshops will be held in regard to corporate business planning proposals.

6. FORWARD PLAN

6.1 This does not include a key executive decision (as the approval of the MTFS is a matter for Full Council) however it was notified to the public in the Forward Plan on the 7th June 2019.

7. BACKGROUND

7.1 The Council is required to set a balanced budget each year. This can include using reserves if this is affordable over the medium term. The Council therefore sets a 5 year Medium Term Financial Strategy each year to help determine the approach that it will take to setting the detailed budget for the following year.

7.2 As the Council's budget and its objectives are inextricably linked, it is also important to align the MTFS with the Council Plan. There is no point in having a service or key project that cannot be funded and no point in spending limited resources (including staff resources) if they are not achieving the objectives that have been set. Therefore the MTFS and Council Plan would normally be considered in the same committee cycle. As detailed in section 4.1 it is considered necessary to agree the final MTFS ahead of the final Council Plan. Setting the budget for 2020/21 (and beyond) is an iterative process and this can reflect changes to the Council Plan, as well as the other uncertainties reference in Appendix A and 8.1 below. The draft Council Plan is being considered by Cabinet at the same time as the MTFS.

8. RELEVANT CONSIDERATIONS

8.1 The Medium Term Financial Strategy attached as Appendix A details the forecast impact of reducing resources, and quantifies what the Council will need to do to balance its budget in the medium term. It also reflects the significant uncertainty over funding, expenditure and income and therefore highlights the need to be able to react to any changes.

8.2 Subject to Cabinet's consideration, the MTFS at appendix A will be referred to Council for adoption on 12th September 2019.

9. LEGAL IMPLICATIONS

9.1 Cabinet's terms of reference include at 5.6.37 the power, by recommendation "to advise the Council in the formulation of those policies within the Council's terms of reference". Council's terms of reference include at 4.4.1(b) "approving or adopting the budget". The MTFS is part of the budget setting process.

9.2 Councillors are reminded of the requirement, under section 30 of the Local Government Finance Act 1992, to set a balanced budget prior to the commencement of the financial year in question; and also that the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of estimates and the adequacy of reserves allowed for in the budget.

10. FINANCIAL IMPLICATIONS

10.1 Revenue financial implications are covered in Appendix A.

10.2 The main purpose of the Medium Term Financial Strategy is to consider the revenue funding, income and expenditure for the Council. This includes considering the revenue implications of capital expenditure which are linked to the reduced income from treasury investments (as capital reserves are spent) and the costs of borrowing (which may be required when reserves are used up. The Strategy does also consider discretionary capital spend (i.e. not directly linked to continuing service delivery) and the need to deliver value for money. This would include using capital expenditure to reduce revenue costs or generate income.

11. RISK IMPLICATIONS

11.1 The key risks within the budget assumptions are referred to in Appendix A.

11.2 There are financial and reputational risks involved in arriving at a balanced budget against the uncertainty surrounding levels of government funding. We seek to mitigate the risks by scenario planning, use of the established corporate business planning process and early involvement of members and key stakeholders. The Council has a Corporate Risk of “Managing the Council’s Finances”. This is monitored by the Finance Audit and Risk Committee. Having an MTFS is a key mitigation to this risk.

12. EQUALITIES IMPLICATIONS

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

12.2 The MTFS attempts to align resources to the delivery of the Council Plan, which sets the corporate objectives. Through its corporate objectives the Council is seeking to address equality implications in the services it provides and through the remainder of the Corporate Business Planning Process will carry out Equalities Impact Assessments for relevant Efficiency or Investment options.

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 Section 2.5 of Appendix A details the assumptions in relation to inflation over the period of the MTFS. As the actual rate of inflation will be subject to national pay bargaining, the actual costs will depend on the results of those negotiations. The budget also makes assumptions around funding for increments. The budget does not make any allowance for pay increases above inflation. This means that there will be no improvement to the Council’s ability to attract staff in relation to pay, which will particularly impact on difficult to fill posts. The Human Resources Team and the Senior Management Team continually try to identify staff benefits that are not related to pay, and therefore more affordable.

14.2 The delivery of projects to deliver council objectives depends on having adequate people resources with the requisite skills as set out in paragraph 7.2.

14.3 The development of budget proposals will take up staff time. As they are developed these budget proposals will identify the ongoing impact on staff.

15. APPENDICES

15.1 Appendix A- Medium Term Financial Strategy 2020-25

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17. BACKGROUND PAPERS

17.1 None.

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NORTH HERTFORDSHIRE DISTRICT COUNCIL

MEDIUM TERM FINANCIAL STRATEGY

2020-2025

APPENDIX A

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1.0 Introduction

1.1 The Medium Term Financial Strategy (MTFS), the Council's key financial planning document, is an integral part of the Council's Corporate Business Planning process. The Council operates a system of priority led budgeting, with those district priorities set out in the "Council Plan" policy document. The MTFS then sets out how the financial management process will contribute to delivering those priorities and sets out a clear framework for our financial decision making. The strategy is updated annually. We fully expect that it will change over time to reflect new opportunities and policy decisions.

1.2 The MTFS includes a forward look over the next five years to assess the spending pressures the Council is likely to face and the level of cost reductions or income generation that will need to be made to allow us to achieve our legal duty to set a balanced budget each year. Over the last few years, the Council has taken the opportunity to increase the level of its general fund reserves. The intention is that they can be used to soften the impact of expected (although currently unknown) future funding reductions. There will still be a need for the Council to review what services it delivers and how, but this approach does give more time to plan the impact of these changes.

1.3 The current national political climate means that there is significant uncertainty within the MTFS and therefore it will be kept under review until the budget for 2020/21 is agreed at Council in February. Even once the MTFS is agreed by Council, it is still just a plan, and therefore it will be monitored throughout the year and amended to reflect updated information. The budget monitoring reports (revenue and capital) that are provided to Finance, Audit and Risk Committee and Cabinet are a key component of this.

2.0 The current picture

2.1 The budget agreed by Full Council in February 2019, set the 2019/20 budget and indicative budgets for the years up to 2022/23 as follows:

£000	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Net revenue expenditure	15,136	14,808	14,911	15,021
Estimated Funding	15,136	14,417	14,655	15,082
Use of General Fund reserves	0	391	256	(61)
General Fund brought forward	7,055	7,055	6,664	6,408
General Fund carried forward	7,055	6,664	6,408	6,469
Assumed savings and income efficiencies still to be identified and delivered (cumulative)	**0**	**300**	**700**	**1,200**

2.2 Whilst the MTFS is for a five year period, detailed forecasts were only provided for a four year period. This reflected the substantial uncertainty over future funding levels and that the Council should aim to balance its funding within the four year period.

2.3 The final position at the end of 2018/19 (subject to audit) was a General Fund Balance that was higher (£7.862 million) than estimated above. This was primarily due to underspends against budget. Some of the underspends have been carried forward, which increases the forecast spend in 2019/20 by £474k compared to budget. This means that the net position is an improved General Fund position by £333k. As at the end of 2019/20 the earmarked reserves also included £368k of gains from Business Rate pooling. It is forecast that this could be released to the General Fund.

2.4 To refresh the MTFS for the period 2020-25 it is necessary to consider any changes that need to be made to funding expectations and expenditure forecasts. Annex 1 provides further details of some of these assumptions. The following paragraphs detail the relevant changes and areas of uncertainty.

Expenditure

2.5 The current budget includes an allowance for pay inflation of 2% each year. Pay awards for lower earners tend to be greater than for higher earners, which means an average 2% pay award would actually be less than this for a proportion of the workforce. The Council is part of national pay bargaining. The initial request from UNISON is significantly higher than 2%, and is the greater of £10 per hour or a 10% increase. In essence the percentage allowance in the MTFS is an estimate of where the negotiations will end up. The cost of an average pay award of 2.7% (which was the end result for 2019/20) would be an additional £94k per year (£376k cumulative over 4 years). A separate allowance is budgeted for the payment of increments, which is based on the grade profile of current staff. As the allowances above reflect national pay bargaining, they do not affect the differentials between what North Herts pays compared with other Councils. This means that where the Council has posts that are difficult to recruit to, this position is unlikely to improve in terms of pure pay rewards. However the Council does implement and promote the other advantages of working for us. A more fundamental review of our pay scales could be carried out, but is likely to be a very significant cost pressure and the impact on being able to recruit is very uncertain. This will need to be kept under review in the context of our ability to recruit to vacant posts.

2.6 Employees of the Council are eligible to join the Local Government Pension (LGPS), indeed new employees are now auto-enrolled in to the pension scheme. The LGPS provides a pension that is based on average career earnings. For service up to the year 2014, the pension is based on final salary. The Council pays employer contributions in to the fund. Due to various factors, including pensioners living longer, the contributions that the Council has made in the past have not been sufficient to cover future liabilities. As a result the Council now pays a lump sum towards past service costs and a percentage of payroll costs to cover the estimated cost of the pensions being accrued by current employees. Every 3 years, an actuary undertakes a valuation of the pension fund to determine future contribution rates. This valuation is being carried out at the moment, using data as at 31st March 2019. The results will be published in the Autumn and any change in contribution rates/ amounts will be applicable from 1st April 2020. The current estimate included in the MTFS is that the lump sum and percentage rates will be unchanged. The likelihood is that any change will result in an increased cost.

2.7 Hertfordshire County Council as Waste Disposal Authority have the power to direct where the Council sends its residual and green waste. At the moment, the Council delivers this waste to transfer locations in Hitchin and Cumberlow Greeen. Whilst this is not expected to change over the medium term period, there could be significant impacts over the long term.

2.8 The budget for 2019/20 included additional one-off investments for Citizens Advice North Herts (£50k), Age UK (£20k), Minority Ethnic Forum (£25k) and Health and Wellbeing activities (£50k). The assumption is that these will remain as one-off (as budgeted) and there will be no ongoing costs in 2020/21 onwards. The Memorandum of Understanding arrangements where there is ongoing funding will be renegotiated in advance of the end of existing agreement periods.

2.9 It is assumed that any other revenue growth will be fully funded by additional off-setting savings.

Income

2.10 The Council currently receives payments from HCC under an arrangement known as the Alternative Financial Model (AFM). These payments are intended to provide an incentive for the Council to introduce measures that reduce residual waste. HCC are consulting on making changes to the AFM that would see a reduction in the total amount that was allocated. This would have an impact on the income that the Council would receive. The Council currently receives funding above what is budgeted (and this is put in to an earmarked reserve) and also funds some discretionary waste reduction activities. Over the medium term the impact of the income reduction can be managed, but it is expected to have an impact in the longer term (see 2.12 below).

2.11 The take-up of the chargeable garden waste service has exceeded the original forecasts of 26%. The budget for 2019/20 is based on an estimated take-up of 52% and an annual charge of £40, although the three month extension to the 2018/19 charging period means that only 9/12ths of the income will be accounted for in 2019/20. In 2020/21 (with a full year of income) the Council would be estimated to generate an overall net surplus (after accounting for capital charges and overheads) at this level of take-up. Given that the £40 was set based on benchmarking against other Authorities to assess its reasonableness and was also subject to feedback through a consultation process, it is proposed to retain it at this level. But to take reasonable measures to reduce the surplus, no inflationary increases will be added and concessionary discounts will be reviewed. However this review will need to be mindful of the administrative practicalities of introducing concessionary charging and that budget will need to be identified. The surplus will initially provide protection against the risks associated with providing the service, if required, and where appropriate be used against wider waste and environmental service costs. For any increases in take-up above the current budgeted level, the creation of an environmental investment budget will be proposed as part of the 2020/21 budget process (subject to Full Council approval). The net income (after reflecting the amounts paid to Urbaser for collection and other direct costs) from households above the 52% take-up level will be allocated to this budget. This can be used alongside AFM funding (see paragraph 2.10), and in the longer term may provide an alternative funding source for AFM related activities (although see 2.12 below).

2.12 In February 2019, Central Government released a consultation on their emerging Waste Strategy Various elements of this could have cost implications for the Council if they were introduced. The most significant of these proposed changes are:

- Introduce consistent waste collection across all areas of the Country (e.g. same materials in the same types of bins) and being stopped from charging for garden waste collections. The Council would expect significant ‘new burdens’ funding if this was introduced, particularly in relation to garden waste charging.
- Introduction of a Deposit Return Scheme, which would have an impact on what the Council would collect at the kerbside. It is likely to mean that the higher value recycling materials would be taken to deposit return locations, leaving the Council to collect the remainder. This would affect the net costs of disposal for recycling materials.
- Extended Producer Responsibility- places the financial burden for waste on those that are producing it at source. This in turn would affect how waste collection and disposal are funded. It would need to be determined how this affects the funding that the Council receives. It is likely to have an impact on the future of the AFM.

2.13 The Council is estimating that it might make a surplus (after accounting for capital charges and overheads) on off-street car parking in 2019/20, and therefore would expect that this would might also be the case for 2020/21. This surplus can be significantly affected by capital charges, particularly in relation to property revaluations. Whilst there has been provision in the budget for capital works associated with parking, these have been delayed pending the implementation of the parking strategy. This has also had an impact on the total cost of off-street parking provision. In general, parking charge levels are set to manage demand and reflective of the cost of alternative parking locations. It is proposed that the budgeted assumption that parking charges increase by the Consumer Price Index (CPI) + 2% is changed to increase by 2% only, as this better matches the expected increases in costs of parking provision and the level of increase required to manage parking demand. This is for modelling purposes and actual increases will be considered each year as part of the more detailed budget setting process. The budget setting process for 2020/21 onwards will need to consider the current review being undertaken and recruitment of parking posts to deliver the 2019-2031 adopted Parking Strategy. In addition the Parking Strategy has an associated Action Plan which has some significant investment proposals such as pay-on-foot that will need to be factored in (subject to a business case) to any future budgets. Furthermore that the implementation of evening and Sunday charging will be aligned to the needs to manage parking within the overall parking strategy, and any budgetary change relating to this will need to be reflected in detailed budget setting.

Funding

2.14 2019/20 is the final year of the current settlement period in relation to Central Government funding. This covers Revenue Support Grant (RSG) and retained Business Rates. The Ministry for Housing, Communities and Local Government (MHCLG) is due to introduce a new Fairer Funding Formula and 75% Business Rates Retention in 2020/21. These are both currently being delayed by other Central Government priorities. The Central Government spending review has also been delayed. This means that there is no certainty over the amount of funding that Local Government will receive in total, how this will be distributed across Authorities, and how risks and rewards for changes in Business Rates will work. Furthermore it is not known when there will be greater clarity. It would be hoped that the longer the delay, the greater the transitional protection and therefore the closer the funding will be to current levels. The current assumption is that funding from Business Rates will be subject to a £1m reduction in 2020/21 (in line with the previously expected negative RSG), and then increase with inflation thereafter.

2.15 Central Government also determine the extent to which Local Authorities can raise Council Tax, without the need for a Local Referendum. Over the last two years this has allowed increases of up to 3% (or £5 for a band D if that is greater). This was a temporary increase to reflect inflation. It is currently expected that the limits for 2020/21 onwards will revert back to the greater of 2% or £5 (for a band D property). It is expected that amount of Business Rate funding that Local Authorities can retain will be based on an assumption that Councils increase Council Tax by as much as they are able. The MTFS therefore makes this assumption in forecasting future Council Tax funding.

2.16 The future of New Homes Bonus funding is very uncertain. The level of incentive has been reduced substantially over recent years, from 6 years down to 4, and the introduction of a baseline. It has also been proposed that the current system will be replaced in an attempt to better incentivise the building of new homes.

2.17 The Council gained from Business Rate pooling in 2018/19 by £368k. This has been retained in the earmarked reserve, but based on forecasts of collection fund positions it is assumed that it can be released to support general fund expenditure in 2020/21. The Council is part of a Business Rate Pilot in 2019/20. It is forecast that the gains from this could be in excess of £800k, but this will not be known until after the end of the year, and therefore after the 2020/21 budget has been set. At this stage it can not be assumed for 2021/22 either. The Council should not assume that these gains will continue in the new funding systems.

Reserves and Resilience

2.18 The Council is required to retain a certain level of reserves. This is to provide protection against both known and unknown risks. This includes being able to react to changes in demand and any emergencies that may arise. The allowance of known risks is based on estimating the monetary impact of an event happening and applying a percentage to this based on the likelihood of it happening (high, medium or low). The allowance for unknown risks has been based on 5% of net expenditure. As the Council has become more reliant on generating income to set a balanced budget, an additional 3% of budgeted income (excluding Housing Benefit) will also be included in determining the minimum level.

2.19 In response to the issues faced by Northamptonshire County Council, and concerns over the financial health of other Local Authorities, the Chartered Institute of Public Finance and Accountancy (CIPFA) are in the process of developing a financial resilience tool. This uses historic publicly available data to compare indicators of financial stress across similar Local Authorities. This is currently at a draft stage, but it is expected to be finalised in time for the setting of budgets for 2020/21. Chief Finance Officers will be expected to consider it when commenting on the robustness of estimates within the budget.

2.20 The overall message is that having reserves at the minimum level would make the Council very unresilient. Therefore in setting a medium term budget, the Council should plan to have sufficient breathing space above the minimum level, particularly when the uncertainties described above are considered.

2.21 The forecasts over a four year period are shown in the table below. These totals could be affected by the significant uncertainties highlighted above, and realistic alternative forecasts show that the net funding position in 2020/21 could be improved by £1m (if negative RSG was not implemented) or could be £2m worse (if rough estimates of the uncertainties all went the wrong way).

£000	2020/21	2021/22	2022/23	2023/24	Cumulative
Net expenditure brought forward	14,597	14,638	14,739	15,087	14,597
Ongoing base budget adjustments, including previously identified savings	(63)	(103)	87	0	(79)
Net additional savings, service changes or income generation to be identified	(300)	(300)	(250)	(50)	(900)
Pay inflation and increments	328	319	319	319	1,285
Contractual inflation	282	430	430	430	1,572
Income inflation	(205)	(245)	(238)	(254)	(1,142)
Pension scheme contribution increases	0	0	0	0	0
Other adjustments	0	0	0	0	0
Net Expenditure- to be funded from taxation and general grants	**14,638**	**14,739**	**15,087**	**15,532**	**15,532**
Council Tax	(11,755)	(12,125)	(12,501)	(12,884)	
Revenue Support Grant	0	0	0	0	
Business Rates- including tariff adjustment	(1,660)	(1,710)	(1,761)	(1,814)	
New Homes Bonus	(844)	(844)	(844)	(844)	
Other	24	24	24	24	
Pooling gain funding	(368)	0	0	0	
Net funding position (use of reserves)	**35**	**84**	**5**	**15**	
Reserve balance b/f	7,862	7,827	7,743	7,738	
Reserve balance c/f	7,827	7,743	7,738	7,723	

2.22 The Council currently has capital reserves that it can use to fund its capital programme. This means that the revenue impact of capital investment is minimal as it is just the lost interest from treasury investments. Over the life of the MTFS the available capital resources are likely to be diminished. After this the cost of capital investment will be substantially higher as it will incorporate borrowing charges and Minimum Revenue Provision. The capital programme (for all projects that are not committed to start) should be reviewed on the following basis:

- Is it necessary for continued service provision?
- If it is for investment, what return does it provide? Does it still provide a positive return if it was necessary to borrow money to fund the project?

3.0 Next Steps- Bridging the Gap

3.1 As highlighted in paragraph 2.21 there is currently high uncertainty in relation to funding, cost and income pressures in 2020/21. It would be impractical to wait for these to be resolved before starting budget work for 2020/21. Therefore the strategy to be adopted is a target of £300k net savings (including service changes, efficiencies , income generation and any investments) for 2020/21, alongside consideration of options for further savings in future years (noting a current target of at least £900k by the end of 2023/24) . If a worse position transpires then it will be necessary to use reserves to balance the budget in 2020/21, bring forward identified savings options as quickly as possible and start to develop additional ideas for later years. If a better position transpires then the medium term impact of this will need to be considered in determining the potential for additional investments (on top of any that are funded from achieving net savings of £300k).

3.2 Corporate Business planning will need to be undertaken to identify how the required savings and income efficiencies will be delivered.

3.3 The roles and responsibilities of Councillors, Officers and the Senior Management Team are detailed in Annex 2. In summary the actions that will be required are:

- Officers (including the Senior Management Team) will continue to review current models of service delivery, and put forward proposals as to potential changes and the savings that could be achieved. Options may include:
    - Up-front (capital) investment to enable change
    - Working with others e.g. joint provision, joint procurement
    - Challenging the extent to which they deliver Corporate Priorities
    - Determine what non-statutory services are being provided (including services that exceed the statutory level of provision) and ensure that there is a case for continued delivery
    - Review of the capital programme
- There will be an increased focus on Commercialisation. This could include generating revenue income from capital investment, selling existing services on a more commercial basis or developing new services that are income generating. These options are likely to involve a lag between investment and savings generation.
- Councillors will be required decide on whether to take forward the options presented.
- The Service Director- Resources will monitor the assumptions made in funding and expenditure levels. When there is information that these will change, the MTFS will be updated and the implications presented back to Cabinet.

ANNEX 1 Budget Assumptions and Policies

Key Budget Assumptions

Inflation indices are reviewed on an annual basis and the forward budget projections amended accordingly. At this stage in the budget planning process, it is prudent to take a cautious approach and, in identifying the likely Council Tax requirement, the strategy focuses on the pressures on expenditure and assumes that income will rise in accordance with the determined policy. The figures presented in the MTFS financial projections appendices include the following assumptions in line with the current financial strategy

- Investment income is based on cashflow projections and a 1% return. This is significantly affected by the timing of expenditure in the capital programme.
- New Homes Bonus (NHB) will be awarded for 4 years from 2018/19. A 0.4% baseline (dead-weight) has been assumed. The split between District and County is assumed to remain at 80:20. The number of new homes per year is based on prudent estimates and could be higher. However, Central Government could also make changes to the baseline which would reduce the funding that the Council gets.
- New Homes Bonus is used to continue the delivery of services in the face of other government funding reductions and is built into the base budget. Given the high uncertainty over this funding, it would be better if it was not used for core budgets, but it is appreciated that this is not currently feasible.
- Contract inflation in accordance with the individual contract terms.
- Pay inflation at an average of 2 % per year.
- No allowance is made for general inflation on remaining expenditure. Although after allowing for salary and contractual inflation, the remaining amount is insignificant.
- Discretionary fees and charges income will be increased by CPI at November, plus 2%. This will be where it is legally possible and subject to a market impact assessment.
- The overall Council tax base figure will rise by 1% per annum.
- Council tax precept will be increased by the maximum amount allowed without the need for a local referendum.
- An assumed 99% collection rate for the purposes of calculating the Council tax base.
- An assumed 97% collection rate for Business Rates
- Any future changes to the local Council Tax Reduction Scheme will aim to have a cost neutral impact.
- A vacancy factor set at approximately 2.5% of salary budget to yield in the region of £300k is included in the base budget in each year.
- The Council will not subsidise areas which are the responsibility of another precepting body other than through a one-off match-funding arrangement where this is in the interests of the local Council tax payers.
- All assumptions are subject to further refinement during the budget process as more certain information becomes available.

Reviewing service provision

As part of further developing the Medium Term Financial Strategy, we continue to investigate the appropriateness of service subsidies and also the funding of functions which are the responsibility of other bodies. We recognise that we should give careful consideration to each individual case before reaching a decision and should apply the test: "should the Council Tax payer pay for all or part of a service or should it be the service user?" Many of the services we provide are subsidised and during the budget setting process, service managers are now asked to review the extent of the subsidies and are asked the following questions:

- Does the service support the Council's high level objectives and priorities?
- Is the service statutory or discretionary and, in either case, do we have discretion over the level at which it is provided?
- What proportion or sections of the population use the service?
- What is the level of subsidy?
- What is the reason for the service subsidy?
- Is there a strategy in place which determines the level of subsidy going forward?
- Is there the opportunity to make greater use of or secure external grants to reduce the subsidy?
- What impact would a reduction in the level of subsidy have on the service?
- How much income could be generated by a removal of the subsidy?
- Should any removal be subject to a phasing in process and if so over how many years?

Changes made to service delivery are required to include an equality analysis.

The Council will seek to manage all its assets cost-effectively, including opportunities to optimise income from the use of these assets, offering concessions (as appropriate and affordable) to encourage use by all members of our community in pursuit of our priorities. We will also continue to explore opportunities in regard to our assets, including long term leases which effectively constitute a transfer, whereby community groups take on responsibility for the operation and overall facility management.

The Local Government Act 2003 permits local authorities to trade with both public and private sector bodies. In broad terms authorities may not trade for profit unless that activity is performed through a company. The Localism Act 2012, while vesting a general power of competence, retains this requirement. Section 4 of the Localism Act restricts the ability of a local authority to carry out activities for a commercial purpose using the general power. Section 4 (2) provides that if a local authority undertakes a commercial activity in exercise of its general power it must only do so through a company (for this purpose this covers limited or "registered society" i.e. formerly co-operative, community benefit society or industrial provident society). Consequently, these provisions will be considered when exploring alternative service delivery models.

Risks and General Fund Level

Best Practice guidance issued by CIPFA states that the general fund balance may be between 5% and 100% of net expenditure. With an original estimate of net revenue expenditure of around £15 million, the minimum 5% balance is in the region of £750k.

The Bellwin scheme may be activated where an emergency or disaster involving destruction of or danger to life or property occurs and, as a result, a local authority incurs expenditure on, or in connection with, the taking of immediate action to safeguard life or property, or to prevent suffering or severe inconvenience, in their area or among its inhabitants. The scheme makes provision to reimburse the cost of local authority actions taken in the immediate phase of an emergency, not those taken as part of the recovery phase. Any claim is subject to a threshold (i.e. costs have to exceed this amount before a claim can be made) and for North Hertfordshire this is around £27k. So the need to potentially fund £27k should be borne in mind when setting a General Fund balance.

As the Council becomes more dependent on income, its net budget does not fully reflect the financial risks that it faces. So an additional 3% of budgeted income (excluding Housing Benefit) will also be included as a component in determining the minimum General Fund level. This would provide an additional allocation of around £390k (based on income of around £13m).

In addition to the allowances above for non-specific unknown risks, an additional allowance is made for specific known risks. Specific risks are identified and classified as high, medium or low risk and allowance is made for a proportion of the risk value. For high risk items, 50% of the risk value, for medium risk, 25% of the risk value and for low risk items, 0%. This is regarded as an appropriate risk management approach to risk likelihood and value.

Use of Capital

The Council still has had fairly significant capital balances, but it is expected that they will be diminished during the life of the MTFS. This will mean that future capital expenditure will need to be funded from new capital receipts (generated from sales of land and buildings) or from borrowing. It needs to be recognised that the supply of surplus land with development potential is reducing and therefore the opportunity for future capital receipts is limited. When the Council needs to borrow then it needs to ensure that it is affordable, prudent and sustainable (Prudential Code for Capital Finance in Local Authorities, 2017). The affordable criteria relates to the revenue impact of borrowing, which is made up of interest charges and a Minimum Revenue Provision (MRP). These costs can be significant.

Local Authority capital spending improves services, protects the value of the Council's portfolio of assets and replaces existing assets as they reach the end of their useful lives. Capital investment is not a luxury since without it, local authorities would become unable to deliver even their existing services let alone respond to new demands. For all capital schemes there needs to be a consideration of the benefits that are generated, which will include:

- Is it necessary for continued service provision? What would the impact on the service be? Is the service statutory or does it deliver the Council's vision or high level objectives?
- If it is for investment, what return does it provide? Does it still provide a positive return if it was necessary to borrow money to fund the project (including MRP)? What is the level of risk in the expected returns?

These reviews should be carried out on an annual basis, and before any scheme commences. Inclusion on the capital programme is for the purposes of future planning, and does not guarantee that a scheme will go ahead.

ANNEX 2 Roles and Responsibilities

The role of Councillors in this process is to:

- set vision and strategic direction
- agree the Council's high level objectives and priorities
- agree the specific projects to achieve the priorities
- agree the rolling MTFS including decisions on the time-frame to be covered, external influences to be considered and included, strategy for use of balances, assumptions regarding government support and the implications of doing so, income policy, capital strategy and setting indicative council tax levels for future years
- scrutinise proposals for funding prioritisation and de-prioritisation as set out by managers
- decide between options presented
- decide on options for increasing fees & charges where a proposed approach varies from that outlined in the income policy

- give due consideration to both the risks and opportunities of options as the council necessarily explores new avenues
- discuss savings suggestions and income generation proposals with relevant Officers.
- take a corporate overview of the budget position once decisions on individual prioritisation have been taken.
- set the level of Council Tax each year
- scrutinise and monitor the budget throughout the year

The role of all Officers is to:

- put forward suggestions for actions to deliver the objectives and new opportunities
- ensure that existing spend and new projects link to and deliver one (or more) of the Council's objectives
- manage services to deliver the actions in the plan within budget allocations
- explore alternative ways of delivering services, including assessment of risks and opportunities
- propose income generation and service transformation opportunities
- report on value for money and continuous improvement
- monitor the budget throughout the year and ensure spending is in line with policy requirements

The Senior Management Team is led by the Chief Executive. The group:

- facilitates a critical review of existing expenditure. This involves reviewing the base position, challenging existing budget allocations and creating the ability to reallocate money to strategic priorities.
- reviews service areas in comparison to other authorities to determine opportunities for improvements and cost reductions, or to explain reasons for any differences.
- reviews bids for additional resources/ investments. All bids will be subject to detailed scrutiny before inclusion in the draft budget. The strategic priorities fund can be allocated by SMT for short-term investments.