

NORTH HERTFORDSHIRE DISTRICT COUNCIL



10 January 2020

Our Ref FAR 20.01.2020
Your Ref.
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To: Members of the Committee: Councillors Kate Aspinwall, Sam North, Steve Deakin-Davies, Morgan Derbyshire, Steve Jarvis, Kay Tart and Michael Weeks

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

NOTICE IS HEREBY GIVEN OF A

MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE

to be held in the

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

On

MONDAY, 20TH JANUARY, 2020 AT 7.30 PM

Yours sincerely,

Jeanette Thompson
Service Director – Legal and Community

****MEMBERS PLEASE ENSURE THAT YOU DOWNLOAD ALL
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ON YOUR TABLET BEFORE ATTENDING THE MEETING****

Agenda

Part I

Item		Page
1.	APOLOGIES FOR ABSENCE	
2.	MINUTES - 5 DECEMBER 2019 To take as read and approve as a true record the minutes of the meeting of the Committee held on the 5 December 2019.	(Pages 5 - 12)
3.	NOTIFICATION OF OTHER BUSINESS Members should notify the Chairman of other business which they wish to be discussed at the end of either Part I or Part II 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, comments and questions from the public.	
6.	EXTERNAL AUDIT PLAN FOR YEAR ENDING 31/3/20 REPORT OF ERNST AND YOUNG To consider the External Audit Plan for year ending 31/3/20.	(Pages 13 - 46)
7.	REVENUE BUDGET REPORT 2020/21 REPORT OF THE SERVICE DIRECTOR – RESOURCES To consider the draft budget for 2020/21 and the main factors which contribute to the determination of the North Hertfordshire District Council (NHDC) Council Tax level. To consider the appropriate level of Council Tax that will be recommended to the meeting of the Council on the 6 February 2020.	(Pages 47 - 80)

8. **INVESTMENT STRATEGY (INTEGRATED CAPITAL AND TREASURY)** (Pages
REPORT OF THE SERVICE DIRECTOR – RESOURCES 81 - 138)

To consider the Investment Strategy and recommend to Council the adoption of the Investment Strategy.

9. **FINANCIAL MANAGEMENT CODE** (Pages
REPORT OF THE SERVICE DIRECTOR – RESOURCES 139 -
150)

To provide an assessment of how well the Council performs against the Financial Management Code launched by the Chartered Institute of Public Finance and Accountancy (CIPFA) and actions that it plans to take.

10. **POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS**
The Chairman to lead a discussion regarding possible agenda items for future meetings.

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NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MEETING HELD IN THE COUNCIL CHAMBER, COUNCIL OFFICES, GERON ROAD,
LETCHWORTH GARDEN CITY ON THURSDAY, 5TH DECEMBER, 2019 AT 7.30 PM

MINUTES

Present: Councillors Sam North (Vice-Chairman), Morgan Derbyshire,
Steve Jarvis and Michael Weeks

In Attendance: Ian Couper (Service Director - Resources), Antonio Ciampa
(Accountancy Manager), Gavin Ramtohal (Legal Commercial Team
Manager), Darren Bowler (Assistant Counter Fraud Manager - Shared
Anti-Fraud Service), Mark Chalkley (Client Audit Manager - Shared
Internal Audit Service), Suresh Patel (Associate Partner - Ernst and
Young), Amelia McNally (Committee, Member and Scrutiny Officer) and
Matthew Hepburn (Committee, Member and Scrutiny Officer)

Also Present: Councillors Ian Albert and Martin Stears-Handscorn.

40 APOLOGIES FOR ABSENCE

Audio Recording – 14 Seconds

Apologies for absence were received from Councillors Steve Deakin-Davies and Kay Tart.

41 MINUTES - 16 SEPTEMBER 2019

Audio Recording – 35 Seconds

In relation to the Finance, Audit and Risk Committee Minutes on 16 September 2019, Councillor Morgan Derbyshire advised that he was listed as present in the attendance list although he had actually sent his apologies the Committee Clerk confirmed that this would be corrected.

RESOLVED: That, subject to Councillor Morgan Derbyshire being marked as having given apologies, the Minutes of the Meeting of the Committee held on 16 September 2019 be approved as a true record of the proceedings and be signed by the Chairman.

42 NOTIFICATION OF OTHER BUSINESS

Audio Recording – 1 Minute 16 Seconds

There was no other business notified.

43 CHAIRMAN'S ANNOUNCEMENTS

Audio Recording – 1 Minute 24 Seconds

- (1) The Chairman welcomed those present at the meeting, especially those who had attended to give a presentation;
- (2) The Chairman advised that, in accordance with Council Policy, the meeting would be audio recorded;
- (3) The Chairman drew attention to the item on the agenda front pages regarding Declarations of Interest and reminded Members that, in line with the Code of Conduct, any Declarations of Interest needed to be declared immediately prior to the item in question.

44 PUBLIC PARTICIPATION

Audio Recording – 2 Minutes 28 Seconds

There was no public participation.

45 NHDC PROGRESS REPORT - SHARED ANTI-FRAUD PLAN 2019/20

Audio Recording – 2 Minutes 34 Seconds

The Assistant Counter Fraud Manager - Shared Anti-Fraud Service introduced the report entitled NHDC Progress Report – Shared Anti-Fraud Plan 2019/20 and advised Members of the following:

- The Report itself referred to plans agreed by the Committee in March 2019;
- The two main documents were attached in the appendices – the SAFS/NHDC Anti-Fraud Plan 2019/20 and Performance against plan to 30/10/2019;
- In the first two quarters of 2019/20 SAFS received a total of 43 allegations of fraud affecting Council services which had now risen to 55;
- In relation to Table 2 at Paragraph 2.11, the Public were reporting the most amount of Fraud followed by Staff;
- There had been a reduction in reported fraud at NHDC compared to year on year and to other partners within the Shared Anti-Fraud Partnership;
- Of 52 live cases still under investigation, the estimated fraud loss and savings combined exceeded £229k;
- Two more serious cases of Council Tax fraud, which had been linked to housing benefit fraud, had been dealt with through criminal prosecution;
- On 13 occasions this year, NHDC had applied financial penalties for Council Tax fraud, generating a further £5k in revenue for the Council;
- Parking Enforcement Officers were working with SAFS to investigate abuse of Blue Badges in the Council's car parks;
- Council Officers ensured the Council complied with the National Fraud Initiative and;
- £1,302 potential matches were received as part of the 2018/19 NFI exercise.

The following Members asked questions of the Assistant Counter Fraud Manager - Shared Anti-Fraud Service:

- Councillor Michael Weeks.

In response to questions raised, the Assistant Counter Fraud Manager - Shared Anti-Fraud Service advised that it was hard to say whether NHDC were doing better compared to their cohorts as more activity was expected in the second quarter.

The Assistant Counter Fraud Manager – Shared Anti-Fraud Service had provided Fraud training to Members prior to that evening's meeting and advised that he would supply the Committee, Member and Scrutiny Officer with a Councillor Workbook in order for it to be distributed to those Members/Sub-Committee Members who were unable to attend the training.

RESOLVED: That the work of the Council and Shared Anti-Fraud Service in delivering the 2019/20 Anti-Fraud Plan be noted.

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

46 NHDC ANNUAL AUDIT LETTER - 2018/19

Audio Recording – 16 Minutes 38 Seconds

Ernst and Young presented the report entitled NHDC Annual Audit Letter – 2018/19 and advised the following:

- The document summarised the output of the work on the Council's most recent financial statement;
- The key messages were that there were no issues found with the accounts;
- They were happy with the Annual Governance Statement and;
- The letter included plans for the 2019/20 audit which would start in February 2020.

RESOLVED: That the NHDC Annual Audit Letter – 2018/19 be noted.

REASONS FOR DECISION: To communicate to Members the key issues arising from Ernst and Young's audit work for 2018/19.

47 SIAS INTERNAL AUDIT PROGRESS REPORT

Audio Recording – 18 Minutes 58 Seconds

The Shared Internal Audit Service - Client Audit Manager presented the report entitled SIAS Internal Audit Progress Report and advised the following:

- The delivery of Audit Plan and Key Audit Findings;
- The 2019/20 finals reports that had been issued since 30 August 2019 were General Data Protection Regulations, Integra2 and Equality and Diversity;
- There were no high priority recommendations arising from the work undertaken in the audits;
- Appendix B provided an update on recommendations;
- At the request of management, changes had been made to the 2019/20 Annual Audit Plan in the period since the last FAR Committee;
- There were several reasons for the back loading of the Annual Audit Plan, including management requested to postpone the start of the Members Expenses Benchmarking and New audits were added to the Annual Audit Plan and;
- The contents of Appendix C – 2019/20 Audit Plan Start Dates Agreed with Management.

The following Members asked questions:

- Councillor Michael Weeks;
- Councillor Steve Jarvis and;
- Councillor Sam North.

In response to questions, the SIAS Client Audit Manager provided the following:

- The audits that had been cancelled would be completed next year;
- Meetings would take place after Christmas in order to look at the audits required in the coming year;
- Agreed that planned audits would be written down.

RESOLVED:

- (1) That the Internal Audit Progress Report for the period to 15 November 2019 be noted;
- (2) That the proposed amendments to the 2019/20 Annual Audit Plan and the implementation status of high priority recommendations be noted.

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

48 PROPOSED AMENDMENTS TO THE CONTRACT PROCUREMENT RULE

Audio Recording – 35 Seconds 12 Seconds

The Legal Commercial Team Manager presented the report entitled Proposed Amendments to the Contract Procurement Rule and advised the following:

- The current version of the Rules required non compliance to be reported to the Monitoring Officer and the Senior Management Team and it was proposed that non compliance be reported to the Monitoring Officer and the Monitoring Officer may consult with the Service Director - Resources if appropriate;
- The proposed new section 3.10 reflected the Council's focus on community engagement and environmental protection;
- Additional guidance had been put into the rules in order to aid Officers and;
- Service Directors were now in a position to extend contracts by up to 24 months and up to a value of £200,000.

The following Members asked questions:

- Councillor Steve Jarvis and;
- Councillor Michael Weeks.

The Legal Commercial Team Manager provided the following responses to questions raised:

- Regarding protecting the Council below EU thresholds, pre qualification below the threshold for services is now prohibited by law but below threshold we can still ask suitability assessment questions. Such questions need to be proportionate and reasonable relative to the value of the contract;
- He had not seen any evidence of fraud being carried out in the procurement process;
- There were a number of safeguards in place within the procurement process and each process went through an intense system in order that a record was kept from start to finish which Officers were able to see and;
- All suppliers were credit checked.

RESOLVED: That the proposed changes to the Contract Procurement Rule be noted by that Committee.

RECOMMENDED TO COUNCIL: That the proposed changes to the Contract Procurement Rule be recommended for adoption.

REASONS FOR RECOMMENDATIONS: That the Contract Procurement Rules are part of the Constitution (under Section 20) and are revised and updated periodically as part of the Council's governance and procurement review processes, contributing to effective organisational internal control. In addition, the review and adoption of the Council's Contract Procurement Rules is a key action in the Council's Procurement Strategy.

49 DRAFT BUDGET 2020/21

Audio Recording – 43 Seconds 20 Seconds

The Service Director – Resources presented the report entitled Draft Budget 2020/21 and drew Members' attention to the following:

- The General and specific funding at Paragraphs 8.1 to 8.3 of the report;
- The current assumptions at Paragraph 8.2;
- The forecasts for funding for 2020/21 onwards at Paragraph 8.3 including Table 1 – Estimated general funding;
- Uncertainties were not restricted to the years 2020/21 and 2021/22 but were ongoing;
- The MTFS had highlighted a need to make £900k net savings over a four year period;
- There were a series of investments as well as savings which resulted in a net increase in spend;
- Paragraph 8.16 advised that the Capital Programme, with the exception of property investment acquisitions, could be afforded without the need to borrow, however the timing of capital receipts was critical and may require short term borrowing and;
- Pension Valuation reports for three years had been received since production of the report. The percentage contribution had not changed however the lump sum contribution was £1 million, which would increase by inflation over the next three years. This would increase the funding gap by a further £84,000.

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

- Councillor Michael Weeks.

RESOLVED: That the report entitled Draft Budget 2020/21 be noted.

RECOMMENDED TO CABINET:

- (1) That the funding forecasts for 2020/21 onwards, and that (especially significant for 2021/22) these will be subject to change be noted;
- (2) That the comments made at the budget workshops, and comment on the inclusion of the revenue savings and investments in the draft budget be noted;
- (3) That comments made at the budget workshops, and comment on the inclusion of the capital investments in the draft budget be noted;
- (4) That the risk in relation to the timing of capital receipts and that this might result in a need to borrow for capital purposes, which would result in additional revenue costs to those already reflected be noted;

- (5) That Council Tax increases for 2020/21 will be in line with the Medium Term Financial Strategy be confirmed; and
- (6) That the funding surplus in 2020/21 be transferred to a funding equalisation reserve be approved.

REASONS FOR RECOMMENDATIONS:

- (1) To ensure that all relevant factors are taken in to consideration when arriving at a proposed budget for 2020/21, to be considered by Full Council on 6 February 2020;
- (2) To ensure that the medium term impacts of decisions are considered, and how a balanced budget will be set for future years.

50 SECOND QUARTER REVENUE MONITORING 2019/20

Audio Recording – 52 Seconds 12 Seconds

The Accountancy Manager presented the report entitled Second Quarter Revenue Monitoring 2019/20 and drew attention to the following:

- The 2019/20 General Fund budget, as identified in table 3 and paragraph 8.2, a £360k decrease in net expenditure;
- Items within Table 3 – Summary of Significant Variances at paragraph 8.1;
- Paragraph 8.3 which detailed that Coinco International Plc (CCI), had entered into administration while owing North Hertfordshire District Council £130k. Cabinet was being asked to approve this write off;
- Paragraph 8.4 detailed that it was expected that efficiencies totalling £610k, that had been agreed by Council in February 2019, would be delivered;
- Paragraph 8.5 detailed that £74k of the budget carried forward from 2018/19 was not expected to be spent in the current financial year. This related to parking lines and signs maintenance and Herts Warmer Homes Project;
- Table 4 listed the Corporate Financial Health Indicators the Planning Application Fees were now at Amber status and;
- Items within Table 5 – General Fund impact at paragraph 8.13.

RECOMMENDED TO CABINET:

- (1) That the report be noted;
- (2) That the changes to the 2019/20 General Fund budget, as identified in table 3 and paragraph 8.2, a £360k decrease in net expenditure, be approved;
- (3) That the changes to the 2020/21 General Fund budget, as identified in table 3 and paragraph 8.2, a £188k increase in net expenditure, be noted; and
- (4) That the write-off of the debtor invoice of £130,566.75 raised to CoinCo International PLC in January 2015, as explained in paragraph 8.3, be approved.

REASON FOR RECOMMENDATIONS: 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.

51 INVESTMENT STRATEGY (CAPITAL AND TREASURY) MID-YEAR REVIEW 2019/20

Audio Recording – 58 Seconds 30 Seconds

The Accountancy Manager presented the report entitled Investment Strategy (Capital And Treasury) Mid-Year Review 2019/20 and drew Members' attention to the following:

- The contents within Table 2 at paragraph 8.4 on page 152 of the report;
- Items within Table 3 at paragraph 8.6;
- The Treasury Management 2019/20;
- The Council generated £0.194 million of interest during the first six months of 2019/20 and;
- It was forecasted that the Council would generate £0.373 million of interest over the whole of 2019/20.

And it was **RESOLVED** that:

RECOMMENDED TO CABINET:

- (1) The forecast expenditure of £5.886million in 2019/20 on the capital programme be noted;
- (2) The adjustments to the capital programme for 2019/20 onwards as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2020/21 and beyond by £1.369million, be approved;
- (3) The position of the availability of capital resources, as detailed in table 3 paragraph 8.6 and the requirement to keep the capital programme under review for affordability be noted by Cabinet; and
- (4) The position of Treasury Management activity as at the end of September 2019 be noted.

REASON FOR RECOMMENDATIONS:

- (1) Cabinet is required to approve adjustments to the capital programme and ensure the capital programme is fully funded;
- (2) To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

52 RISK AND OPPORTUNITIES MANAGEMENT UPDATE

Audio Recording – 1 Hour 1 Minute 49 Seconds

The Service Director – Resources presented the report entitled Risk and Opportunities Management Update and advised the following:

- The main focus of the report was on page 180 at Paragraph 8.1.2 which detailed that the Risk Management Group Meeting took place on 6 November where the impact of Anti Social Behaviour on Council Facilities had been discussed;
- The situation in Letchworth was improving; the police had charged 8 youths with 28 offences;
- The situation at the Lairage car park in Hitchin had got worse and;
- The impact of Anti Social Behaviour on Council remained at risk score 7.

The following Members asked questions:

- Councillor Sam North;
- Councillor Michael Weeks and;
- Councillor Steve Jarvis.

The Service Director – Resources provided the following responses to questions raised:

- An invite to the next Risk Management Group would be sent out to Members;
- The Waste Management, Recycling and Street Cleansing risk was currently scored at 9. However, this was in need of being reviewed; and
- The Income Generation risk had been reviewed but as it was a minor review, it was not considered necessary to take the risk back to the Risk Management Group as the score had not changed.

RESOLVED:

- (1) That the review/changes to the Corporate risk for the quarter, namely impact of Anti Social Behaviour on Council Facilities to retain its current risk score of 7 be noted and;
- (2) That the Waste Management Risk be reviewed by the meeting of Finance, Audit and Risk in March 2020.

REASON FOR RECOMMENDATION:

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

53 POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS

Audio Recording – 1 Hour 10 Minutes 43 Seconds

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

RESOLVED: That the Service Director – Resources confirmed that he would like to add the CIPFA Financial Management Code (designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability) to agenda items for future meetings.

The meeting closed at 8.45 pm

Chairman

North Hertfordshire District Council

Outline Audit Plan

January 2020

January 2020

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

Dear Finance, Audit and Risk Committee Members

We are pleased to attach our Outline Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Finance, Audit and Risk Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Outline Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. We have yet to commence our detailed audit planning and will update management and the Committee on any changes to the audit risks and strategy included in this Outline Audit Plan arising from our completed risk assessment procedures.

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

We welcome the opportunity to discuss this report with you on 20 January as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Suresh Patel, Associate Partner

For and on behalf of Ernst & Young LLP

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03 Value for Money Risks

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09 Appendices

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

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



01

Overview of our 2019/20 audit strategy



Overview of our 2019/20 audit strategy

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

In line with the prior year we have currently identified no significant audit risks. However, we have identified areas of audit focus, which whilst not meeting the criteria to be treated as significant risks, do require us to focus our audit attention and procedures.

Area of audit focus	Change from PY	Details
Property, plant and equipment (PPE) valuation At 31 March 2019 PPE (£103m) and Investment Properties (£18.8m)	No change in focus	These valuations are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension liability valuation At 31 March 2019 £50.4m	We will consider the impact of the prior year national issues and the triennial review.	The pension fund deficit is a material estimate that is disclosed on the balance sheet. It involves significant estimation and judgement which management engages an actuary to undertake. In 2018/19 the estimation was impacted by national issues relating to legal rulings and required a late revision to the reported figure. There remains some uncertainty whether these issues will impact 2019/20. In addition, 2019/20 will be impacted by the triennial review.
Preparation for the implementation of IFRS 16 (Leases) As at 31 March 2019 the total commitment for operating leases was £1.2m	New area of focus	Whilst IFRS16 applies to the 2020/21 financial statements the Council needs to ensure its preparations are in train during 2019/20. The changes introduced by the standard will have substantial practical implications for how the Council accounts for and discloses operating leases, and may also have an effect on capital financing arrangements.

Value for money conclusion

Based on our initial planning discussions with management we are aware that the Council is planning a property acquisition and development strategy and associated investment strategy worth £20m over five years. Whilst the Council's plans are aimed at 2020/21 and beyond, the arrangements that the Council is putting in place to manage the associated risks fall within our value for money conclusion remit for 2019/20. This will represent a significant risk to the value for money conclusion and we will report details of our planned procedures to the next Committee meeting.

Overview of our 2019/20 audit strategy

Materiality

Planning
materiality

£1.32m

We have determined that materiality for the financial statements of the Council is £1.32 million. This represents 2% of the prior years gross expenditure on provision of services of £66.06m. We have retained the same basis for calculating materiality as the prior year and it remains at the top end of our range.

Performance
materiality

£0.99m

We have set performance materiality for the Council at £0.99 million which represents 75% of materiality. This again, is consistent with the prior year and reflects our view that there is generally a low risk of material misstatement in your accounts.

Audit
differences

£0.066m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £0.066 million, which represents 5% of materiality. We will report other misstatements to the extent that they merit the attention of the Committee.

Overview of our 2019/20 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council. Once we complete our detailed audit planning we will update management and the Committee on any changes to audit risks and our strategy.

Taking the above into account, and as articulated in this outline audit plan, our professional responsibilities require us to independently assess the risks of providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with Public Sector Audit Appointments (PSAA) allow them to vary the fee dependent on 'the auditors assessment of risk and the work needed to meet their professional responsibilities'. PSAA are aware that the setting of scale fees has not kept up to date with the changing requirements of external audit with increased focused on, for example, valuations of land, buildings and investment property, pension obligations, the auditing of groups and the introduction of new accounting standards such as IFRS 16 and 9 in recent years as well as the expansion of factors impacting on the value for money conclusion. Therefore to the extent any of these are relevant in the context of North Hertfordshire District Council's audit we will discuss with management as to the impact on the scale fee.

Audit team

Suresh Patel remains your Engagement Partner for the audit along with Julie Kriek as your Audit Manager. Josh Smart who was part of the audit team for 2018/19 will support Julie as the lead senior.



02

Audit risks





Audit risks

Areas of audit focus

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

What is area of focus?

Property, plant and equipment valuation

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

What will we do?

We will:

- ▶ Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample test key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment property. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

We will aim to commence this work as early as is possible.

Audit risks

Areas of audit focus (continued)

What is the area of focus?	What will we do?
<p>Pension Liability Valuation and Actuarial Assumptions</p> <p>The Code and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council. The pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheets. At 31 March 2019 this totalled £50.4 million.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for the scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. We undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>In the previous year the pension liability was impacted by national issues that necessitated an updated IAS 19 report from the actuary. There is some uncertainty as to whether these national issues will affect 2019/20. The prior year was also impacted by material changes to the value of pension assets at the year end, compared to the estimate made by the actuary to inform the original IAS 19 report. In addition, for 2019/20 the IAS 19 report will take into account the triennial review of the fund.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Liaise with the auditors of Hertfordshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council. ▶ Assess the work of the LGPS Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Auditors, and considering any relevant reviews by the EY actuarial team; and ▶ Review and test the accounting entries and disclosures made within the financial statements in relation to IAS19, including any updates to the value of year end assets.
<p>IFRS 16 - Leases</p> <p>The Council will need to adopt the requirements of IFRS 16 for financial years commencing 1 April 2020. The new standard will eliminate the distinction between operating and finance leases and it is expected that work will be required by officers to identify all of the leases that it has in place at 1 April 2020. Readiness assessment is encouraged to prepare for the upcoming implementation.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2020/21; • Check additional disclosure requirements as required by the Code for 2019/20 have been complied with.



03

Value for Money Risks





Value for Money

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion. For 2019/20 this is based on the overall evaluation criterion:

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

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

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

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

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

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

Our initial risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2019/20 this has included consideration of the steps taken by the Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that the Council will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our initial risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. At this stage we have identified the Council's property acquisition and development strategy and associated investment strategy as a significant risk. Whilst the Council's plans are aimed at 2020/21 it is currently putting in place arrangements for managing the associated risks and managing implementation of the strategies. As a result, we have identified a need to understand these arrangements as part of the 2019/20 value for money conclusion. We outline overleaf our planned procedures.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<p>New property acquisition and development strategy and associated investment strategy.</p> <p>The Council is currently putting in place a property acquisition and development strategy and an associated investment strategy, aimed at making £20 million of investments in the five years commencing 2020/21.</p> <p>This represents a new and ambitious activity for the Council. The Council will need to ensure that it puts into place appropriate arrangements to enable it make informed decisions and deploy its resources in a sustainable manner.</p>	<p>Take informed decisions / Deploy resources in a sustainable manner</p>	<p>Our value for money work will focus on gaining an understanding of the arrangements that the Council puts into place to manage the risks associated with it making informed decisions and deploy its resources in a sustainable manner. We will seek responses to the following questions:</p> <ul style="list-style-type: none">• What is the basis of the property acquisition and development strategy and the investment strategy and what is their relationship with the Council's strategy and objectives?• What legal and other advice has been used?• What is the impact on the Council's compliance with the Prudential Code?• What is the financial impact on the budget and MTFS including assessments of downside risks associated to falling capital values and increasing borrowing costs?• What is impact on the MRP calculation?• What are the gateway processes for investment decisions• How are associated risks reflected in the corporate/strategic risk register?• What are the plans or strategies that have regard to; service objectives, stewardship of assets, value for money, prudence and sustainability, affordability and practicality - these factors needed to be taken together rather than considered separately.• How will value for money be demonstrated in borrowing and investment decisions?



04

Audit materiality



Audit materiality

Materiality

For planning purposes, we have set materiality for the Council at £1.32 million. This represents 2% of prior year gross expenditure on provision of services as per the prior year.



We request that the Committee confirm their understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have used the same basis for assessment as the prior year.

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

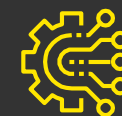
Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Committee, or are important from a qualitative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

Specific materiality - We can set a lower materiality for specific accounts disclosure e.g. remuneration disclosures, related party transactions and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. Where we do this we will notify you.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit

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

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

Procedures required by standards

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

Procedures required by the Code

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

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves identifying and understanding the key processes and internal controls; and substantively testing details of transactions and amounts. For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

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



06

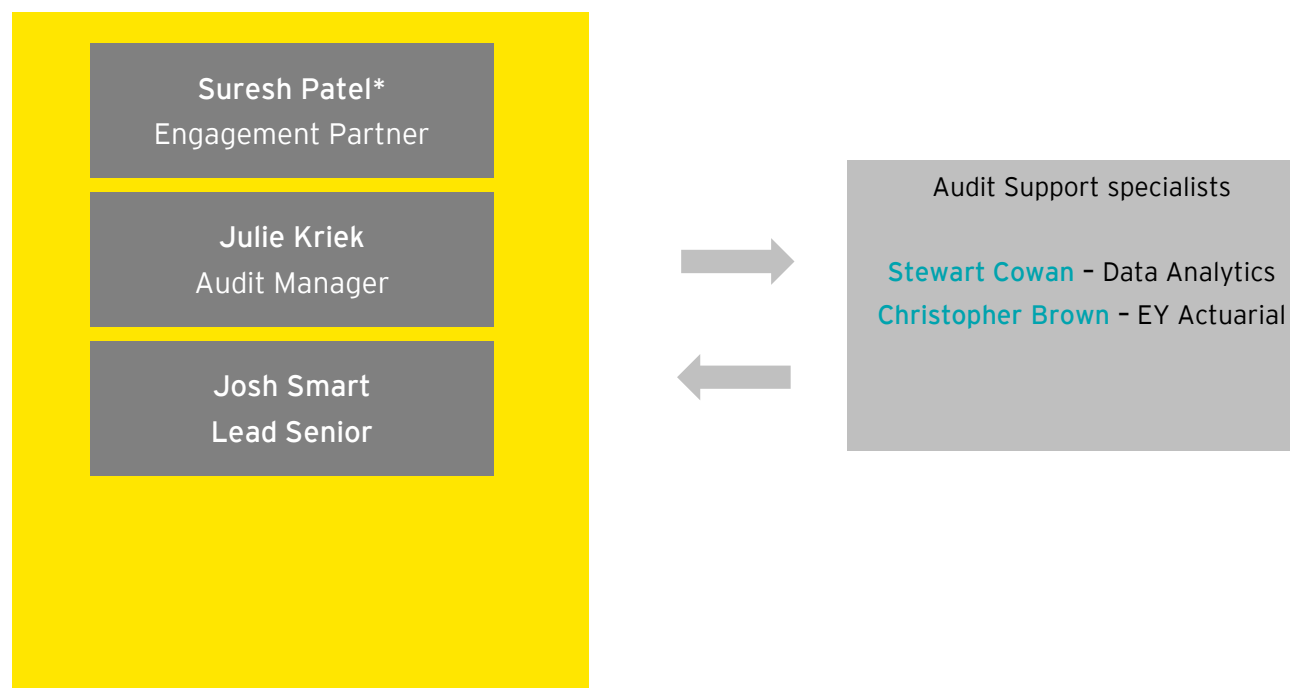
Audit team



Audit team

Audit team structure:

The audit team is led by Suresh Patel, who has overall responsibility for the performance of the audit and for the auditor's report issued on behalf of EY. We set out below the engagement team structure for our audit.



Suresh Patel as the Audit Engagement Partner will sign the opinions on the financial statements. Julie and Josh will have responsibility for all operational matters and for the day to day management and delivery of the external audit service.

* Key Audit Partner

Use of specialists

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

Area	Specialists
Valuation of Land and Buildings	Management's internal specialist
Pensions disclosure	EY Actuaries; Management's third party specialists - Hyman Robertson

- Page 33
- In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.
- We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:
- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
 - ▶ Assess the reasonableness of the assumptions and methods used;
 - ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
 - ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

Indicative audit timeline





Indicative audit timeline

Timetable of communication and deliverables

Indicative timeline

Below is an indicative timetable showing the key stages of the audit and the deliverables. We will agree the actual timetable with management shortly. From time to time matters may arise that require immediate communication with the management and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Initial risk assessment and setting of scopes.	January	20 January 2020 meeting	Outline Audit Plan
	February		
Final risk assessment, walkthrough of key systems and processes & interim testing	March		Final Audit Plan (if there are changes to risks)
	April		
	May		
	June		
Year end audit Audit Completion procedures	July		Audit Results Report Audit opinions and completion certificate
	August		
	September		Annual Audit Letter



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08

Independence



Introduction

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

Required communications

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

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

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence. At the date of preparing this report we are not aware of any threats to our independence that we need to safeguard against. We will update this assessment throughout the year.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

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

Management threats

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

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

Other threats

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

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

Other communications

EY Transparency Report 2019

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 28 June 2019 and can be found here:

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/\\$FILE/ey-uk-2019-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf)



09

Appendices



Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2019/20 accounts of opted-in principal local government and police bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work. We outline below the planned fee for 2019/20 compared to the final fee for 2018/19.

	Planned fee 2019/20	Final Fee 2018/19	<i>All fees exclude VAT</i>
	£	£	
Scale Fee	40,068	40,068	
Additional fees:			
VFM significant risk - property acquisition and development strategy	Note 1	-	
Total audit	TBC	40,068	
Non-audit services - Housing Benefit reporting accountant	9,144**	9,144*	
Total fees	TBC	TBC	

Note 1 - We will discuss the additional fee associated with addressing the VFM significant risk with the Service Director - Resources and report a range to the next Committee meeting

* The 2018/19 HB reporting accountant work is in progress but we have already agreed an additional fee with the Service Director - Resources. We will report the final fee to the next Committee meeting.

** We will revisit the 2019/20 HB reporting accountant fee on conclusion of the 2018/19 work.

The planned fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided; and
- ▶ The Council has an effective control environment.



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

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




Appendix B

Required communications with the Finance, Audit & Risk Committee

We have detailed the communications that we must provide to the Committee.

Our Reporting to you		
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Outline Audit Plan to be presented at the January 2020 Committee.
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report to be presented at the July 2020 Committee.

Required communications with the Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report to be presented at the July 2020 Committee.
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit Results Report to be presented at the July 2020 Committee.
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report to be presented at the July 2020 Committee.
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report to be presented at the July 2020 Committee.

Appendix B

Required communications with the Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats; Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Outline Audit Planning Report to be presented at the January 2020 Committee; and Audit Results Report to be presented at the July 2020 Committee
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report to be presented at the July 2020 Committee.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report to be presented at the July 2020 Committee.
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report to be presented at the July 2020 Committee.
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed and at the completion of the audit ▶ Any non-audit work 	Outline Audit Planning Report to be presented at the January 2020 Committee; and Audit results report to be presented at the July 2020 Committee.
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report to be presented at the July 2020 Committee
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	Audit Results Report to be presented at the July 2020 Committee
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Purpose and evaluation of materiality

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

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

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

EY | Assurance | Tax | Transactions | Advisory

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ED None

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**FINANCE, AUDIT AND RISK COMMITTEE
20 JANUARY 2020**

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: REVENUE BUDGET 2020/21

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND IT

CURRENT COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

NEW COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

1. EXECUTIVE SUMMARY

To consider the draft budget for 2020/21 and the main factors which contribute to the determination of the North Hertfordshire District Council (NHDC) Council Tax level. To consider the appropriate level of Council Tax that will be recommended to the meeting of the Council on the 6 February 2020.

2. RECOMMENDATIONS

That Cabinet:

- 2.1. Approves the decrease in the 2019/20 working budget of £200k, as detailed in table 6.
- 2.2. Approves the carry-forward of £88k of budget in to 2020/21, as detailed in table 6.

That Cabinet recommends to Council:

- 2.3. Approves the transfers from reserves to the General Fund as detailed in 8.4.3 to 8.4.4.
- 2.4. Notes the forecast savings target for future years and confirms the approach to balancing the budget, as detailed in paragraph 8.9.4.
- 2.5. Notes the position on the Collection Fund and how it will be funded.

- | |
|--|
| <ul style="list-style-type: none">2.6. Notes the position relating to the General Fund balance and that due to the risks identified a minimum balance of £2.45 million is recommended.2.7. Approves the savings and investments as detailed in Appendix B.2.8. Approves a net expenditure budget of £14.974m, as detailed in Appendix C.2.9. Approves a Council Tax increase of £5 for 2020/21 for a band D property, with other increases pro-rata to this (as per the Medium Term Financial Strategy) |
|--|

3. REASONS FOR RECOMMENDATIONS

- 3.1. To ensure that all the relevant factors are taken in to consideration when arriving at the proposed Council Tax precept for 2020/21.
- 3.2. To ensure that Cabinet recommends a balanced budget to Full Council on 6 February 2020.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 During the Autumn Political Groups were asked for savings ideas that they wanted Officers to investigate further. These have been combined with ideas generated by Officers. The total value of the ideas presented is less than the forecast funding gap that needs to be met. This means that currently there are no alternative options available.
- 4.2 In considering the draft budget in December, the Joint Administration made a commitment to continue with a number of new investments, even though these were not required to deliver statutory services. These investments are aligned to the priorities of the Joint Administration. As referred to later in this report, the Joint Administration have committed to a full review of the Council's budget during 2020/21 to ensure that in the medium term a balanced budget will be set.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 All Councillors were given opportunity to comment on the efficiency and investment proposals at the Budget Workshops.
- 5.2 Business Rate Payers will be consulted via e-mail and via the website before the budget is discussed at Full Council on 6 February. Any feedback will be made available at that meeting. This is the only statutory consultation that is required.

- 5.3 Savings that have an impact on a specific area (or areas) will be referred to that Area Committee(s) during January. This is not considered to be the case for any savings included within the proposals.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key Executive decision (recommendations 2.1 and 2.2) that was first notified to the public in the Forward Plan on the 11 October 2019.

7. BACKGROUND

- 7.1. The Medium Term Financial Strategy (MTFS), which provides the financial background to the Corporate Business Planning process for 2020-2025, was adopted by Full Council on the 12 September 2019 following recommendation by Cabinet.
- 7.2 The MTFS included a number of assumptions, which have been updated as better information has become available. The final budget still contains some assumptions and this is why monitoring reports are provided to Cabinet on a quarterly basis.
- 7.3 In anticipation of the decline in future funding, the Council has increased the level of general fund reserves. This allows for some cushioning in the delivery of savings.
- 7.4 Significant savings have been delivered in recent years. This means that the opportunity for savings from being more efficient have now generally all been taken. Instead the focus is now on income generation, service transformation, joint working, making best use of capital assets and justifying delivery of services above statutory levels.

8. RELEVANT CONSIDERATIONS

8.1 General Funding

- 8.1.1 The provisional Local Government Settlement was announced on 20 December 2019. This provided the following information on the funding for the Council in 2020/21, subject to there being no changes in the final settlement.
- 8.1.2 As expected, the Settlement confirmed that Negative Revenue Support Grant (RSG) will not be applied in 2020/21. This increases the funding available to the Council in 2020/21 by around £1.1m compared to the original MTFS forecast, which had assumed this reduction in funding. As highlighted in 8.1.4 below, this increase is assumed to be for one year only.

- 8.1.3 It was also announced in the Settlement that the New Homes Bonus (NHB) baseline will be retained at 0.4%. It also confirmed how New Homes Bonus will be phased out over the next three years. In 2020/21, the Council will receive the total of 4 years of bonus payments relating to 2020/21, 2019/20 2018/19 and 2017/18. In 2021/22, however, the Council will receive the total of 2 years of payments (2019/20 and 2018/19) and in 2022/23, the Council will receive the 2019/20 bonus payment only. From 2023/24, there will be no New Homes Bonus received. During the Spring there will be a consultation on a replacement for New Homes Bonus. Given the uncertainty over a funding stream that looks to reward housing growth, over which the Council does not have much control, it is not considered prudent to rely on any replacement for funding core expenditure. The published allocation for 2020/21 of £713k represents a reduction of £271k on funding received for 2019/20. This is due to a combination of fewer properties being built and an extra year of funding where a baseline of 0.4% has been applied. As all future allocations are now based on historic data the Council now knows that it will receive £350k in 2021/22 and £131k in 2022/23.
- 8.1.4 From 2021/22 it is expected that 75% Business Rates Retention and a new Fair Funding Formula will be introduced. In the absence of notification from government, estimates for 2021/22 and beyond assume that the new fair funding formula will build in a reduction equivalent to the amount that the Council was due to lose through the introduction of the negative RSG, as both are essentially a formula that tries to calculate assessed need. Estimates also assume that the Business Rates Baseline total and negative RSG will increase by 2% per year, in line with inflation estimates. Previous estimates have been based on inflation of 3%, but latest information is that 2% is a better estimate of future inflation.
- 8.1.5 The Settlement detailed that District Councils would be able to increase Council Tax up to 2% or £5 for a band D equivalent property (whichever was the higher), without the need for a local referendum. The MTFS sets out that the Council will look to increase Council Tax by the maximum amount possible without the need for a local referendum. In terms of future forecasts it is assumed that the 2% (or £5 for a band D equivalent) will continue to be the maximum increase allowed. The Council Tax income that the Council retains is also affected by the Council Tax base (see 8.2.2 below). It is assumed that the growth in base will be around 1% per year. For 2020/21 (compared to 2019/20) the growth is estimated at 0.97%.

8.1.5 Based on the above this gives the following estimates of total general funding:

Table 1- Estimated general funding

2019/20	£000 Funding	2020/21	2021/22	2022/23	2023/24
11,391	Council Tax	11,752	12,122	12,498	12,880
0	Negative RSG (or equivalent)	0	(1,136)	(1,159)	(1,182)
2,682	Business Rates baseline	2,726	2,780	2,836	2,893
984	New Homes Bonus	713	350	131	0
15,057		15,191	14,116	14,306	14,591

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

Table 2 - Forecasts in relation to Grant Income

	2019/20 amount £'000	Expectation for 2020/21
Housing Benefit Subsidy	26,898	Initial estimate will be available late January 2020, so budget expectation for 2020/21 is based on the 2019/20 mid year estimate - £26.898million.
Discretionary Housing Payments	209	An announcement is expected in January 2020. Expectation is that the grant level will be similar to 2018/19 - £209k.
Benefits Administration and Fraud Initiative	430	The announcement of these grants for 2020/21 has been delayed by MHCLG. Annual grant values have been subject to reductions in recent years.
Section 31 Grants	1,922	These grants compensate the Council for the impact of Business Rate reliefs and caps. Values have not yet been confirmed by MHCLG and will be influenced by the NNDR1 form submitted at the end of January.
Waste minimisation – HCC contribution via the Alternate Financial Model.	571	As explained in the description of the corresponding efficiency proposal (E11 in Appendix B), a similar total (£551k) is currently anticipated to be received in 2020/21 for recycling performance in 2019/20.
NNDR	176	The cost of collection will not be known until the

	2019/20 amount £'000	Expectation for 2020/21
Administration Grant		central government return for business rates (NNDR 1 form) is finalised in January 2020. Assuming a similar level to the 2019/20 level of £176k.
Flexible homelessness support grant	173	MHCLG has confirmed at least the same level of funding for 2020/21 as 2019/20, rather than an exact figure.
Syrian refugee resettlement grant	328	Approximately £310k is anticipated in 2020/21 however the exact amount is dependant on when the two new refugee households actually arrive.
Homelessness Reduction Act - New Burdens Funding.	32	MHCLG has confirmed at least the same level of funding for 2020/21 as 2019/20, rather than an exact figure.
Healthy Hub Grant	18	HCC are funding a two year Healthy Hub project. It is anticipated that around £50k will be drawn down in 2020/21.
Total Revenue Grants	30,757	

8.2 Business Rates and Council Tax Collection Funds

- 8.2.1 NHDC is required to maintain a Collection Fund to account for the income received and costs of collection for Council Tax and Business Rates. Estimates of the net income are made at the start of the year and based on this money is transferred out of the Collection fund to the NHDC General Fund and other precepting bodies. The Fund is required to break even over time and any surplus or deficit is transferred to the NHDC General Fund and other precepting bodies.
- 8.2.2 The total amount of Council Tax that is collected is dependent on the actual number of properties, eligibility for paying a reduced amount (Council Tax Reduction Scheme) and the success in collecting what is owed. An estimate is made of the cumulative impact of this and converted in to an equivalent number of band D properties. This is known as the Council Tax Base. The amount of Business Rates that are collected is dependent on the number and type of business premises in the area, the success in collecting what is owed, eligibility for relief and the number and value of successful appeals. Assumptions on these factors are made in forecasting the level of income from Council Tax and Business Rates in future years.

- 8.2.3 Current forecasts are that the Business Rates collection fund will have a deficit at the end of the year. This is due to the level of appeals and rate reliefs. NHDC will need to fund its share of the deficit in the following financial year. The section 31 grant that NHDC receives from Central Government for business rate reliefs and caps will be used for this purpose.
- 8.2.4 It is currently forecast (at the end of month 8) that the Council Tax collection fund will have a marginal deficit at the end of the year, due to an increase in the amount of Council Tax reduction awarded, of which the Council's share is projected to be £55k.

A contribution from the General Fund to the Collection Fund of this amount is therefore required in 2020/21. This contribution therefore reduces the total funding amount available next year, as shown in appendix C.

8.3 Business Rate Pilot and Pool

- 8.3.1 For 2019/20, Hertfordshire was successful in becoming a Business Rate pilot. As highlighted when the application was made, this will hopefully mean that the Council is around £800k better off than the baseline position included in the budget estimates, and £400k better off than being part of a pool. This is dependent on the level of Business Rates collected in North Hertfordshire and across Hertfordshire during 2019/20. The forecasts are looking like this estimate could be exceeded but this will not be known until after the end of the financial year. As detailed later in this report, the overall position in 2020/21 is forecast to be a budget surplus and therefore any gains will be reflected in the 2021/22 budget. These gains are a one-off and do not improve the long-term position.
- 8.3.2 For 2020/21 a Business Rates Pool application has been accepted for Hertfordshire County Council and five other Districts (including North Hertfordshire). This is expected to generate additional funding (of around £400k+) but again this will be one-off. It is not expected that the Council will be able to benefit from pooling arrangements under the new business rates funding system, at least not in the short to medium term. Therefore future forecasts do not include any ongoing gains from this.

8.4 Review of balances and reserves

- 8.4.1 In setting its budget, the Council needs to consider the level of its reserves. This determines the extent to which the current budget can be supported by the use of reserves, or requires a budget to be set that includes an allowance for increasing reserves. In addition to the General Fund balance, NHDC has specific reserves and provisions. Specific reserves are amounts that are set aside for a determined purpose. This purpose can arise from a choice made by the Council, or where it is felt that there is an obligation.

Provisions are where there is a requirement on the Council to meet future expenditure, and a reasonable estimate can be made of the amount and timing. In determining the risks that may need to be met from the General Fund, it is important to know which risks will already be covered by amounts that are set aside as a specific reserve or provision.

8.4.2 A full list of specific reserves and estimated balances is shown in table 2 below.

Table 3- Specific Reserves

Name of Reserve		Purpose of Reserve	Balance at 1 April 2019	Estimated Balance at 31 March 2020	Estimated Balance at 31 March 2021
Funding Reserve	Equalisation	As detailed in section 8.9.3	0	68	559
Cemetery Reserve	Mausoleum	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. Still available niches so not expected to be used in the short-term.	161	161	161
Childrens Reserve	Services	Part is used to help fund children's play projects in the district and is funded from grant income. Part is previous external funding used for	8	6	0
Climate Change Reserve	Grant	Grant awarded to help combat the effect of climate change. Being used for the additional costs (above available establishment) of employing a Trainee Policy Officer working on Climate Strategy. Will be fully used by the end of 2024/25.	28	26	22
Community Challenge Reserve	Right to	The one-off grant funding received to recognise the additional burden of the new legislation. The legislation has been in place for 5 years and nothing has transpired, so propose release to General Fund.	45	0	0
Environmental Reserve	Warranty	An environmental warranty was provided to North Herts Homes on the transfer of the Housing stock. This was the cost of obtaining insurance which would have only lasted 10 years. There has been no call on the reserve so far, and there might never be. The cost claim could be significantly more than the reserve. To release to General Fund and create a financial risk.	209	0	0
Growth Area Fund Reserve		Holds the revenue grant awarded. To be used when progress on the Local Plan so may be used in 2020/21, but may not be until 2021/22.	53	53	53
Homelessness Reserve	Grants	To help prevent homelessness in the district. The entire grant is earmarked for different homelessness projects or resources. Reflects that additional grant will be received in 2020/21 and that this will be used first.	262	291	282
Housing Delivery	& Planning	Hold unspent Housing & Planning Delivery grant to fund Cabinet approved spending plans 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. Future balances will depend on timing of	1,142	1,489	Unknown

Name of Reserve	Purpose of Reserve	Balance at 1 April 2019	Estimated Balance at 31 March 2020	Estimated Balance at 31 March 2021
	spend and fees received in relation to the 20% increase.			
Information Technology Reserve	To ensure the Authority has adequate resources to purchase hardware and software items when they are required. Plan to use over 2 years for a Uniform software upgrade with improved functionality.	82	47	12
Insurance Reserve	Used to finance potential claims for risks that are not covered by external policies together with higher excesses currently being borne by the Authority. It is good financial practice to have an insurance reserve. The future balances will depend on the claims received and the level of relevant insurance.	34	Unknown	Unknown
Land Charges Reserve	Reserve originally established to help meet the potential cost should the financial risk of the repayment of personal search fees occur. Being used for additional administration costs and software upgrades over 3 years.	94	84	59
Leisure Management Maintenance Reserve	To cover the cost of any future repairs liabilities on the leisure facilities. The Leisure Contract requires a contribution from the Council for maintenance items over £5k, so therefore if funds are not available in the reserve then this would impact on the general fund. Use of the reserve depends on what arises and is therefore unknown.	47	Unknown	Unknown
MHCLG Grants Reserve	Balance of unapplied Section 31 business rate relief grants and pooling gains. Used to fund NNDR Collection Fund deficit contributions and levy payments in future years. Pooling gain of £368k to be released to the General Fund. Balance at end of 2020/21 will depend on NNDR1 return and the levy. To be reviewed during 2020/21 as to how much additional funding can be released to the General Fund, bearing in mind the implications of any Business Rates baseline reset.	1,814	3,318	Unknown
Museum Exhibits Reserve	Funds the purchase of museum exhibits and is funded from donations. Use of reserve will depend on donations and opportunities for acquisitions.	12	Unknown	Unknown
Neighbourhood Plan Reserve	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.	41	61	61
Office Move IT Works	A reserve to cover the cost of moving cabling between Town Lodge and the other Authority buildings when required.	7	0	0
Paintings Conservation Reserve	Used to help restore paintings. This is funded through donations and publication income. To be used against a list of items that require conservation.	11	11	11
Property Maintenance Reserve	To cover the cost of any unplanned emergency maintenance costs that may occur at any of the	72	0	0

Name of Reserve	Purpose of Reserve	Balance at 1 April 2019	Estimated Balance at 31 March 2020	Estimated Balance at 31 March 2021
	Authority's properties. There are revenue and capital budgets for property maintenance so to use these in future and release this reserve to the General Fund.			
S106 Monitoring Reserve	To cover the cost of monitoring s106 obligations in future years. Ring-fenced. Future balances are unknown as do not know what new funding will be received.	36	Unknown	Unknown
Special Reserve	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. To be retained in the short-term in case of any impacts from carrying out the budget review mentioned in paragraph 8.9.4. Known commitment of £125k in 2020/21.	1,395	1,307	Unknown
Street Furniture	To fund new street furniture as and when required. Rarely used so release to General Fund and reflect costs as and when the need arises.	21	0	0
Street Name Plates	To fund Street Name Plates as and when required. To maintain until Local Plan is adopted and then review.	16	16	16
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. Reflects that additional grant will be received in 2020/21 and that this will be used first.	115	181	181
Taxi Reserve	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. Expected to be used in 2020/21 for re-marking the taxi ranks and new taxi rank signage, in addition to reviewing the existing taxi rank provision.	13	5	0
Town Centre Maintenance	For the implementation of the Town Wide Reviews and ad hoc town centre maintenance.	45	53	53
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. To be spent over the next 3 years.	347	395	265
Waste Reserve	AFM monies are transferred to help mitigate any potential risk to the waste service, for example the construction of a Northern Transfer Station.	631	650	650
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.	253	554	913
Welfare Reform Grants Reserve	Awarded to the Authority for different initiatives or changes relating to Housing & Council Tax benefit	190	200	Unknown

Name of Reserve	Purpose of Reserve	Balance at 1 April 2019	Estimated Balance at 31 March 2020	Estimated Balance at 31 March 2021
	scheme. These grants will be used when the initiatives or changes are carried out, and therefore the exact timing of usage is unknown.			

8.4.3 The MHCLG grants reserve includes the gain made by the Council from being part of the Business Rates Pool in 2018/19 of £368k. There is no reason for this to be kept in this reserve and it is proposed that this is transferred to the General Fund. The remaining balance in this reserve is the section 31 grants received for Business Rate reliefs, which are used to off-set the shortfall on the Collection Fund and the payment of the business rates levy.

8.4.4 The following other reserves show the balance being reduced to zero. This is because they are no longer needed and the balances will be moved to the General Fund:

- Community Right to Challenge Reserve - release £45k to General Fund
- Environmental Warranty Reserve - release £209k to the General Fund
- Property Maintenance Reserve - release £82k to the General Fund
- Street Furniture Reserve - release £21k to General Fund

8.4.5 As at the 31 March 2019 there was a total of £1.527m held as provisions. These comprised of:

- Business Rates appeals - £1.501m - the NHDC estimated share of outstanding business rates appeals
- Insurance - £0.026m - covers the uninsured aspect of outstanding insurance claims.

8.4.6 NHDC operates with a reserve balance for General Fund activities in order to provide a cushion against unexpected increases in costs, reductions in revenues and expenditure requirements. Guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) suggests that the revenue balances should be set at no less than 5% of net revenue expenditure, having taken account of the risks faced by the Authority in any particular year. As net expenditure is anticipated to be around £15million, this means a minimum balance of about £750k. However as the Council has become more reliant on generating income to set a balanced budget, an additional 3% of budgeted income (excluding Housing Benefit, grants and other contributions) will also be included in determining the minimum level. Income from fees, charges, interest and rentals is forecast to be £11.6m and therefore an additional allowance of £347k will be added. This minimum figure represents the cushion against totally unforeseen items. When setting the level of balances for any particular year, known risks which are not being budgeted for should be added to this figure, according to risk likelihood.

- 8.4.7 An assessment of the risks has been compiled for the coming year based on risks identified by each Service Director and cross-referenced to the risk register. The identified areas are where the financial impact is not wholly known, but an estimate can be made. The amount allocated is based on the forecast likelihood of occurrence. Where there is a high likelihood, 50% of the estimated financial impact is allowed for. For medium likelihood, it is 25%. For low likelihood, it is 0%. Table 4 summarises the risks, the forecast impact and the risk allowance to be made. A full list of these risks is shown in Appendix A.

Table 4- Budget Risks in 2020/21

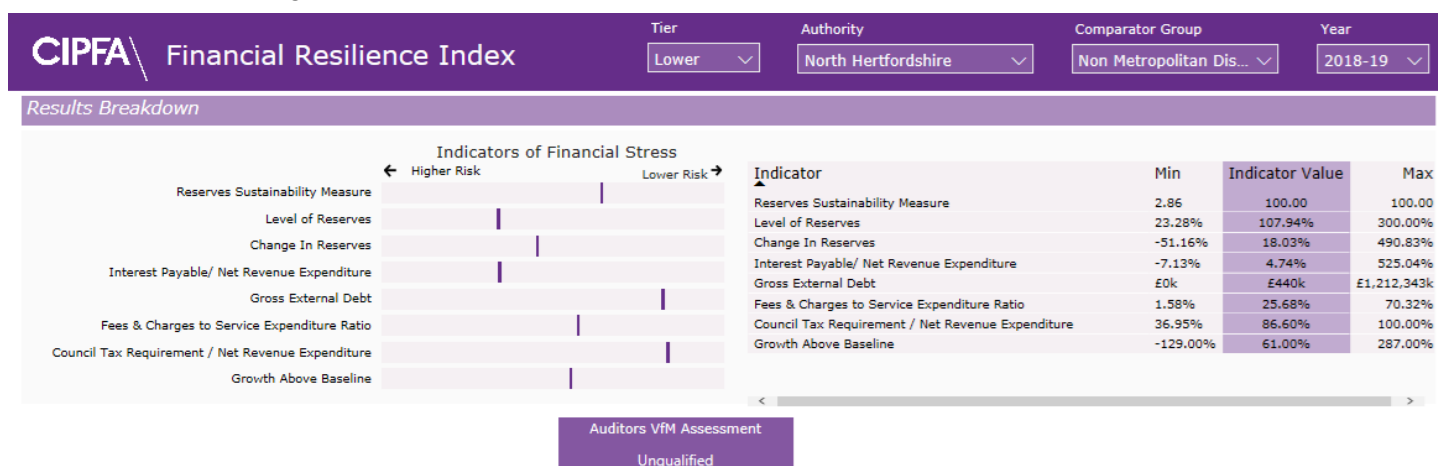
Category	Number of Risks	Forecast Value of Impact (£000)	Risk Allowance (£000)
Low	18	5,453	0
Medium	15	1,665	416
High	12	1,870	935
Total	45	8,988	1,351

- 8.4.8 Combining the risk allowance for specific risks and unknown risks means that a General Fund balance of at least £2.45million should be maintained. This is what is recommended by the s151 Officer (Chief Finance Officer).

8.5 Council Resilience

- 8.5.1 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) have developed a financial resilience tool. This uses historic publicly available data to compare indicators of financial stress across similar Local Authorities. The results for NHDC in comparison with other non-Metropolitan Districts for the latest year (2018/19) are shown in the image below.

Image 5- Financial Resilience results



- 8.5.2 The table on the right shows the performance of NHDC in the middle (purple column) against 8 measures. It also shows the minimum and maximum values for the comparator group. Note that it swaps about as to whether minimum or maximum is good (lower risk). The graph on the left shows how NHDC sits (on a ranking basis) against all the Authorities in the comparator group.
- 8.5.3 The purple box at the bottom confirms that we have an unqualified (which is good) assessment from the Council's Auditors in relation to the processes we have in place for delivering Value for Money. This will be the case for the vast majority of Local Authorities.
- 8.5.4 The Reserves Sustainability measure shows the depletion (or addition) to reserves over the last 3 years. It does this by taking the use of reserves over the 3 years as a proportion of the current reserves level and converting this to a ratio. Where reserves have stayed the same or gone up, the ratio is shown as 100. This is the case for NHDC, and this is the lowest risk position. In the medium term, if the Council end up using reserves to balance the budget then this value will drop. Currently the vast majority of the comparator group are in the same position as NHDC (i.e. at 100).
- 8.5.5 The Level of Reserves measure shows total reserves (General Fund and specific) as a proportion of annual net expenditure. This shows that NHDC has a bit more in reserves (108%) than is spent each year. The maximum value that can be achieved has been capped at 300%. This shows that NHDC is relatively high risk, but the key here is that it is in relation to others rather than being an absolute concern.
- 8.5.6 The Change in Reserves measure is very similar to the Reserves Sustainability measure. For NHDC it shows that reserves have increased by 18% over the last three years. This is a low increase in comparison to others, but is not an absolute concern.
- 8.5.7 The next two measures reflect that borrowing money (for whatever purpose) is risky. The Interest Payable / Net Revenue Expenditure measure is skewed for NHDC by an accounting adjustment. As part of the waste contract the contractor provides vehicles to perform the service. Under accounting rules there is a requirement to show these as our assets and an off-setting debt owed. Each year part of the revenue cost of the service is reallocated as a repayment of the debt and a notional interest charge. This notional interest charge does not create a risk to the Council. In future years, the finance team will look at alternative ways to complete the data that the resilience index is based on.
- 8.5.8 For the Gross External Debt measure NHDC has historic borrowing that it could afford to repay, but the premium for doing so does not make financial sense. The risk is comparatively low anyway. Therefore there are no concerns in relation to this measure.

- 8.5.9 The Fees and Charges to Service Expenditure Ratio shows the proportion of total service expenditure that is funded from fees and charges, rather than general funding (e.g. Council Tax, Business Rates). CIPFA assume that more expenditure that is funded from fees and charges equates to lower risk. As fees and charges could be from a volatile income source (e.g. parking income is dependent on usage), the opposite assumption could also be made. NHDC is about in the middle and there are no concerns in relation to this measure.
- 8.5.10 The Council Tax Requirement / Net Revenue Expenditure measure shows the proportion of net spend that is funded from Council Tax, as opposed to other funding sources (e.g. Business Rates, New Homes Bonus). NHDC funds 87% of its spend from Council Tax and this is considered to be relatively low risk. This will be due to the fact that Council Tax is a relatively stable income source, with some inflationary increase allowed. With referendum limits on increases, this is mainly a measure of history and there is nothing that can be done about it now for those that are lower down. It does suggest that the resilient option to pursue is to continue to increase Council Tax by the maximum amount allowed.
- 8.5.11 The Growth above Baseline measure shows actual Business Rate income compared with the Baseline Business Rate level (an assumed amount used in funding formulae that determines how much of the Business Rate income that the Council collects that it can keep). Business Rate income is uncertain, especially with a Baseline reset due. Therefore being above the Baseline is considered to be high risk. NHDC is 61% above the baseline. The Council uses the Baseline funding level to set its budget and treats any income that it can retain above that as a bonus. Therefore there are no concerns in relation to this measure.
- 8.5.12 Overall, it is the Chief Finance Officers view that there are currently no concerns in relation to the resilience index.

8.6 Expenditure Forecasts

- 8.6.1 The starting point for forecasting net expenditure for future years is the previous year's budget, as set in February 2019. This is then adjusted by:
- Any changes since then identified in revenue budget monitoring that have an impact in future years (Quarter 3 2018/19, End of Year 2018/19, Quarter 1 2019/20 and Quarter 2 2019/20)
 - A budget review at the end of November- see paragraph 8.6.2 below.
 - Any relevant decisions made by Full Council
 - Savings (including efficiencies, income generation and service changes) identified in this report at Appendix B.

- Investments (including increases in service and non-inflationary cost pressures) as identified in Appendix B.
- Estimates of expenditure (including pay) and income inflation.
- Any other significant changes, e.g. pension contribution rates.

8.6.2 A review of budgets as at the end of November has been carried out. Table 5 below provides explanations for the variances that are greater than £25k, as well as any budgets where there are carry-forward requests. All other variances are included within the 'other minor variances' line at the bottom of the table.

Table 6- Summary of forecast variances (amounts £000)

Budget Area	Current Working Budget	Forecast Outturn	Variance	Explanation for variance	Carry-forward requested	2020/21 Budget impact
PCN Income	(595)	(664)	(69)	Increase in projected PCN income is based on the level of activity this year. The current full complement of staff in post has meant a greater number of traffic offences being identified and penalty notices issued.	0	0
Area Committee Grants	82	60	(22)	The underspend requested to be carried forward comprises £12.9k for Letchworth, £1.5k for Royston and £7.5k for Southern Rural. This is largely due to fewer grant applications than anticipated being received and also represents grants awarded but not yet released pending evidence of criteria being met.	22	0
Health and Wellbeing Initiatives	21	5	(16)	Service resource and delivery has been affected by staff absence in this year. A carry forward of the unspent budget is therefore requested to deliver a number of projects and services that have been postponed.	16	0
Transport User Forum	50	0	(50)	The inaugural meeting of the Forum has taken place. As resulting work streams and associated expenditure are still to be clarified, this budget is requested to be carried	50	0

Budget Area	Current Working Budget	Forecast Outturn	Variance	Explanation for variance	Carry-forward requested	2020/21 Budget impact
				forward.		
Total Explained Variances	of (442)	(599)	(157)		88	0
Other Minor Variances	15,712	15,669	(43)		0	1
Total General Fund	15,270	15,070	(200)		88	1

- 8.6.3 Budget proposals were put forward for discussion at Group workshops in November. To give the full context, these proposals included both savings and investment proposals. The comments made by the Groups were presented for consideration alongside the budget proposals at the December meeting of Cabinet. The lists of savings and investments agreed by Cabinet at the December meeting are attached at Appendices B and C respectively.

8.7 Revenue effects of capital

- 8.7.1 The Council incurs some interest costs in relation to historic borrowing for capital purposes. The small cost of this is reflected in budget estimates. If the Council was to take out new borrowing for capital purposes then it would incur revenue costs in relation to interest payments and Minimum Revenue Provision (MRP). MRP is explained in the Investment Strategy report. As identified in the Investment Strategy report, the Council does not need to borrow to fund core capital spend, as it is forecast that this can be funded from existing capital reserves and the generation of new capital receipts. The Council would need to borrow for non-service property development and acquisition. However as it is a requirement of any such investment that the income generated provides a margin above the borrowing costs, the prudent decision has been taken to present this as a net nil revenue cost (i.e. the income is not shown and nor are the borrowing costs). This is because the exact scale and timing of any such investments will depend on the opportunities available.

8.8 Reliability of Estimates

- 8.8.1 As part of the budget setting process, the Chief Finance Officer is required to comment on the reliability of the estimates made. A prudent approach has been adopted, especially in relation to income where it is only included where there is a high degree of certainty over it being achieved. The main area of uncertainty is in relation to pay inflation, which has been assumed to be 2%. The national pay bargaining process is underway but it is unknown when it will be concluded. The 2% assumption is in line with the majority of Councils, and the allowances made are a factor in where the negotiations will end up. It should however be noted that the Union claim is for a 10% increase.
- 8.8.2 Overall it is considered by the Chief Finance Officer that the estimates made are reliable. They will be subject to some risk and this is the reason for setting a minimum General Fund balance and carrying out budget monitoring throughout the year.

8.9 Cumulative impact and decisions

- 8.9.1 The cumulative impact of all the estimates described in the previous sections (and recommendations below) is provided at Appendix C. This shows a forecast of funding and net expenditure for the next four years, including the impact on the General Fund balance.
- 8.9.2 This shows a significant budget surplus in 2020/21, but a significant deficit in 2021/22 onwards. The surplus in 2020/21 is mainly as a result of negative RSG not being introduced and the transfer of pooling gains from the specific reserve to the General Fund. The deficit in following years is mainly as a result of both the assumption that negative RSG (or an equivalent reduction in funding) will be introduced and the known reductions in New Homes Bonus.
- 8.9.3 Whilst it might seem perverse to increase Council Tax by the maximum allowed when the Council is forecasting a budget surplus in 2020/21, not increasing it by the maximum amount would reduce the funding available in future years (unless an increase above the referendum limit was then considered) and make the ongoing position (2021/22 and beyond) worse. The proposal is therefore that Council Tax should be increased by the maximum allowed (£5 for a Band D equivalent) and the surplus in 2020/21 is put in to the funding equalisation reserve (along with the balance from this year, 2019/20). This should provide more time to implement the savings that are likely to be required to address the future forecast budget gap.

8.9.4 Based on current forecasts the Council will need to reduce its net annual revenue expenditure by over £1.2m. Due to the creation of the funding equalisation reserve proposed above and fairly high General Fund balances, this could be achieved over a four year period. The profile of net savings needed to be delivered would then be £400k in 2021/22, a further £400k in 2022/23 and at least another £400k in 2023/24. This is a net savings requirement and any new investments will increase the level of gross savings required, therefore there is very limited scope for any new investments (unless they are genuinely time-limited). Some of these savings could be delivered from commercial opportunities, including property development and acquisitions. However these can only be built in as savings when there is a known project with a business plan and evidence that it can be delivered. Even then commercial and property income is inherently risky and the Council will need to have a contingency plan as to how it will deal with any shortfall.

8.9.5 As a result of the time it can take to implement savings, there is a need to start budget planning early in the new financial year. As the opportunity for any further efficiencies is expected to be very limited, this will include a review of all current spend identifying those areas which are discretionary services or services that are delivered in excess of the statutory requirement. This will be used to identify areas where service changes could be made.

There will be public consultation on the results of this to determine which areas of spend residents value the most and therefore areas where service levels can be reduced. However it should be noted that the majority of the Council's spend is on statutory services and therefore given the scale of expenditure reductions required, it is possible that the continuation of discretionary services, at least in their current form, might be quite limited.

8.9.6 In the recommendations, Cabinet are asked to make the following decisions:

- Approves the decrease in the 2019/20 working budget of £200k, as detailed in table 5.
- Approves the carry-forward of £88k of budget in to 2020/21, as detailed in table 5.

8.9.7 In the recommendations, Cabinet are asked to recommend to Council that they make the following decisions:

- Approves the transfers to/ from reserves as detailed in 8.4.2 to 8.4.4
- Notes the forecast savings target for future years and confirms the approach to balancing the budget, as detailed in paragraph 8.9.4.
- Notes the position on the Collection Fund and how it will be funded
- Notes the position relating to the General Fund balance and that due to the risks identified a minimum balance of £2.45 million is recommended.
- Approves the savings and investments as detailed in Appendix B.
- Approves a net expenditure budget of £14.974m, as detailed in Appendix C.

- Approves a Council Tax increase of £5 for 2020/21 for a band D property, with other increases pro-rata to this (as per the Medium Term Financial Strategy)

9. LEGAL IMPLICATIONS

- 9.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council.
- 9.2 Cabinet's terms of reference include recommending to Council the annual budget, including the capital and revenue budgets and the level of council tax. Council's terms of reference include approving or adopting the budget.
- 9.3 Members are reminded of the duty to set a balanced budget and to maintain a prudent general fund and reserve balances.

10. FINANCIAL IMPLICATIONS

- 10.1 As outlined in the body of the report.

11. RISK IMPLICATIONS

- 11.1 As outlined in the body of the report.
- 11.2 There are significant uncertainties and risks with regard to the funding of NHDC over the medium term. In particular the impact from the outcomes of the Fairer Funding review and 75% Business Rates retention.

12. EQUALITIES IMPLICATIONS

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

13. SOCIAL VALUE IMPLICATIONS

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

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 Where efficiency proposals directly affect staff, it is important that all affected staff are consulted and supported at the earliest opportunity and the Council's HR policies and procedures are followed.
- 14.2 Paragraph 8.8.1 highlights the uncertainty over future pay inflation and that this is still subject to national pay bargaining.

15. APPENDICES

- 15.1. Appendix A- Financial Risks
- 15.2. Appendix B- Revenue Budget Savings (including efficiencies, income generation and service changes) and Investments (including increases in service and non-inflationary cost pressures)
- 15.3. Appendix C- Budget Summary 2020-24

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17. BACKGROUND PAPERS

- 17.1. Medium Term Financial Strategy 2020-25

Appendix A- Identified Financial Risks 2020/21

Service Directorate	Financial Risk Ref. No.	Risk	High/ Medium/ Low	Risk Value £	%	Total Risk Assessment £
Commercialisation	FR1	Adverse possession of land/buildings (litigation costs). Protection of "Village Greens". Signs/fences need to be constructed to avoid residents claiming ownership rights.	M	35,000	25%	8,750
	FR2	Contamination clear-up costs for disposal/vacant sites	M	500,000	25%	125,000
	FR3	Difficulties in recruiting Estates Surveyors hinders the achievement of the anticipated additional commercial rent income agreed from rent reviews undertaken in the year.	L	50,000	0%	0
	FR4	Arrangements for the management of Hitchin Market following the expiry of the current contract generate a lower financial return to the Council.	H	20,000	50%	10,000
Customers	FR5	Fines for breaches of the EU General Data Protection Regulation by the Council or by NHDC outsourced providers when handling and storing data originally collected by NHDC	L	500,000	0%	0
	FR6	Bad Debt Provision may need to increase in light of the roll-out of Universal Credit and in particular the managed migration of working age housing benefit clients to Universal Credit.	M	70,000	25%	17,500
	FR7	Ransomware attack results in the write-off of IT hardware and infrastructure.	L	200,000	0%	0
	FR8	Failure to meet projected Careline sales income as a result of the loss of a corporate client or fall in the number of private clients.	H	50,000	50%	25,000
Legal & Community	FR9	District by-election	L	4,000	0%	0
	FR10	Legal team resources - requirement due to recruitment/retention issues to use temp. staff or outsource work. Additional external expertise for assistance with the delivery of key Corporate projects or Governance issues	M	100,000	25%	25,000
	FR11	Legal expertise related to employment cases	M	50,000	25%	12,500
	FR12	The Council is required to meet the cost of any award from new or ongoing judicial reviews.	H	100,000	50%	50,000
	FR13	Possible procurement challenge. Legal costs and costs of re-tendering if necessary.	L	100,000	0%	0
	FR14	Costs incurred from an increased number of prosecutions pursued in court, for example due to persistent flytipping.	M	50,000	25%	12,500
	FR15	Domestic Homicide Review – requirement for additional resources to respond	L	15,000	0%	0

Service Directorate	Financial Risk Ref. No.	Risk	High/ Medium/ Low	Risk Value £	%	Total Risk Assessment £
Place	FR16	The council is forced to re-tender a major contract if a contractor is unable to deliver a contract for any reason .	L	300,000	0%	0
	FR17	Increase in the net cost of recycling services due to either or all of ; adverse changes in the market prices for commodities; a reduction in the volume of recyclates collected; a change in the material composition of the recyclates collected	H	100,000	50%	50,000
	FR18	Reduction in funding from third party agency agreements for contracted grounds and/or tree maintenance works.	L	50,000	0%	0
	FR19	Costs resulting from a localised flooding event that is associated with water courses within the responsibility of NHDC to maintain.	L	50,000	0%	0
	FR20	Cost of felling and destroying trees as a result of pests and tree disease.	L	75,000	0%	0
Regulatory	FR21	Lack of resilience in delivering key statutory services, such as Environmental Health and Planning, when staff absence occurs (other than normal leave) e.g. medium/long term sickness, staff resignations, etc... increases expenditure on agency staff and / or consultancy advice to maintain service provision.	H	40,000	50%	20,000
	FR22	Usage of bed and breakfast accommodation for homeless households.	M	180,000	25%	45,000
	FR23	Dangerous structures - where the Council is unable to recover the costs incurred in making the structures safe because, for example, the owner of the property is not known or the land/building is unregistered.	L	50,000	0%	0
	FR24	Specialist advice required with regard to planning applications, e.g. town centre schemes and "hostile applications".	M	100,000	25%	25,000
	FR25	Costs associated with a challenge to a decision of the Council, for example an appeal against a planning decision, judicial review or threat in advance of a planning decision, Secretary of State call in or holding direction.	H	500,000	50%	250,000
	FR26	Enforcement – costs in relation to enforcement through for example: specialist legal advice, direct action or appeal processes.	M	100,000	25%	25,000
	FR27	New duties and obligations associated with government policy, e.g. Brexit, require additional and/or specialist staff or consultancy support to deliver.	M	100,000	25%	25,000
	FR28	Local Plan: additional costs associated with progressing the Local Plan.	H	250,000	50%	125,000
	FR29	Local Plan: costs associated with a challenge to the Local Plan either from the Council or another stakeholder/authority	H	450,000	50%	225,000
	FR30	Theft of, or damage to, parking pay & display equipment	M	20,000	25%	5,000

Service Directorate	Financial Risk Ref. No.	Risk	High/ Medium/ Low	Risk Value £	%	Total Risk Assessment £
	FR31	Income related to planning applications is lower than the budget expectation as a result of a delay to Local Plan progress or the economic impact of Brexit.	H	250,000	50%	125,000
	FR32	Hertfordshire Home Improvement Agency fail to recover sufficient fees, based upon application throughput, resulting in additional payment requested by HCC to cover costs.	H	15,000	50%	7,500
Resources	FR33	Assumed vacancy saving within staffing payroll budgets does not materialise as a slim staffing structure reduces both employee turnover and the capacity to hold posts vacant for any significant period of time.	L	300,000	0%	0
	FR34	Breach of partial-exemption calculation for VAT	L	300,000	0%	0
	FR35	The Council's compliance contractors identify exceptional repairs and maintenance required for Council properties.	M	50,000	25%	12,500
	FR36	Localisation of Business Rates – The council is directly exposed to a range of risks including; business rates levy, safety net.	L	130,000	0%	0
	FR37	Member/Officer Indemnity Agreement is called upon	L	100,000	0%	0
	FR38	Further payments are required under MMI scheme of arrangement	L	20,000	0%	0
	FR39	Treasury Management - potential default by a counter party	L	3,000,000	0%	0
	FR40	Difficulty in recruiting Facilities Assistants results in higher expenditure on agency staff	M	10,000	25%	2,500
	FR41	Employment related risks related to outsourcing, shared services and restructuring	M	250,000	25%	62,500
	FR42	Reduced staffing capacity means that the delivery of efficiency proposals or investment projects is delayed and / or additional staffing resource must be hired externally at a cost premium to the Council.	M	50,000	25%	12,500
	FR43	Alternative arrangements are required to secure the outcomes expected from the corporate compliance contract.	H	75,000	50%	37,500
	FR44	Alternative arrangements are necessary to secure the outcomes expected from the corporate occupational health contract.	H	20,000	50%	10,000
	FR45	Relates to an environmental warranty that was provided to North Herts Homes on the transfer of the Housing stock.	L	209,000	0%	0

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APPENDIX B- REVENUE BUDGET SAVINGS AND INVESTMENTS

New Efficiency Proposals for 2020/21 and beyond

Ref No	Service Directorate	Description of Proposal	Budget Impact	Net Efficiency			
				2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
E1	Customers	Customer Service Centre staffing. Automation of the document verification process means that a vacant part-time post within the Customer Service Centre can be deleted with no adverse effect on service delivery.	Expenditure Reduction	(16)	(16)	(16)	(16)
E2	Customers	Revenues and Benefits staffing. A reorganisation of duties within the team following recent retirements. The reorganisation is reflective of both the impact of Universal Credit and increased process automation. It is anticipated to result in cost savings without impacting negatively on service delivery.	Expenditure Reduction	(43)	(43)	(43)	(43)
E3	Resources	Premises cost savings resulting from the development of the Town Lodge Site. The site is unoccupied and estimated savings are subject to satisfactory completion of the handover to the developer, which is expected early in the next calendar year.	Expenditure Reduction	(68)	(68)	(68)	(68)
E4	Place	Reduction in business rates expenditure following Government announcement of intention to allow Rate Relief on Public Conveniences from 1 April 2020	Expenditure Reduction	(11)	(11)	(11)	(11)
E5	Customers	Closure of the Document Centre. With the implementation of the Outbound Mail contract and the move to paperless Committee meetings, the residual work for the Document Centre is not enough to justify keeping it open. Arrangements are being made with a Local Government partner for the provision of print services for the residual work. The saving value includes the financial impact of the Outbound Mail contract and the residual print work that will be externally sourced.	Expenditure Reduction	(107)	(107)	(107)	(107)
E6	Commercial	Revenue impact from acquisition of property investments in line with NHDC's Commercial Strategy and Property Investment Strategy. Investments acquired in line with these two Strategies will produce new income streams for NHDC over the short, medium and long-term, together with income growth potential to offset inflation. Efficiency value is net of estimated cost of associated professional advice and dependent on approval of corresponding capital investment proposal.	Additional Income	TBC	TBC	TBC	TBC
E7	Commercial	Agreement of full repairing lease for Mrs Howard Memorial Hall. The proposed capital investment to replace the boiler and windows will help to advance negotiations with the tenant. If agreed, the full repairing lease will place all maintenance obligations onto the tenant and generate rental income for NHDC. The capital investment will also improve the property's energy efficiency, potentially helping NHDC's ability to secure an increased rent at the next scheduled rent review.	Additional Income	(5)	(5)	(5)	(5)
E8	Commercial	Letchworth Town Hall rental income. NHDC owns Letchworth Town Hall and the asset is held as an investment property. Rental income follows the end of the rent free period of the lease to North Hertfordshire College from the 1st July 2019. The full repairing lease commenced in 2012 and expires on 2nd September 2037, contains no break options, and is subject to an upwards-only rent review mechanism.	Additional Income	(70)	(70)	(70)	(70)
E9	Resources	Payroll function. Savings are anticipated from both payroll service licence costs, having procured a new payroll service from April 2020 that excludes licence costs for the use of the payroll system, and the integration of elections payroll. The new payroll contract was awarded for a period of five years.	Expenditure Reduction	(6)	(5)	(6)	(6)
E10	Commercial	Agreement of tenancy for the 2nd floor at District Council Offices. Total office accommodation savings resulting from the DCO refurbishment of £50k were previously incorporated within the budget estimates. The efficiency value therefore represents only the additional amount anticipated now that the terms of the lease have been finalised.	Additional Income	(20)	(20)	(20)	(20)
E11	Place	AFM income from Herts County Council. The receipt for recycling performance in 2018/19, received in 2019/20, significantly exceeded the budget expectation. The proposal is therefore to adjust the budget estimates to better reflect the Council's current performance. The reduction in the efficiency value beyond 20/21 is due to the HCC proposal to reduce the total amount allocated to collection authorities by 12.5% per annum (approximately £500k per year) for the next three years (impacting receipts from 2021/22). The actual saving achieved will however depend on the Council's recycling performance relative to other Hertfordshire authorities.	Additional Income	(156)	(87)	(26)	-
E12	Chief Executive	Increase in anticipated level of investment interest income due to the reprofiling of the Capital Programme increasing cash balances available for investment. Efficiency value calculation is subject to update and refinement.	Additional Income	(133)	-	-	-
E13	Legal & Community	Reduction in the budget for Chair's civic dinner and awards ceremony. This will be achieved through a combination of charging for attendance and reducing the costs of the event.	Expenditure Reduction	(3)	(3)	(3)	(3)

E14	Resources	Prior to the housing stock transfer the Council provided mortgages to those who wished to exercise their Right to Buy their Council property. The Council acted as lender of last resort. The Council paid a fee for the administration of these mortgages. These mortgages have now all been paid off so the administration is no longer required.	Additional Income	(4)	(4)	(4)	(4)
Total Net Budget Reduction from new efficiency proposals			Total Expenditure Reduction	(254)	(253)	(254)	(254)
			Total Additional Income	(388)	(186)	(125)	(99)
			Total Expenditure Reduction	(642)	(439)	(379)	(353)

New Revenue Pressures and Investment Proposals

Ref No	Service Directorate	Description of Proposal	Budget Impact	Investment			
				2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
R1	Place	Core waste services contract expenditure. Retention of the weekly collection of residual waste service for multi-occupancy properties, as per report to Cabinet 30.07.2019.	Additional Expenditure	164	164	164	164
R2	Place	Playground Maintenance. Delay the removal of play equipment at Betjeman Road and Farrier Court in Royston to 31st March 2021 to provide sufficient time to re-evaluate the current Green Space Management Strategy with regard to playground provision in the District and align this with a review of the Medium Term Financial Strategy (as per report to Cabinet 30.07.2019).	Additional Expenditure	4	-	-	-
R3	Commercial	Employment of external RICS Registered Valuer to conduct the Council's annual valuations of its fixed assets, to include investment, surplus and various classes of operational properties.	Additional Expenditure	20	20	20	20
R4	Commercial	Appointment of external consultants to deal with the Arbitration of DCO ground rent.	Additional Expenditure	4	-	-	-
R5	Customers	Investigation of the potential for Artificial Intelligence (AI) software to automate processes to enable customer queries to be dealt with more efficiently and reduce the number of customer contacts. The use of AI software will be subject to a business case, which will need to identify savings on an invest to save basis. Estimated investment is for initial license costs associated with the software solution. On-going revenue costs will be met from the delivery of associated efficiencies.	Additional Expenditure	35	-	-	-
R6	Customers	Extension of temporary administrative support to Careline to the end of March 2021. This additional admin support will no longer be required beyond this date as more automated solutions are implemented over the course of the year.	Additional Expenditure	21	-	-	-
R7	Legal & Community	Creation of new post within the Policy and Community Engagement team to assist with the delivery of the administration's Environmental/ Climate and community engagement priorities.	Additional Expenditure	37	37	37	37
R8	Legal & Community	Creation of new post within the Committee, Member and Scrutiny Services team within Democratic Services to assist with the delivery of the administration's new initiatives/ approaches to community engagement. The team will be providing support to three new panels, with around 18 additional meetings and further scrutiny support in respect of task and finish group reviews.	Additional Expenditure	34	34	34	34
R10	Regulatory	The undertaking of town centre strategy reviews, which form part of the documents supporting the Local Plan. It is proposed that the investment will be required in each of the next four years to cover all four towns.	Additional Expenditure	-	40	40	40
R11	Regulatory	Delivery of a single issue Local Plan review to incorporate any emerging Council Priorities re. Climate Change Emergency into formal planning policy for the District. Dependent on the outcome of current Council Priorities work, the estimated two-year programme (2020/21 & 2021/22) would include commissioning of evidence and examination.	Additional Expenditure	40	40	-	-
R12	Regulatory	Continuation of the Electric Vehicle strategy to incorporate any emerging Council Priorities re: the Climate Change Emergency / air quality. While details are not yet known, future implementation may require accompanying capital expenditure.	Additional Expenditure	20	20	20	-
R14	Regulatory	Creation of additional Principal Planning Officer post within Strategic Planning and Enterprise Team. Anticipated medium-term work programme includes projects requiring independent input at a relatively senior level. This includes (but is not necessarily limited to): Local Plan roll-forward, new settlement and forthcoming reviews of Luton and South Cambridgeshire local plans.	Additional Expenditure	64	64	64	64
R15	Regulatory	Integration of a permanent full time Economic Development Officer post within the Council's staffing establishment. This role is currently shared with East Herts for a fixed term.	Additional Expenditure	26	26	-	-

R16	Regulatory	Creation of a part-time (0.5FTE) Contaminated Land officer post. The new role would increase capacity within the Environmental Health team to concentrate on air quality matters and emerging Climate Change Strategies.	Additional Expenditure	26	26	26	26
R17	Resources	Purchase and maintenance of software that will assist in the implementation the Council's Gender Pay Gap Action Plan.	Additional Expenditure	3	2	2	2
R18	Chief Executive	District Wide Survey. The contract for the next two rounds of the District Wide Survey, which is undertaken every two years, has recently been awarded at a slightly higher value than assumed in the current budget estimates. Investment therefore represents the increase in resource required.	Additional Expenditure	-	2	-	2
R19	Place	Introduction of a discounted annual rate of £20 for garden waste collection for eligible customers from 20/21. The discount would be offered to residents who are in receipt of housing benefit or universal credit (approx. 7000 properties). Estimated impact is based on the current overall uptake of the collection service at 50%, with approximately 3,500 customers moving to the discounted rate.	Income Reduction	47	70	70	70
R20	Chief Executive	Provision of e-bulletin service. Initially funded from the corporate Strategic Priorities Fund, subscribers can sign up to a range of topics including waste, jobs, news, parks and countryside. Current subscriber numbers total 8586 and have grown month on month since the service was launched in September 2018.	Additional Expenditure	7	7	7	7
R21	Chief Executive	Additional year of design and hosting of NH Now digital magazine. With the first edition in September 2018, NH Now magazine is produced 3 times a year and promoted via social media. Focus of magazine is on what makes North Herts a great place to live and work, including profiling community groups, local businesses, places to visit and events. While readership has grown, with only 3 editions produced more time is needed to grow readership and evaluate its success. Proposed to survey Citizens Panel for their views on the magazine next year.	Additional Expenditure	2	-	-	-
R22	Chief Executive	Permanent employment of a Digital Media and Engagement Officer. The current two year fixed term post is funded from the corporate Strategic Priorities Fund. The appointment to the role in March 2019 has however already had a significant impact on the level of engagement with the Council through social media, in particular Facebook, primarily through providing the capability to create more interactive content, e.g. videos, picture stories etc... It is therefore now proposed to make the role permanent from April 2020.	Additional Expenditure	32	32	-	-
R23	Place	Delay to the anticipated efficiency from the provision of a Crematorium at Wilbury Hills (see PE3). Delivery of the crematorium and the revenue efficiency is dependent on a successful planning application. The planning application was refused by Central Bedfordshire Council, but NHDC has submitted an appeal against this decision. Whilst the Council feels that there is a good chance of success in the appeal, it will delay the achievement of any savings. The timing and value of savings is based on the Council making a prompt decision to appoint a new partner to deliver the Crematorium (revised profile would see a £50k saving in 2022/23 and £100k per year from 2023/24 onwards). If the Council decided to build the Crematorium itself then the savings could be greater, but would probably take longer to achieve and would require funding to be allocated through the capital budget.	Income Reduction	50	100	50	-
R24	Resources	Renewable energy - gas. The investment value represents the estimated premium for purchasing renewable (green) gas. This is a premium of around 20% on current costs (an additional 0.7p/kWh compared with current rates of around 3.5p/kWh). The actual cost will depend on the availability at the point of agreeing to the change.	Additional Expenditure	10	10	10	10
R25	Resources	Hitchin Fountain. Lady Dixon has agreed to pay for a new floating fountain to go in front of the church in Hitchin. It is believed that this will provide a more reliable water flow than the old pump. The supplier is prepared to provide free maintenance for the first 2 years if the Council agrees to put up an in keeping plaque near to the fountain. The quote for this maintenance after the first 2 years is just under £3k per year.	Additional Expenditure	-	2	3	3
R27	Chief Executive	Interest cost and minimum revenue provision charge in respect of borrowing to finance proposed property investments in line with NHDC's Commercial Strategy and Property Investment Strategy. Currently assumed at zero, but borrowing will be required for property acquisition and development	Additional Expenditure	TBC	TBC	TBC	TBC
R28	Legal & Community	Reverse reduction in Area Committee Grants so that maintained at £42k per year. See PE5.	Additional Expenditure	8	15	21	25
R29	Commercial	Specialist advice in relation to Co-operative Economic Development.	Additional Expenditure	10	-	-	-
R30	Legal & Community	Provide inflationary increase (2%) for MOUs with CVC and Citizens Advice North Herts.	Additional Expenditure	3	7	10	14
R31	Legal & Community	Provide one-off funding for Citizens Advice North Herts.	Additional Expenditure	50	-	-	-

R32	Legal & Community	Central pot for Area Committee Grants.	Additional Expenditure	10	-	-	-
Total Net Budget Increase from new pressures and investment proposals			Total Additional Expenditure	630	548	458	448
			Total Income Reduction	97	170	120	70
			Total Investments	727	718	578	518

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

	Service Directorate	Description of Proposal	Budget Impact	Efficiency			
				2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
PE1	Customers	Restructure of Revenues team. The use of technology means that the service can absorb these changes with no impact on service delivery.	Expenditure reduction	(6)	(6)	(6)	(6)
PE2	Resources	Reduction in the number of audit days delivered by the Shared Internal Audit Service. Proposed to reduce from 400 days in 2017/18 to 360 days in 2018/19, 320 days in 2019/20 and 300 days from 2020/21 onwards. External Audit no longer place reliance on the work of Internal Audit in respect of key financial systems, hence the substantive testing element of this work is no longer required. The Council generally have good controls and therefore there is scope to reduce the time spent on service audits and still retain capacity to target any identified risk areas. The Audit Manager has advised that at 300 days, SIAS would still expect to be able to provide their annual assurance.	Expenditure reduction	(5)	(5)	(5)	(5)
PE3	Place	Provision of a Crematorium at Wilbury Hills. Delivery of the crematorium and any revenue efficiency is dependent on a successful planning application. The estimated efficiency value is based on the proposed terms of the lease, with NHDC receiving an annual base rent of £10k (indexed annually by RPI) plus a percentage (up to a maximum of 10%) of the turnover generated from the Crematorium. The eligible percentage of turnover would be linked to the number of cremations that take place over a 12 month period.	Additional Income	(50)	(100)	(100)	(100)
PE4	Legal & Community	Cease MOU and contractual payments to identified Community Groups. Baldock Town Centre Partnership. Grant ceasing at the end of 2020/21. Amounts to be paid: 2018/19 £6.8k, 2019/20 £4.6k, 2020/21 £2.3k. Hitchin British Schools Museum. Ceasing at end of 2019/20. Amounts to be paid: 2018/19 £4.5k, 2019/20 £2.2k. Sports North Herts. Ceasing at end of 2019/20. Amounts to be paid: 2018/19 £3k, 2019/20 £1.5k. Arts Council for North Herts. Ceasing at end of 2019/20. Amounts to be paid: 2018/19 £5.5k, 2019/20 £2.8k. Stevenage and North Herts Women's Resource Centre. Ceasing at end of 2019/20. Amounts to be paid: 2018/19 £0.7k, 2019/20 £0.4k.	Expenditure reduction	(9)	(11)	(11)	(11)
PE5	Legal & Community	Rolling reduction in area committee grant budgets equivalent to 20% of annual provision. CBP 20/21 UPDATE: Saving amounts extended to 2023/24	Expenditure reduction	(8)	(15)	(21)	(25)
PE6	Legal & Community	Removal of budget provision for District Council elections in 2021/22 as no elections scheduled to be held. UPDATE CBP 20/21: Efficiency value updated for inflation.	Expenditure reduction	-	(93)	-	-
Total Net Budget Reduction from earmarked efficiencies			Total Expenditure reduction	(28)	(130)	(43)	(47)
			Total Additional Income	(50)	(100)	(100)	(100)
			Total Efficiencies	(78)	(230)	(143)	(147)

Investments earmarked in 2020/21 (and/or beyond) resulting from previous decisions

	Service Directorate	Description of Proposal	Budget Impact	Investment			
				2020/21	2021/22	2022/23	2023/24
				£'000	£'000	£'000	£'000
PI1	Regulatory	Review of Social Housing stock- On a four yearly basis, procure consultants to analyse the condition of housing stock in North Herts and/or support activity on measures aimed at resultant findings/current priorities (e.g. helping residents introduce energy efficiency measures).	Additional Expenditure	20	-	-	-
PI2	Regulatory	Local housing market analysis- Appoint consultant biannually to provide information and analysis on the local housing market in order to inform the development of housing policies and strategies. UPDATE CBP 20/21: Remove expenditure budget in 2023/24 as expenditure is biannual	Additional Expenditure	8	-	8	-
Total Net Budget Increase from earmarked investments			Total Additional Expenditure	28	-	8	-
			Total Income Reduction	-	-	-	-
			Total Investments	28	-	8	-

Savings incorporated since 2019/20 Budget approved by Council in February 2019

Report	Service Directorate	Description of Saving	Budget Impact	Saving			
				2020/21	2021/22	2022/23	2023/24
				£'000	£'000	£'000	£'000
Q3 2018/19	Regulatory	Car parking income. Increase in car parking income projection based on actual parking income receipts recorded in the first three quarters of 2018/19, which were higher than anticipated.	Additional Income	(88)	(88)	(88)	(88)
Q3 2018/19	Commercial	Ongoing impact of commercial rent uplifts agreed in the quarter (included within the 'other minor variances' total in table 3)	Additional Income	(17)	(17)	(17)	(17)
Outturn 2018/19	Chief Executive	Apprentice Levy. Original estimate based on 'paybill' of £12million. Paybill since defined as only payments to employees subject to employer NI contributions. For 2019/20 total estimated is £10million, with estimated levy payable of £35k (included within the 'other minor variances' total in table 3).	Expenditure Reduction	(10)	(10)	(10)	(10)
Outturn 2018/19	Customers	IT Support & Maintenance. Cost of remote data communications reduced due to HCC retendering their data networks infrastructure. Use of the tender portal for software contracts over £10k enhanced competition, which resulted in lower renewal prices for several contracts (included within 'other minor variances' total in table 3).	Expenditure Reduction	(13)	(13)	(13)	(13)
Outturn 2018/19	Resources	Premises Insurance. Sales invoices are raised to various leaseholders to recover premises insurance costs. The income raised reduces the total net cost of buildings insurance to the Council (included within 'other minor variances' total in table 3).	Additional Income	(10)	(10)	(10)	(10)
Q1 2019/20	-	Staff costs. Annual saving in employee costs from the two voluntary redundancies agreed by Full Council in February 2019.	Expenditure Reduction	(107)	(107)	(107)	(107)
Q1 2019/20	-	Net total of minor permanent budget adjustments requested at quarter 1 ('other minor variances' total at Q1)	Expenditure Reduction	(33)	(33)	(33)	(33)
Q2 2019/20	Place	Staff Costs. Ongoing annual saving from from the implementation of a new staffing structure for Greenspace Services, approved by the Council's Leadership Team, designed to meet the changing demands placed upon the service.	Expenditure Reduction	(58)	(58)	(58)	(58)
Q2 2019/20	Place	Waste, Recycling and Street Cleansing contract expenditure. The anticipated volume of work outside of the core contract - e.g. collection and delivery of bins, bulky waste collection, additional street cleansing - did not materialise through the first eighteen months of the contract. Therefore proposed to reduce budget ongoing.	Expenditure Reduction	(277)	(277)	(277)	(277)
Q2 2019/20	Regulatory	Car park season ticket income. Increase in income expectation reflects the level of car park season ticket sales in 2019/20, which is similar to last year.	Additional Income	(27)	(27)	(27)	(27)
Q2 2019/20	Regulatory	Income from Penalty Charge Notices. A full team of Civil Enforcement Officers in post has led to a greater number of traffic offences being identified and penalty notices issued.	Additional Income	(41)	(41)	(41)	(41)
Total Savings incorporated since 2019/20 budget agreed in February 2019			Total Expenditure Reduction	(498)	(498)	(498)	(498)
			Total Additional Income	(183)	(183)	(183)	(183)
			Total Efficiencies	(681)	(681)	(681)	(681)

Budget Pressures and Investments incorporated since 2019/20 Budget approved by Council in February 2019

Report	Service Directorate	Description of Pressure	Budget Impact	Pressure			
				2020/21	2021/22	2022/23	2023/24
				£'000	£'000	£'000	£'000

Q3 2018/19	Place	Water and Sewerage costs for Amenity Areas. Invoices based on actual meter readings received for the splash parks highlighted that the estimated bills received previously were significantly underestimated (included in 'other minor variances' total at Q3).	Additional Expenditure	8	8	8	8
Q3 2018/19	-	Net total of minor permanent budget adjustments requested at quarter 3 2018/19 (included in 'other minor variances' total at Q3)	Additional Expenditure	5	5	5	5
Outturn 2018/19	Place	Income from paper collected for recycling. Shortfall in income recorded for 2018/19 was indicative of the continuing fall in paper tonnages collected. Tonnages in 2018/19 were 14% lower than the prior year.	Income Reduction	26	26	26	26
Q1 2019/20	-	Business Rates expenditure. 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.	Additional Expenditure	10	10	10	10
Q2 2019/20	Legal & Community	District Elections expenditure. Based on cost of delivering 2018 and 2019 district elections, where a similar number of seats were contested, proposed to increase the earmarked budget allocation in future years where elections are scheduled by £25k. Increase in cost attributed to rising venue hire prices and higher numbers of postal votes requested.	Additional Expenditure	25	-	25	25
Q2 2019/20	Place	Government Grant income - Weekly food collections from flats. The original government grant of £853k was issued in 2013/14 on the condition that the Council would provide a weekly food collection service for a minimum of five years, in accordance with the Council's grant application. The grant has since been released to the General Fund over the period to fund the additional revenue costs of delivering this service. The application of £33k in 2019/20 represents the final amount of grant remaining.	Income Reduction	84	84	84	84
Q2 2019/20	Place	Income from paper collected for recycling. Projected income based on tonnages collected in the first half 2019/20 and indicative of the trend of declining volumes of paper presented for recycling apparent in recent years.	Income Reduction	84	84	84	84
Q2 2019/20	Place	Commercial Waste and Recycling services income. Fewer customers for trade residual waste collection in 19/20 than the prior year has reduced the income expectation. Partially offset by growth in demand for commercial recycling collections.	Income Reduction	37	37	37	37
Q2 2019/20	Commercial	Income from Hitchin Town Hall Community Facility. Revised income forecast is based on experience to date since the facility opened in 2017. Now that the museum is fully open, it is anticipated that income generated from the facility will increase in future years in line with the business plan, however it is not expected to meet the current budget in the medium-term.	Income Reduction	192	192	192	192
Q2 2019/20	Regulatory	Parking permits online booking system. Software upgrade allows payment to be processed and permit to be automatically issued. Previously after the payment was made online, the details would then need to be entered on the parking management system to issue the permit (included within 'other minor variances' total in table 3).	Additional Expenditure	13	13	13	13
Q2 2019/20	Customers	Government grant income - Business rates cost of collection allowance. Ongoing budget estimate adjusted in line with current level of eligible funding (included within 'other minor variances' total in table 3).	Income Reduction	8	8	8	8
Q2 2019/20	-	Net total of minor permanent budget adjustments requested at quarter 2 2019/20 (included in 'other minor variances' total in table 3)	Additional Expenditure	6	6	6	6
Budget Report 2020/21	-	Triennial Pension Scheme Valuation. Increases in annual lump sum [fixed] contribution recommended by the actuary over the next three years.	Additional Expenditure	27	55	84	84
Budget Report 2020/21	-	Net total of minor permanent budget adjustments requested in the month 8 monitoring within the 20/21 budget report (included in 'other minor variances' total in table 6)	Additional Expenditure	1	1	1	1

Total Net Budget Increase	Total Additional Expenditure	95	98	152	152
	Total Income Reduction	431	431	431	431
	Total Pressures Arising	526	529	583	583

Previously agreed changes, including updates to amounts

Proposed revised amounts in yellow

Reference	Service Directorate	Description	Budget Impact	Pressure / Saving			
				2020/21	2021/22	2022/23	2023/24
				£'000	£'000	£'000	£'000
Q1 2018/19 Revenue Monitor	Commercial	Recruitment of two additional officers to the Commercial Support Team within the Commercialisation Service Directorate. The new posts will lead on the development of a housing investment company and explore new commercial opportunities, while also mapping out, supporting and developing internal services to increase commercial capacity. It is estimated that additional annual resource up to a maximum of £125k is required to meet the cost of the new positions; with maximum additional expenditure in 2018/19 of half this amount (£62.5k) should the recruitment process be successful. The Council's Senior Management Team recommended that the cost of the first two years of these posts should be funded from the Special reserve. UPDATE CBP 2020/21: Profile of pressure updated to reflect appointment to posts at the start of 2019/20 (zero spend in 2018/19)	Pressure	-	125	125	125
-	Chief Executive	Reduction in annual interest payments relating to outstanding loans with Public Works Loans Board. The annual interest payments reduce as the loan principal is repaid. UPDATE CBP 2020/21: Estimates updated and extended to 2023/24	Saving	(1)	(2)	(3)	(5)
Council 31st August 2017		Annual interest (fixed at 3.5%) receivable from NHDC loan to SLL for purchase of gym and fitness equipment at Hitchin and Royston Leisure Centres, approved by Council in August 2017, decreases as the loan principal is repaid. UPDATE CBP 2020/21: Interest income estimate extended to remove interest income budget in 2023/24 (loan principal will be fully repaid by the end of March 2023)	Pressure	3	7	11	13
-	Chief Executive	District Wide Survey (estimated cost £16k) and Citizens' Panel (estimated cost £8k) take place in alternate years. UPDATE CBP 2020/21: Proposed to reprofile budget for Citizens' Panel from a biannual £8k budget to an annual £4k budget as the postal survey of the Panel every two years will no longer take place. There will instead be more regular engagement, including putting on focus groups.	Saving	(12)	4	(12)	4

Total Net Budget Impact	Total Pressures	3	132	136	138
	Total Savings	(13)	2	(15)	(1)
	Net Budget Impact	(10)	134	121	137

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Appendix C - General Fund Estimates for 2020/21 to 2023/24

All amounts £000	2020/21	2021/22	2022/23	2023/24
Net expenditure brought forward	14,597	14,974	14,819	14,797
Planned delivery of savings previously identified	-78	-149	84	0
Planned Investments previously approved	28	-28	8	0
Other previously identified adjustments in future years	56	73	-5	0
Ongoing impact of variances reported in year	-191	70	49	5
New savings proposals	-642	203	60	26
New investment proposals	727	-10	-140	-60
Net pay increments	-25	50	50	50
Pay inflation	262	200	200	200
Forecast Contractual Inflation	169	350	350	350
Forecast Income Inflation	-157	-284	-278	-293
Investment allowance in future years	0	0	0	0
2019/20 Budgets Carried Forward	230	-230	0	0
Further savings tbc	0	-400	-400	-400
Total Net Expenditure	14,974	14,819	14,797	14,675
Council Tax Income	-11,752	-12,122	-12,498	-12,880
Council Tax Collection Fund (Surplus) / Deficit	55	0	0	0
Release of NNDR pooling gain	-368	0	0	0
(Negative) Revenue Support Grant	0	1,136	1,159	1,182
Business Rates	-2,726	-2,780	-2,836	-2,893
New Homes Bonus	-713	-350	-131	0
Other (Council Tax Reduction Scheme payment to Parishes)	39	24	24	24
Total Funding	-15,465	-14,092	-14,282	-14,567
Net funding position (use of reserves)	-491	727	515	108
General Fund b/f (includes transfers detailed in paragraph 8.4.4)	8,400	8,400	8,232	7,717
Funding Equalisation Reserve	491	-559	0	0
General Fund c/f	8,400	8,232	7,717	7,610

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**FINANCE, AUDIT AND RISK COMMITTEE
20 JANUARY 2020**

***PART 1 – PUBLIC DOCUMENT**

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

REPORT OF THE SERVICE DIRECTOR- RESOURCES

EXECUTIVE MEMBER: FINANCE AND IT

CURRENT COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

NEW COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

1. EXECUTIVE SUMMARY

The Investment Strategy provides the following key information:

- A capital programme of £9.357m in 2020/21 and £23.524m for the period 2021/22 to 2024/25.
- Recommendations on the Prudential and other Treasury indicators that will be monitored and reported on during the year (2020/21)
- As the Council has identified a need to borrow for capital purposes, a borrowing and Minimum Revenue Provision (MRP) policy
- The scope of treasury investments where the Council will invest any surplus cash.

2. RECOMMENDATIONS

- 2.1. That Cabinet recommend to Council the adoption of the Investment Strategy (as attached at Appendix A), including the capital programme and prudential indicators.
- 2.2. That Cabinet recommend to Council the adoption of the four clauses in relation to the Code of Practice on Treasury Management (as detailed in paragraphs 8.11 to 8.16).

3. REASONS FOR RECOMMENDATIONS

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

4. ALTERNATIVE OPTIONS CONSIDERED

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

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 All Members were given opportunity to comment on all new Capital investment proposals, as well as existing projects earmarked in future years, at the Member Budget Workshops held in November 2019. Notes of the comments and questions raised at the workshops were provided to Cabinet in December.
- 5.2 Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.
- 5.3 There is ongoing dialogue with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Link).

6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key Executive decision, as the ultimate decision is made by Full Council. However it has been included on the Forward Plan and was first notified to the public on 11 October 2019. This was on the basis that there could have been an Executive decision required.

7. BACKGROUND

- 7.1 The Corporate Business Planning Process begins each year with consideration of policy priorities and the Council's Priorities for the District and a review of the Medium Term Financial Strategy. Finance and other resources are aligned to the strategic priorities as set out in the Council Plan.
- 7.2 Cabinet receives quarterly updates on the delivery and funding of the Council's capital programme, with the report presented at the December meeting of Cabinet providing estimates as at the end of the second quarter of 2019/20. The report advised that total expenditure of £11.881m would be required to deliver the current capital programme for 2019-2024, with £5.886m forecast to be spent in 2019/20. Table 1 below details the changes to the existing capital programme reported to Cabinet since the Capital Programme was approved by Full Council in February 2019.

Table 1

	2019/20 £m	2020/21 £m	2021/22 to 2023/24 £m
Original Estimate approved by Full Council February 2019	8.213	0.962	2.128
Changes approved by Cabinet in 2018/19 Capital Outturn Report	1.007	0	0
Changes approved by Cabinet at 1 st Quarter	-1.398	1.408	0
Changes approved by Cabinet at 2 nd Quarter	-1.936	1.450	0.047
Current Capital Estimates	5.886	3.820	2.175

- 7.3 Members were given opportunity to comment on all new Capital investment proposals, as well as existing projects earmarked in future years, at the Member Budget Workshops held in November 2019. Notes of the comments and questions raised at the workshops were provided to Cabinet in December.
- 7.4 The Treasury Strategy Statement for 2019/20 was approved by Council in February 2019. A mid year review of the Treasury Strategy was provided to Council in January 2020. There have been no changes made to the Strategy during the course of 2019/20.

8. RELEVANT CONSIDERATIONS

- 8.1 The proposed Investment Strategy is attached at Appendix A. Council are asked to approve this strategy, which includes the following:
- New capital investment proposals totalling £32.945m
 - A total capital programme for the period of 2020/21 to 2024/25 of £32.881m.
 - Adoption of a treasury strategy that covers borrowing and investment forecasts and limits, including prudential indicators
- 8.2 The following are provided as appendices to Investment Strategy, and are also appendices to this report:
- Appendix A1- A full list of planned future capital expenditure (2020/21 onwards)
 - Appendix A2- A list of new capital schemes and schemes planned to commence from 2020/21
- 8.3 The format of the Investment Strategy is described in the introduction section (pages 2 and 3). The following sections highlight the significant considerations in relation to this version of the Strategy.
- 8.4 As detailed in table 7 on page 14, there is an allocation of £20m that is aligned to the Property Acquisition and Development Strategy. In addition, there is an allocation of £3m for spend on residential property that is funded from capital reserves and programmed in 2019/20. This is likely to slip into 2020/21 and will be reported in the third quarter monitoring report. Tables 8 (on page 16) provide an assessment of the Security, Liquidity and Yield of the projected spend on these assets. Table 9 (on page 16) details that the assessment of the expected risk of loss will be carried out as part of individual business cases.
- 8.5 As detailed in table 11 (on page 17) based on forecasts of capital receipts and spend, the Council will have a need to borrow to fund the capital programme. This will require £3.8m of borrowing in 2020/21, rising to £4.9m in 2023/24, £11.5m in 2024/25 and up to £20.0m by the end of 2029/30. As detailed on page 19, the Council can consider whether to borrow internally or externally. The advantages and disadvantages of each are also considered on pages 19 and 20. Based on this, and the uncertainty over value and timing of capital receipts it is considered that the Council should assume that it will need to borrow externally. This will be given further consideration at the time that any borrowing is needed. If the forecast is that the need is more likely to just be for a short period (e.g. there is greater certainty over capital receipts) or there is a clearer indication over future interest rates (e.g. they are not likely to rise) then internal borrowing will be reconsidered.

It is also possible that there will not be the need to borrow that is identified if there is slippage on the capital programme, this is particularly likely in relation to the investments described in paragraph 8.4 above as they are dependent on there being the right opportunities.

- 8.6 Where the Council has a need to borrow then it incurs a revenue charge known as a Minimum Revenue Provision (MRP). For external borrowing there is also a need to pay interest costs. The need to borrow in effect comes from the decision that has been made to invest £20m in line with the Property Acquisition and Development Strategy. The primary reason for any such investment is for the purposes of its functions or the benefit, improvement or development of its area. However investments will only be taken forward if they generate a return of 1.5% above the greater of the actual or notional cost of capital (to calculate an assumed cost of MRP and interest to reflect opportunity cost where it is actually funded from capital reserves). This reflects suitable compensation for the risks of property investment. This return has not been factored in the revenue budgets and nor will the costs of capital (interest charges and MRP). This is considered to be a prudent net approach to take. The totals for Treasury Indicator 6 on page 24 are based on existing investment assets and spend in line with the capital programme on residential property and investments in line with the Property Acquisition and Development Strategy. The annual income is based on forecasts for the existing investments and an assumed return of 7% for new investments (2.5% MRP + 3% interest + 1.5% margin). The loans are in accordance with the identified need to borrow and the cost of borrowing is assumed at 5.5% (2.5% MRP and 3% interest).
- 8.7 As detailed on page 25, as the Council has a borrowing requirement, it needs to determine a MRP policy. The current capital programme is a combination of spend on service provision and investments that should generate a consistent return over time. Therefore it is considered appropriate to use adopt an equal instalment MRP policy. This can be reviewed in future if the Council ever looked at an investment with a return profile that increased over the life of the asset.
- 8.8 Table 17 on page 29 details where the Council can invest its surplus cash. This sets limits to ensure appropriate diversification. The following changes are proposed compared to last year:
- Last year there was a combined limit of 60% for Building Societies and Property Funds. Property Funds are generally exposed to commercial property and Building Societies to residential property. Therefore it is proposed to remove this link.

- Instead Building Societies will be linked to the capital allocation for investment in residential properties, and this will be limited to 60% of the total available funds. Note that the total available funds are made up of the cash balances (as detailed in table 15 on page 26) plus the £3m for residential properties.
- Given the uncertainty over the actual amount that will be invested in line with the Property Acquisition and Development Strategy, this total is not included within this table. It is also considered that the Strategy itself and each business case will help to ensure that there is cumulative diversification in this investment. The nature of the legal powers available for such investment will generally limit the focus to North Hertfordshire and the surrounding area. An investment in a property fund (as a treasury investment) will have much wider diversification in terms of number of properties, type of properties and location of properties. It is therefore not considered to create a direct linkage between a property fund and capital spend through the Property Acquisition and Development Strategy. However it is considered appropriate to limit investments in UK property funds to 10% in any one fund (or combination of funds).
- To add the option to invest in Ultra-Short Dated Bond Funds. These funds invest in fixed income instruments with very short maturity dates, usually up to one year. This generally provides better returns than money market funds. Whilst this does introduce some capital risk, this is minimised by the short-term nature of such investments. The proposal is that such investments make up a maximum of 10% of the total balance.

- 8.9 Within the investment market, the opportunity for 'green' investments is starting to emerge. These are offering returns that are similar to, or the same as, non-green alternatives for the same level of risk. Subject to these investments being compliant with other aspects of the treasury strategy, then these investments will be prioritised over non-green alternatives.
- 8.10 The Code of Practice on Treasury Management requires that a report be submitted to Full Council setting out four clauses which should be formally passed in order to approve adoption of the code. The four clauses are detailed below, including how they are met by the Council. As recommended by CIPFA, where appropriate these are included within the Council's Constitution and Financial Regulations.
- 8.11 Clause 1 relates to creating and maintaining a Policy and practices as a cornerstone for effective treasury management.

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

- This organisation defines its treasury management activities as: “The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
- This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
- This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

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

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

- 8.14 Clause 2 relates to the reporting on treasury activities. These are set out in the Investment Strategy on page 3.
- 8.15 Clause 3 relates to the delegation of responsibility for the implementation and regular monitoring of its treasury management policies. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet (Constitution 5.6.9) and for the execution and administration of treasury management decisions to the Service Director: Resources (Constitution 14.6.12 (a) (iii) and Financial Regulations section 13) who will act in accordance with the Council's policy statement and treasury management practices and the CIPFA Standard of Professional Practice on Treasury Management.
- 8.16 Clause 4 relates to the scrutiny of treasury management strategy and policies. The Council nominates the Finance, Audit and Risk Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies (Constitution 10.1.5 (c)).

9. LEGAL IMPLICATIONS

- 9.1 Full Council will decide the overall capital budget (Constitution 4.3) and approve the treasury management strategy statement (Constitution 4.4.1 (dd)).
- 9.2 Cabinet will recommend to Full Council the annual capital budget (Constitution 5.6.38) and treasury management strategy statement (Constitution 5.6.39).
- 9.3 The Finance, Audit and Risk Committee will consider the Council's policy in relation to Treasury Management and make recommendations on the Annual Treasury Management and Investment Strategy, and Treasury Management Code of Practice (Constitution 10.1.5 (c)).
- 9.4 Section 151 of the Local Government Act 1972 states that: "every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs." That officer is the Service Director- Resources.
- 9.5 The proposed Prudential Indicators contained within the Investment Strategy comply with the Local Government Act 2003. The Investment Strategy has been developed to comply with the statutory guidance from the Ministry of Housing, Communities and Local Government and the CIPFA Prudential Code.

10. FINANCIAL IMPLICATIONS

- 10.1 These are covered in section 8.

11. RISK IMPLICATIONS

- 11.1 Capital investment is sometimes needed to mitigate against a risk to the Council. This is detailed to Members when a new investment comes forward. The risk implications of each individual scheme are considered in project plans as the schemes are progressed. The capital programme assumes a level of third party contributions and grants towards the cost of the schemes. There is a risk that not all the contributions are forthcoming.
- 11.2 Investment risks in relation to treasury management are covered in this report and the Investment Strategy. The TMPs (see 8.13) and Financial Regulations provide controls to manage other risks.

12. EQUALITIES IMPLICATIONS

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no direct equalities implications directly arising from the adoption of the Capital Programme for 2020/21 onwards. For any individual new capital investment proposal of £50k or more, or affecting more than two wards, an equality analysis is required to be carried out. This will take place following agreement of the investment proposal.

13. SOCIAL VALUE IMPLICATIONS

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

14. HUMAN RESOURCE IMPLICATIONS

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

15. APPENDICES

- 15.1. Appendix A - Investment Strategy
- 15.2. Appendix A1 - A full list of planned capital expenditure (2020/21 onwards)
- 15.3. Appendix A2 - A list of new capital schemes and schemes planned to commence from 2020/21

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

- 17.1. None

Appendix A

Investment Strategy (Integrated Capital and Treasury Strategy)

Part 1- Overview

Introduction

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate security and liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending plans. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses.

The Chartered Institute of Public Finance and Accountancy (CIPFA) define treasury management as:

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

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

The format of this strategy is as follows:

Part 2- Capital Spend

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

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

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

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

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

Part 5- Investment Strategy

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

Part 6- Overall Risk considerations

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

Part 7- Glossary of terms

- To explain the various terms used in this strategy.

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

Reporting requirements

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

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

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

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

Basis of Estimates

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

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

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

Treasury Management Policy and Treasury Management Practices

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

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

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

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

Treasury Consultant

The Council renewed its contracted with Link Asset Services to provide treasury management advice for the three year period October 2019 – September 2022. It is recognised that the responsibility for treasury management decisions remains with the Council at all times and the Council will ensure that undue reliance is not placed upon Link. However there is value in employing external providers

of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented.

The performance of the treasury consultant is assessed through regular meetings and the justifications for the advice provided.

Skills and culture

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

Table 1

Group	Reason for training	Training that has been made available
Full Council (All Councillors)	Required to formally adopt this Strategy. Required to approve any capital purchase over £2.5m.	Annual training that provides an introduction to Local Authority funding and accounting. Training session in 2018/19 provided by Link (the Council's treasury advisors) on risk and how it can be assessed, particularly in relation to capital investment.
Finance, Audit and Risk Committee	To review the Council's policies on Treasury, Capital and the Medium Term Financial Strategy. To monitor the effective development and operation of risk management.	Members of the Committee (and substitutes) are encouraged to complete a skills self-assessment. This allows the targeting of specific training. Regular reporting to the Committee on Capital, Risk and Treasury provides the opportunity to ask questions.
Chief Finance Officer and Finance Team	Responsibility for the financial management of the Council (under s151 of Local Government Act, 1972), including capital and treasury management. Provide advice to Budget Holders in respect of financial management. Responsible for reviewing and amending the financial implications sections of reports.	Ongoing Continuing Professional Development for all qualified members of the finance team, including focused training for specific areas of responsibility.
Senior Management Team (SMT)	Individual Service Directors will be responsible for putting forward proposals. Proposals will be reviewed by the Senior Management Team prior to taking through the Committee process. Members of SMT are likely to be involved in negotiating commercial deals.	Training session on risk, risk appetite and assessing risk. Regular updates on the Council's funding and finances, including significant changes in regulations. Training on the core principles of the prudential framework.

Part 2- Capital Spend

Current Capital Assets

As at 31st March 2019, a summary of the capital assets owned by the Council is shown in table 2 below.

Table 2

Asset Type	Asset	Reason for ownership	Value (£000)
Investment Properties	Various	Retained to generate income	18,252
Surplus Land and buildings	Various	Held for future sale or development	11,072
Offices and Storage	DCO	Staff offices, customer service centre and democratic facilities	5,604
Offices and Storage	Unit 3	Off-site storage, back-up IT and emergency planning	407
Leisure Facilities	Hitchin Swim Centre / Archers	Service use	7,368
Leisure Facilities	Letchworth Outdoor Pool	Service use	2,676
Leisure Facilities	North Herts Leisure Centre	Service use	12,612
Leisure Facilities	Royston Leisure Centre	Service use	7,519
Leisure Facilities	Pavilions	Service use	1,759
Leisure Facilities	Recreation Grounds / Play Areas / Gardens/Allotments	Service use	5,919
Community Centres and Halls	Various	Community facilities, generally operated by third parties	11,545
Markets	Hitchin Market	To provide a market	136
Museums and Arts	Hitchin Town Hall and District Museum	District-wide museum and community facility	12,491
Museums and Arts	Letchworth and Hitchin museums, Burymead store	Museum storage	1,425
Cemeteries	Various	Service use	1,465
Community Safety	Various CCTV cameras	Service use	40
IT	Various computer equipment and software	To enable the delivery of other services	322
Parking	Various car parks	Service use	9,478
Waste Collection	Bins	Service use	666
Waste Collection	Vehicles	Service use	2,724
Public Conveniences	Various	Subject to leases/ management arrangements	558
Other	Various	Various	476
Total			107,217

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

Table 3

Asset Type	Asset	Reason for purchase/ expenditure	Value (£000)
Investment Properties	Residential Housing	To generate rental income/ capital appreciation, including conversion of Harkness Court	2,981
REFCUS	Cycle Strategy	Cycle Strategy	278
REFCUA	Transport Plans	Transport Plans	250
IT	Various computer equipment and software	To maintain IT service and provision of equipment in the Council Chamber	586
Various	Various	Capital maintenance of Council buildings	87
Leisure Facilities	Hitchin Swim Centre / Archers	New lift in the Swim Centre. Refurbishment of toilets and showers at outdoor pool. New fitness equipment.	19
Leisure Facilities	Letchworth Outdoor Pool	Refurbishment of toilets and showers at outdoor pool. New safety flooring.	20
Leisure Facilities	Recreation Grounds / Play Areas / Gardens	Decommissioning of play areas, using Capital Receipts direction. Refurbishment of other retained play areas.	558
Museums and Arts	Hitchin Town Hall and District Museum	Mainly works to the Town Hall	190
Parking	Multi-storey car parks	Lighting at Letchworth Multi-storey, wall works at Lairage Car Park, Hitchin.	60
Parking	Street Charging	Install on street charging and pay and display	285
Community Centres and Halls	Various	Grants for refurbishment of community facilities. Relates to properties that are not owned by the Council (REFCUS).	383
Grants	Various	Disabled Facilities Grants and private sector housing grants S106 Grants (REFCUS)	189
Total			5,886

Capitalisation Policy:

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

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

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

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

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

Definitions:

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

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

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

Table 4

Asset (or type of asset)	Security	Liquidity	Yield
Ground leases- mainly of commercial premises in Royston, Letchworth and Hitchin (£15.5m by value)	Generally subject to long leases where the land has been built on. The building would become owned by the Council if there was a default on the lease agreement. Therefore, high security.	It is possible that the Council could try and sell to the leaseholder. Otherwise low liquidity in common with commercial premises.	The assets have been owned for a number of years. Valuations are based on the yield generated.
Churchgate Shopping Centre, Hitchin-ground lease (value £1.9m)	A long lease with upward only rent reviews.	On the basis that it generates a reasonable rental stream, likely to be some interest as an investment. Therefore low to medium liquidity.	Valuations are based on the yield generated.
Letchworth Town Hall (value £0.6m)	25 year lease (from 2012) where the tenant has provided significant investment.	Very low liquidity as would require someone to be interested in this type of building. Listed so would limit redevelopment.	Valuations are based on the yield generated.
Bungalow, Gernon Road, Letchworth (value £0.4m)	Not currently let as a residential premises.	Medium liquidity as part of potential land sale.	None currently
Beverley Close Store, Royston (value £0.1m)	15 year lease from 2017	Low liquidity in common with commercial premises.	Valuations are based on the yield generated. Previously used as a Council store and a decision was made to retain for rental income.
Residential housing (Harkness Court)	The demand for housing is considered to be greater than an office building. Therefore the expenditure on a conversion scheme is expected to increase the security of the asset.	The asset will be more liquid with the benefit of planning permission and building regulation approval.	Not currently generating any income. The conversion will increase the capital value / enable generation of rental income.
Other assets valued at less than £0.1m (£0.3m in total)	Not fully assessed	Not fully assessed	Not fully assessed

Definitions:

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

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

- Assessment of the market that competing in, including nature and level of competition, market and customer needs including how these will evolve over time, barriers to entry and exit, and ongoing investment required.⁴⁺
- Use of external advisers and how the quality of these is monitored
- Whether credit ratings are used and how these are monitored
- Any other sources of information that are used

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

Table 5

Asset (or type of asset)	Fair value assessment	Assessment of the risk of loss
Ground leases- mainly of commercial premises in Royston, Letchworth and Hitchin (£15.5m by value)	Valued on a fair value basis. The valuation is based on rental yields.	Subject to competition from other sites within the same industrial areas and other locations. Difficult (uneconomic) for current lessees to exit due to lease terms and investment in the site. Any maintenance is the responsibility of the leaseholder.
Churchgate Shopping Centre, Hitchin-ground lease (value £1.9m)	Valued on a fair value basis. The valuation is based on rental yields.	External valuations have been commissioned in recent years. These have highlighted the difficulties that face retail and shopping centres in particular. However, the freehold that the Council has is on beneficial terms, and as a result there is a market due to investment returns. Maintenance is the responsibility of the leaseholder. Valuation reports have been checked and challenged by the Council's chartered surveyors.
Letchworth Town Hall (value £0.6m)	Valued on a fair value basis. The valuation is based on rental yields.	The building has some unique features in relation to its prominence and location. However, overall there currently an over-supply of office accommodation in Letchworth. Difficult (uneconomic) for current lessees to exit due to lease terms and investment in the building. Any maintenance during the lease term is the responsibility of the leaseholder.
Beverley Close Store, Royston (value £0.1m)	Valued on a fair value basis. The valuation is based on rental yields.	Subject to competition from other sites within the same industrial areas and other locations. Currently let to a company with significant property interest nearby. Might be difficult to re-let.

Asset (or type of asset)	Fair value assessment	Assessment of the risk of loss
Bungalow, Gernon Road, Letchworth (value £0.4m)	Valued on a fair value basis, reflecting residential property prices	<p>As a residential property, demand remains relatively good. It is competing against other residential properties on the market. There is a risk of a general down-turn in residential property prices.</p> <p>As part of a wider development, a sale has been agreed subject to planning. This is expected to complete around April 2020.</p> <p>If this sale was not successful, an alternative plan would be to retain the property and let through a Council owned company, which would then generate a revenue income.</p>
Other assets valued at less than £0.1m (£0.3m in total)	Not fully assessed	Not fully assessed

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

Use of Capital Receipts Direction:

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

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

Table 6

Asset	Description of future capital expenditure	Forecast Capital Expenditure (£000)					
		2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 to 2029/30
Existing Capital Programme-schemes 2020/21 onwards							
Various	Capital maintenance based on condition surveys	433	255	0	0	0	0 (tbc)
Computer Software & Equipment	To maintain IT services	160	80	475	59	367	1,604
Letchworth Multi-storey car park		134	0	0	0	0	0
Parks and Playgrounds – Howard Park and Holroyd Cres	Replacement and renovation	85	0	0	0	0	0
Various	Private sector housing grants (REFCUS)	60	60	60	60	60	300
Various Leisure Facilities	Condition Survey enhancements	23	0	39	140	0	0
New Capital Programme							
Cemeteries: St Johns, Ickneild Way, Wilbury Hills	Enhance footpaths	20	60	0	10	40	30
Computer Software & Equipment	To maintain IT services	83	0	30	95	54	142
Hitchin Swim Centre	Refurbishment and boiler replacement	40	20	30	40	200	905
North Herts Leisure Centre	Refurbishment and boiler replacement	290	250	130	290	0	270
Royston Leisure Centre	Refurbishment	0	0	255	0	150	380
Various Parks and Playgrounds	Enhancements	0	180	268	405	215	900
NH Museum and Community Facility	Platform Lift Solution	40	0	0	0	0	0
Mrs Howard Hall	Replace Boiler & Windows	63	0	0	0	0	0
Reprogramming (as at Quarter 2)							
Various	Growth Fund Projects	185	0	0	0	0	0
Computer Software & Equipment	To maintain IT services	232	0	0	0	0	0
Various off-street car parks	Resurfacing	0	0	47	0	0	0
Lairage Multi-storey car park	Lifts refurbishment and safety improvements	471	0	0	0	0	0
St Mary’s Car Park	Replace and enhance lighting	60	0	0	0	0	0
Various Leisure Facilities	Condition Survey enhancements	64	0	0	0	0	0

Asset	Description of future capital expenditure	Forecast Capital Expenditure (£000)					
Wilbury Recreation Ground	Replace items of play equipment	10	0	0	0	0	0
Total		2,453	905	1,334	1,099	1,086	4,531

The totals for 2025/26 to 2029/30 are estimates only and could be subject change. These should be treated as early indications only, and formal approval of these amounts is not required.

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

New Capital Assets

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

Table 7

Asset	Reason for capital expenditure	Forecast Capital Expenditure (£000)					
		2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 to 2029/30
Existing Capital Programme-schemes 2012/21 onwards							
Walsworth Common Pavilion	New pavilion	0	300	0	0	0	0
Royston Leisure Centre	Extension to provide a new multi-functional room and increase size of fitness room	0	0	1,000	0	0	0
John Barker Place	Contribution to redevelopment	1,096	0	0	0	0	0
Community Centres and Halls (various)	Grants for refurbishment of community facilities. Relates to properties that are not owned by the Council (REFCUS)	120	0	0	0	0	0
New Capital Programme							
Acquisition of Property Investments	Acquisition of Property Investments	4,000	4,000	4,000	4,000	4,000	0
NH Museum and Community Facility	Museum Storage Solution	1,000	200	0	0	0	0
On-Street Parking	Parking Charging, Payment & Management	235	0	0	0	0	0

Asset	Reason for capital expenditure	Forecast Capital Expenditure (£000)					
Waste and Recycling	Vehicles	0	0	0	0	0	4,000
Waste and Recycling	Northern Transfer Station	0	0	0	0	1,600	0
Hitchin Town Hall	Hitchin Town Hall Additional Bar & Glasswre Infrastructure	25	0	0	0	0	0
Reprogramming (as at Quarter 2)							
S106 funding for Hockey Pitch Royston	New Hockey Pitch	129	0	0	0	0	0
Community Centres and Halls (various)	Grants for refurbishment of community facilities (REFCUS)- allocated in 2020/21 but could be spent across a number of years.	300	0	0	0	0	0
Total		6,905	4,500	5,000	4,000	5,600	4,000

Below is an estimate of the total capital expenditure to be incurred in the years 2020/21 to 2024/25. This is based on tables 6 and 7. This is a Prudential Indicator and the Council is required to set a target for it and monitor against it during the year.

Prudential Indicator 1: Estimate of total capital expenditure to be incurred in years 2020/21 to 2024/25

Year	£m
2020/21	9.357
2021/22	5.405
2022/23	6.334
2023/24	5.099
2024/25	6.686

A full list of planned future capital expenditure (2020/21 onwards) is provided as Appendix A1. A list of new capital schemes and schemes planned to commence from 2020/21 is provided in Appendix A2.

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

Table 8

Asset (or type of asset)	Security	Liquidity	Yield
Residential Property	<p>The underlying value of residential property generally appreciates over the medium term due to the overall shortage of supply. Individual market factors will be considered prior to acquisition.</p> <p>It is likely that the property will be held through a company. The Council's interest will therefore be secured via a loan or equity holding. Any loan can be secured against property. Any equity interest does not offer the same security, but it may be required due to HMRC rules on the funding of companies.</p>	Property is a medium to long-term asset due to the costs of buying and selling. However it is generally possible to sell residential property within a reasonable time-frame if priced accordingly.	The expected rental yield will be compared to the costs of acquisition or construction as part of the business case.
Investments in line with the Property Acquisition and Development Strategy (£20m)	<p>As detailed in the Property Acquisition and Development Strategy, the security of investments will be given a high weighting in determining which ones to take forward. However there will always be some risk relating to both general market conditions and specific factors relevant to individual properties. Spreading the total investment over a number of properties will help mitigate the second of these.</p>	Property is a medium to long-term asset due to the costs of buying and selling, and that property markets can be cyclical in nature. The Property Acquisition and Development Strategy targets those properties that are considered to be more liquid e.g. they have a wider range of tenants and/ or uses.	To reflect the risk of property investment a net surplus of 1.5% (above borrowing, administration and acquisition costs) will be targeted as a minimum.

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

Table 9

Asset (or type of asset)	Assessment of the risk of loss
Residential Property	This will be fully assessed as part of the business case for the acquisition of any properties.
Investments in line with the Property Acquisition and Development Strategy	This will be fully assessed as part of the business case for the acquisition of any properties.

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

Capital Funding

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

Table 10

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 to 2029/30
Forecast Receipts (£000)	890	8,712	6,800	Tbc	Tbc	Tbc

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

As a result of planned expenditure in 2019/20 and future years, the Council forecasts the following use of funding for capital (table 11).

Table 11

Funding Source	Brought forward (at 31/3/19)	Forecast expenditure and funding sources (£000)						
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 to 2029/30
Capital Expenditure		5,886	9,357	5,405	6,334	5,099	6,686	8,531
Less: Set-aside receipts used	5,910	3,562	2,348	0	0	0	0	0
Less: Capital receipts used	2,580	1,299	2,645	5,118	6,334	3,989	60	0
Less: Grant funding used		578	185	0	0	0	0	0
Less: IT Reserve used		5	0	0	0	0	0	0
Less: S106 receipts used		229	399	37	0	0	0	0
Less: Funding from revenue		0	0	0	0	0	0	0
Less: Other Capital Contributions		213	0	250	0	0	0	0
Borrowing requirement		0	3,780	0	0	1,110	6,626	8,531

Definitions:

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

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

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

Prudential Indicator 2: Capital Financing Requirement

Year	£m
As at 31 st March 2019 (actual)	-6.0
As at 31 st March 2020 (forecast)	-2.4
As at 31 st March 2021 (forecast)	3.8
As at 31 st March 2022 (forecast)	3.8
As at 31 st March 2023 (forecast)	3.8
As at 31 st March 2024 (forecast)	4.9

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

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

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

Borrowing strategy

Definitions:

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

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

Based on Prudential Indicator 2 (page 18) the Council has a Capital Financing Requirement from 2020/21 onwards and therefore does have a need to borrow.

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

Table 12

Revenue balance	Brought forward (at 31/3/19)	Forecast balance at year end						
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 to 2029/30
General Fund ¹	7,862	8,400	8,400	8,232	7,717	7,610	7,610	7,610
Add back MRP	0	0	0	0	0	0	0	0
Revenue Reserves ²	7,183	7,683	8,183	8,683	9,183	9,683	10,183	6,183
S106 balances	3,159	2,930	2,494	2,494	2,494	2,494	2,494	2,494
Provisions	1,527	1,527	1,527	1,527	1,527	1,527	1,527	1,527
Outstanding Debt	440	423	4,185	3,978	3,769	4,670	11,030	15,276
Total	20,171	20,963	24,789	24,914	24,690	25,984	32,844	33,090

1 Based on General Fund forecasts as per 'Revenue Budget 2020/21' report up to 2023/24, then assumed that net expenditure and funding will match.

2 Revenue Reserve balance as at 31/3/19 as per 'Revenue Budget 2019/20' report. Then increases in line with contributions to waste vehicle reserve at £500k per year for 7 years. At end of 7 years assumed that this funding will be used to fund new waste vehicles. For simplicity this ignores some of the fluctuations in reserve balances that are detailed in the 'Revenue Budget 2020/21' report.

MRP is added back as it is not an outflow of cash and can be used for internal borrowing. The cash outflow happens when the borrowing is repaid. As explained in the Revenue Budget report, MRP has not been reflected in the revenue budgets so there is not a need to add it back.

As well as the availability of revenue funding, the Council would also need to consider the advantages and disadvantages of external borrowing. Interest rates are still at very low levels and are only expected to go up, which will increase the cost of external borrowing in the future. It may

also be possible to generate higher returns from investing revenue reserves than the interest costs that would be saved. However this has to be balanced against the certainty of interest costs that will be incurred as soon as borrowing is taken out. There is also a need for the Council to retain a certain buffer of revenue reserves as cash to manage the peaks and troughs in its cash balances. Whilst the Council can borrow for short-term cash-flow needs, this can become expensive. Whatever strategy is adopted, it should be prudent.

Without the forecast capital receipts income, the Council's borrowing need would be a lot higher. These receipts are subject to estimates both in terms of value and timing. Given this uncertainty it is considered that the Council should assume that it will need to borrow externally. This will be given further consideration at the time that any borrowing is needed. If the forecast is that the need is more likely to just be for a short period (e.g. there is greater certainty over capital receipts) or there is a clearer indication over future interest rates (e.g. they are not likely to rise) then internal borrowing will be reconsidered. It is also possible that there will not be the need to borrow that is identified if there is slippage on the capital programme.

Table 13

	Brought forward (at 31/3/19)	Forecast amount of borrowing in year (£000)							Carried forward (at 31/3/30)
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 to 2029/30	
Total borrowing requirement	440	0	3,780	0	0	1,110	6,626	8,531	0
Made up of:									
Internal borrowing	0	0	0	0	0	0	0	0	0
External borrowing	440	0	3,780	0	0	1,110	6,626	8,531	15,276

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

Definitions:

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

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

Prudential Indicator 3: External Debt

Year	Forecast Borrowing £m	Forecast other long- term liabilities¹ £m	Forecast Total External Debt £m	Operational Boundary £m	Authorised Limit £m
As at 31 st March 2019 (forecast)	0.440	2.628	3.068	4.2	10
As at 31 st March 2020 (forecast)	0.423	2.125	2.548	4.0	10
As at 31 st March 2021 (forecast)	4.185	1.622	5.807	6.9	12
As at 31 st March 2022 (forecast)	3.978	1.119	5.097	6.9	12
As at 31 st March 2023 (forecast)	3.769	0.616	4.385	5.5	12
As at 31 st March 2024 (forecast)	4.670	0.113	4.783	6	12
As at 31 st March 2025 (forecast)	11.030	0	11.030	12.1	18

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

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

Table 14

Loan Type	Start date	Duration (years)	Maturity date	Amount Borrowed (£)	Balance Outstanding 31/03/20 (£)	Interest Rate (actual or forecast) (%)	Current Annual interest cost (£)
PWLB	08/01/49	80	Oct 2025	5,346	990	3.125	34
	16/09/49	80	Jul 2029	380	46	3.0	1
	10/05/46	80	Jan 2026	10,150	1,797	3.125	62
	12/11/48	80	Jul 2028	13,885	3,420	3.0	110
	23/09/60	60	Jul 2020	4,570	139	6.125	21
	18/08/61	60	Jul 2021	13,817	1,376	7.0	141
	28/07/64	60	Jul 2024	15,801	3,801	6.0	260
	02/03/65	60	Jan 2025	19,558	5,153	6.0	348
	01/10/65	60	Jul 2025	33,976	9,710	6.0	648
	05/07/66	60	Jan 2026	35,000	10,761	6.0	711
	02/08/66	60	Jul 2026	50,000	16,425	6.0	1,076
	18/03/68	60	Jan 2028	40,000	17,820	7.375	1,403
	03/01/69	60	Jul 2028	53,027	26,301	8.125	2,265
	06/03/70	60	Jan 2030	20,100	11,630	8.75	1,064
	24/11/70	60	Jul 2030	18,714	11,696	9.5	1,156
	26/01/71	60	Jan 2031	25,000	16,277	9.75	1,646
	05/03/71	60	Jan 2031	12,500	7,908	9.25	760
	05/03/71	60	Jan 2031	25,000	15,820	9.25	1,520
	31/05/46	80	Jan 2026	9,570	1,773	3.125	62
	28/02/47	80	Jan 2027	5,832	1,079	2.5	30
	18/10/46	80	Jul 2026	1,527	264	2.5	7
	20/02/48	80	Jan 2028	14,952	3,492	3.0	113
	22/09/50	80	Jul 2030	654	193	3.0	6
	27/08/82	60	Jul 2042	250,000	250,000	11.5	28,750
	07/12/45	80	Sep 2025	1,500	259	3.125	9
	16/09/49	80	Sep 2029	640	174	3.0	6
	20/03/53	80	Mar 2033	1,020	439	4.125	19
	23/10/53	80	Sep 2033	750	317	4.0	13
	20/11/53	80	Sep 2033	420	181	4.0	8
	25/04/52	80	Mar 2032	480	196	4.25	9
	30/01/48	80	Sep 2027	1,560	344	3.0	11
	20/09/45	80	Sep 2025	16,690	3,076	3.125	111
Total					422,857		

Definitions:

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

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

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

Treasury Indicator 4: Maturity Structure of Fixed Interest Rate Borrowing

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

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

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

Definitions:

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

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

Treasury Indicator 5: Fixed and Variable Borrowing Rate Exposure

Year	Operational Boundary relating to borrowing excluding long term liabilities £m	Limit on Fixed Rate borrowing £m	Limit on Variable Rate borrowing £m
2019/20	1.6	1.6	0.5
2020/21	1.5	1.5	0.5
2021/22	5.3	5.3	1.6
2022/23	5.8	5.8	1.7
2023/24	4.9	4.9	1.5
2023/24	5.9	5.9	1.8
2024/25	11.8	11.8	3.5

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

The totals below are based on existing investment assets and spend in line with the capital programme on residential property and investments in line with the Property Acquisition and Development Strategy. The annual income is based on forecasts for the existing investments and an assumed return of 7% for new investments (2.5% MRP + 3% interest + 1.5% margin). The loans are in accordance with the identified need to borrow and the cost of borrowing is assumed at 5.5% (2.5% MRP and 3% interest).

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

Year	Capital value of investment assets £m	Expected annual income from investment assets £m	Loans linked to investment assets £m	Expected annual borrowing costs for loans linked to investment assets £m
2020/21	25.820	1.663	3.780	0.208
2021/22	29.820	1.943	3.780	0.208
2022/23	33.820	2.273	3.780	0.208
2023/24	37.820	2.603	4.891	0.269
2024/25	41.820	2.883	11.516	0.633

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

The extended definition of borrowing in advance of need now covers borrowing for capital investments where they are acquired purely to generate profit. This could be considered to apply to the purchase of housing for renting at market rates. However this has been in the capital programme for a few years and is funded from capital receipts, so is not subject to this restriction. As detailed in the property development and acquisition strategy the primary purpose of the £20m investment is for the purposes of the Council's functions or the benefit, improvement or development of the area. Any surplus is necessary to justify this investment but is not the primary purpose.

Minimum Revenue Provision

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

Minimum Revenue Provision:

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

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

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

The Council will have a need to borrow in 2020/21 if the Capital programme is fully spent and will therefore need to apply a Minimum Revenue Provision (MRP). The current capital programme is a combination of spend on service provision and investments that should generate a consistent return over time. Therefore it is considered appropriate to adopt an equal instalment MRP policy. This can be reviewed in future if the Council ever looked at an investment with a return profile that increased over the life of the asset.

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

Treasury Indicator 7: Cost of borrowing (interest and MRP) as a % of the net revenue budget 2020/21 to 2024/25

Year	Estimated cost of borrowing (£m)	Forecast net revenue budget (£m)	Estimated cost of borrowing as a % of net revenue budget (%)
2020/21	0.249	14.974	1.66
2021/22	0.248	14.819	1.67
2022/23	0.247	14.797	1.67
2023/24	0.306	14.675	2.09
2024/25	0.668	14.675	4.55

Part 5- Investment Strategy

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

Table 15

Balances	Brought forward (at 31/3/19)	Forecast balance at year end (£000)					
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue balances (including MRP added back)	20,171	20,963	24,789	24,914	24,690	25,984	32,844
Capital Receipts	2,580	1,755	0	3,523	4,977	0	0
Capital Grants Unapplied	938	938	938	938	938	938	938
Add: Long-term liabilities ¹	2,628	2,125	1,622	1,119	616	113	0
Less: Capital Financing Requirement	-5,974	-2,411	3,717	3,717	3,717	4,827	11,453
Less: Borrowing repayments	16	17	18	207	209	209	267
Total forecast of available for investment	32,275	28,175	23,614	26,570	27,295	21,999	22,062

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

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

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

Before considering where the Council will invest any surplus cash in treasury investments, it firstly needs to consider any loans that it may want to make for other purposes. A local authority can

choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures. These loans can relate to service provision or to promote local economic growth. These loans may not seem prudent when considered purely in relation to security and liquidity. Table 16 details current and planned loans and shows the reasons for these loans, how their value is proportionate, the risk of loss and credit control arrangements that are in place.

Table 16

Loan	Amount (£000)	Reason for Loan	Proportionality of value	Expected Credit Loss model and credit control
Building Control	107	To support the formation of the company. The Council is also a shareholder in the company, owning 1/7 th of the shares.	Insignificant in the context of overall cash balances. Around 0.4% of total investments.	Regular monitoring of financial forecasts and business plans. The continuation of the company to provide Building Control services is more significant than the value of the loan.
Wholly owned Property Company	Tbc, up to £3m	To provide the company with finances to purchase and develop property assets. These properties will then be let or sold to generate income and profit.	Based on investment limits in table 17 below, it could be the equivalent of one investment in a bank or building society. Also included within treasury limits to ensure diversification in relation to residential property.	Any loan would be secured against the property assets of the company. Expected credit loss would be looked at in more detail in advance of any loans being granted, and linked to the planned use of those funds.

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

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

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

All investments will be denominated in Sterling.

The Council will seek to appropriately diversify its investments across a range of types and counterparties. This means that if there were any security or liquidity issues with a particular type of investment or counterparty, the Council would still have access to the majority of its funds. The limits are initially based on a percentage of total funds, but are converted to actual values to make the administration of investments more efficient. The values are calculated by applying the percentages to the expected balance at the end of the year (2020/21)* and then rounded up to the nearest £1m. If these limits are set too low then it limits the investment opportunities available and also increases the administration as there is then a need to find more places to invest available funds. The limits are shown in table 17 below.

* This is the balance taken from table 15 above of £23.6m, but adjusted for the £3m potential capital investment in residential investment. This is included as the £3m investment is included within the limits to ensure diversification.

Table 17

Investment Type	Maximum amount in that type of investment (£m)	Maximum amount in group (£m)	Maximum amount with any individual counterparty (£m)	Rationale and details
Debt Management Office (UK Government)	No limit			Short-term investment with UK Government that is therefore the lowest possible risk
UK Local Authorities	No limit	n/a	3	10% with any one counterparty, no limit on total with Local Authorities due to tax raising powers
UK Banks and UK subsidiaries of foreign banks that are subject to the same stress tests as UK banks (excluding Lloyds current account)- includes Deposits and Certificates of Deposit	20	4	3	Rating F3 or above (short-term) or BBB or above (long-term) and part nationalised banks. 10% with any one counterparty, 15% with institutions in the same banking group, 75% with banks in total
Lloyds Current Account		n/a	5	Used for cashflow purposes
Non-UK banks- includes deposits and Certificates of deposit		7	3	AAA Country rating and AA-and above institution rating. Maximum of 10% with any one counterparty. Maximum of 25% in non-UK banks. 75% in banks in total.
UK Building Societies- assets of £300m to £1bn	n/a	16	2	Review of Pillar 3 reports and KPMG report on comparative profits. 10% with any one counterparty subject to maximum of £2m. Maximum of 60% with UK Building Societies and Property Funds combined.
UK Building Societies- assets of over £1bn			3	As above, but £3million
Rated UK Building Societies			3	Rating F3 or above (short-term) or BBB or above (long-term). 10% with any one counterparty.
Residential Property Investment	3		N/A	Up to £3M in line with Capital Programme. Maximum of 60% in Residential Property Investments and Building Societies combined.
UK Property Funds	3		3	10% in any one fund or combination of funds. No durational limits.
Money Market Funds	7	n/a	3	AAA rated. Maximum of 25% in MMFs and 10% with any one fund.
Ultra-Short Dated Bond Funds	3		1	AAA rated. Maximum of 10% in USDBFs and £1M with any one fund.

The Council will primarily limit its liquidity risk by only investing money until it thinks it will next need it. On top of this it will also have a general limit on investments that are greater than 1 year (365 days). This limit is based on 40% of total investments, but is again reflected as an absolute value of **£11m** (was 12m), which is based on 40% of the expected level of investments at the end of the year. Investments with a set term of greater than 2 years will be subject to approval by the Chief Finance Officer, which will include a consideration of how much the investment will be as a percentage of total funds at the date it matures. It will be ensured that this is less than 40% of the estimated balance. No investment term will exceed 5 years.

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

Within the investment market, the opportunity for 'green' investments is starting to emerge. These are offering returns that are similar to, or the same as, non-green alternatives for the same level of risk. Subject to these investments being compliant with other aspects of the treasury strategy, then these investments will be prioritised over non-green alternatives.

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

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

The Council maintains a treasury risk on its risk register.

There is some link between the interest rates that the Council can expect to achieve on its investments and the Bank of England base rate. Our treasury advisors (Link) have provided the following forecasts of base rates over the next 3 years. Using this and the investment limits above, we have estimated an average interest rate that the Council will achieve on its investments in each year.

Table 18

Year	Forecast of Bank of England Base Rate as at end of the year (%)	Forecast of average interest earned on investments (%)
2019/20	0.75	1.25
2020/21	1.00	1.25
2021/22	1.00	1.25
2022/23	1.25	1.5

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

Table 19

	2020/21	2021/22	2022/23	2023/24	2024/25
Forecast of average balance available for investment (£m)	26.1	26.2	27.4	22.2	22.2
Forecast of average interest earned on investments (%)	1.25	1.25	1.25	1.5	1.5
Forecast of interest earned (£m)*	0.326	0.327	0.343	0.333	0.334
Current interest assumed in the revenue budget.	0.300	0.167	0.167	0.167	0.167

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

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

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

Year	Cost of borrowing £m	Less: Forecast of interest earned £m	Net Financing costs £m	Net Revenue Budget £m	Financing Costs as a % of Net Revenue Budget £m
2019/20	0.042	0.374	-0.332	15.136	-2.193
2020/21	0.249	0.317	-0.068	14.974	-0.454
2021/22	0.248	0.344	-0.096	14.819	-0.648
2022/23	0.247	0.353	-0.106	14.797	-0.716
2023/24	0.306	0.380	-0.074	14.675	-0.504
2024/25	0.668	0.334	0.334	14.675	2.276

Part 6- Overall Risk Considerations

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

The Council's investments assets generally comprise of ground leases on commercial properties that are all within North Hertfordshire. The main exception to this is the freehold of the Churchgate Shopping Centre in Hitchin. A property fund generally invests in building (and land) assets that provide higher yields, and also diversifies across the United Kingdom. They also currently tend to focus on industrial, warehouses and office buildings. This means that there is limited cross-over in risk exposure, and before investing in a property fund (current investments are zero) the Council would review the current investments of the selected fund. Furthermore this strategy limits any investment in a property fund to a maximum of £3m.

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

Part 7- Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Priority	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £	2022/23 Estimate £	2023/24 Estimate £	2024/25 Estimate £	2025/26 - 29/30 Estimate £
Advances & Cash Incentives							
John Barker Place, Hitchin		1,096,000	0	0	0	0	0
Advances & Cash Incentives Total	0	1,096,000	0	0	0	0	0
Asset Management							
Acquisition of Property Investments		4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	0
Provide housing at market rents.	2,981,500	0	0	0	0	0	0
Council property improvements following condition surveys	79,100	432,800	255,000	0	0	0	0
Mrs Howard Hall Replace Boiler & Windows	0	63,000	0	0	0	0	0
Energy efficiency measures	8,500	0	0	0	0	0	0
Asset Management Total	3,069,100	4,495,800	4,255,000	4,000,000	4,000,000	4,000,000	0
Community Services							
Baldock Town Hall project	69,600	0	0	0	0	0	0
Refurbishment and improvement of community facilities	312,900	420,000	0	0	0	0	0
S106 Projects	128,800	128,800	0	0	0	0	0
Community Services Total	511,300	548,800	0	0	0	0	0
Computer Software and Equipment							
40 KVA UPS Device or Battery Replacement	7,000	0	11,000	0	12,000		30,000
Additional Data backup Storage		15,000		15,000		18,000	41,000
Additional PC's - Support Home Working/OAP	13,000	11,000	13,000	11,000	13,000	15,000	76,000
Additional Storage	0	25,000		13,000			45,000
Alternative to safeword tokens for staff/members working remotely		16,000		12,000		18,000	33,000
Back-up Diesel 40 KVA Generator (DCO)	20,000				25,000		0
Cabinet Switches - 4 Floors			18,000			18,000	18,000
Cadcorp Local Knowledge & Notice Board Software	10,200						0
CCTV at DCO & Hitchin Town Hall		15,000			15,000		0
Channel shift - processing of housing register applications	40,000						0
Core Backbone Switch						35,000	40,000
Cyber Attacks - Events Monitoring Software Solution	30,000						0
Data Switch upgrade				15,000		18,000	41,000
Dell Servers	0	65,000				70,000	75,000
DR Hardware Refresh Inc UPS Battery Pk (Unit 3)					55,000		60,000
DR Set-up	49,800						0
EA Agreement (MS EA)	358,000		0	390,000			888,000
Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract		39,000					0
Email Encryption Software Solution		45,000					0
Laptops - Refresh Programme		6,000	6,000		5,000		10,000
Mobile Device Management Software		18,000				18,000	0
New Blade Enclosure	0	32,000				40,000	52,000
PC's - Refresh Programme	19,800	17,000	17,000	17,000	17,000	23,000	108,000
Replacement SAN	0	110,000				115,000	120,000
Security - Firewalls	14,000	14,000		14,000		16,000	36,000
Tablets - Android Devices	14,000	12,000	15,000	18,000	12,000	17,000	73,000
Telephony system	10,600						0
WiFi Upgrades for DCO & Hitchin Town Hall		35,000					0
Computer Software and Equipment Total	586,400	475,000	80,000	505,000	154,000	421,000	1,746,000
Growth Fund Projects							
Cycle Strategy implementation (GAF)	278,000	0	0	0	0	0	0
Green Infrastructure implementation (GAF)		185,000	0	0	0	0	0
Transport Plans implementation (GAF)	250,000	0	0	0	0	0	0
Growth Fund Projects Total	528,000	185,000	0	0	0	0	0
Leisure Facilities							
Avenue Park Splash Park	0	0	0	0	70,000	0	0
Bancroft & Priory Splash Pads	0	0	0	0	0	35,000	0
Bancroft Lighting	0	0	0	0	45,000	0	0
Bancroft Recreation Ground, Hitchin, Multi Use Games Area (MUGA)	164,200	0	0	0	0	0	0
Decommissioning of Play Areas	103,800	0	0	0	0	0	0
Football Goal Replacement Program	0	0	0	15,000	0	0	0
Hitchin & Letchworth Outdoor Pool Automatic Chemical Dosing Pumps	20,000	0	0	0	0	0	0
Hitchin Outdoor Pool Showers and Toilets	9,200	0	0	0	0	0	0
Howard Gardens Splashpad	0	0	0	33,000	0	0	0
HSC Boiler Replacement	0	0	0	0	0	200,000	0
HSC Future Refurbishment	0	0	0	0	0	0	905,000
HSC Indoor Pool Cover Replacement	0	0	20,000	0	0	0	0
HSC Outdoor Pool Boiler Replacement	0	40,000	0	0	40,000	0	0
HSC Reception Toilet Refurbishment	0	0	0	30,000	0	0	0
Ickneild Way Cemetery Footpaths	0	0	50,000	0	0	0	0
Ivel Springs Footpaths	0	0	0	10,000	0	0	0
Leisure Condition Survey Enhancements	0	23,000	0	39,000	140,000	0	0
Leisure Condition Survey Enhancements	0	64,000	0	0	0	0	
Letchworth Outdoor Pool safety surface	10,000	0	0	0	0	0	0
Newmarket Road Royston Skatepark & Access	0	0	0	0	60,000	0	0
NHLC Boiler Replacement	0	0	200,000	0	0	0	0

Priority	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £	2022/23 Estimate £	2023/24 Estimate £	2024/25 Estimate £	2025/26 - 29/30 Estimate £
NHLC Dryside Changing Area	0	0	0	100,000	0	0	0
NHLC Interactive Water Feature	0	0	0	0	0	0	120,000
NHLC Outdoor Pool Boiler Replacement	0	40,000	0	0	40,000	0	0
NHLC Pool Flume Replacement	0	0	0	0	0	0	150,000
NHLC Reception Toilet Refurbishment	0	0	0	30,000	0	0	0
NHLC Refurbish Gym Floor	0	0	50,000	0	0	0	0
NHLC Refurbishment of Gym Members Changing Rooms	0	200,000	0	0	0	0	0
NHLC Replace Circulation Pipework	0	50,000	0	0	0	0	0
NHLC Sauna Steam Refurbishment	0	0	0	0	250,000	0	0
Norton Common Footpaths	0	0	0	0	10,000	0	0
Norton Common Wheeled Sports improvements	37,100	0	0	0	0	0	0
Oughtonhead Common Footpaths	0	0	0	0	20,000	0	0
Play Ground Renovation District Wide	0	0	180,000	180,000	180,000	180,000	900,000
Ransoms Rec Footpaths, Gates and Railing	0	0	0	10,000	20,000	0	0
Renovate play area Howard Park, Letchworth	0	75,000	0	0	0	0	0
Renovate play area King George V Recreation Ground, Hitchin	75,000	0	0	0	0	0	0
Renovate play area, District Park, Gt. Ashby	75,000	0	0	0	0	0	0
Replace items of play equipment Holroyd Cres, Baldock	0	10,000	0	0	0	0	0
Replace items of play equipment Wilbury Recreation Ground, Letchworth	0	10,000	0	0	0	0	0
Replace items of play equipment, Chiltern Road, Baldock	10,000	0	0	0	0	0	0
RLC Changing Village Refurbishment	0	0	0	225,000	0	0	0
RLC Dry Side Toilet Refurbishment	0	0	0	30,000	0	0	0
RLC Future Refurbishment	0	0	0	0	0	0	380,000
RLC Members Change Refurbishment	0	0	0	0	0	150,000	0
Royston Leisure Centre extension	0	0	0	1,000,000	0	0	0
St Johns Cemetery Footpath	0	10,000	0	0	0	30,000	0
Walsworth Common Pavilion - contribution to scheme	0	0	300,000	0	0	0	0
Walsworth Common Pitch Improvements	92,500	0	0	0	0	0	0
Weston Hills LNR Footpath Renovation	0	0	0	20,000	0	0	0
Wilbury Hills Cemetery Footpaths	0	10,000	10,000	0	10,000	10,000	30,000
Leisure Facilities Total	596,800	532,000	810,000	1,722,000	885,000	605,000	2,485,000
Museum & Arts							
Hitchin Town Hall Acoustic Panelling	30,000	0	0	0	0	0	0
Hitchin Town Hall Additional Bar & Glasswre Infrastructure	0	25,000	0	0	0	0	0
Hitchin Town Hall Additional Bar Facility	15,000	0	0	0	0	0	0
Hitchin Town Hall Sprung Floor Replacement	75,000	0	0	0	0	0	0
NH Museum & Community Facility	69,800	0	0	0	0	0	0
Museum Storage Solution	0	1,000,000	200,000	0	0	0	0
NH Museum Platform Lift Solutions	0	40,000	0	0	0	0	0
Museum & Arts Total	189,800	1,065,000	200,000	0	0	0	0
Parking							
Installation of trial on-street charging (GAF)	50,000	0	0	0	0	0	0
Lairage Multi-Storey Car Par - Structural wall repairs	10,000	110,700	0	0	0	0	0
Letchworth Multi_storey Car Park - parapet walls, soffit & decoration	0	133,800	0	0	0	0	0
Letchworth multi-storey car park - lighting	19,700	0	0	0	0	0	0
Off Street Car Parks resurfacing and enhancement	30,000	0	0	47,100	0	0	0
Parking Charging, Payment & Management	0	235,000	0	0	0	0	0
Refurbishment of lifts at Lairage Car Park	0	360,000	0	0	0	0	0
Replace and enhance lighting at St Mary's Car Park	0	60,000	0	0	0	0	0
Town Centre pay & display machines for on-street charging	235,000	0	0	0	0	0	0
Parking Total	344,700	899,500	0	47,100	0	0	0
Renovation & Reinstatement Grant Expenditure							
Private Sector Grants	60,000	60,000	60,000	60,000	60,000	60,000	300,000
Renovation & Reinstatement Grant Expenditure Total	60,000	60,000	60,000	60,000	60,000	60,000	300,000
Waste collection							
Northern Transfer Station	0	0	0	0	0	1,600,000	0
Waste and Street Cleansing Vehicles	0	0	0	0	0	0	4,000,000
Waste collection Total	0	0	0	0	0	1,600,000	4,000,000
Grand Total	5,886,100	9,357,100	5,405,000	6,334,100	5,099,000	6,686,000	8,531,000

CAPITAL INVESTMENT PROPOSALS

Ref No	Service	Responsible Service Director	Description of Proposal	Total Project Investment 2020/21 onwards	Total Anticipated Funding from Grants or Other Contributions	Proposed Investment in 2020/21	Proposed Investment in 2021/22	Proposed Investment in 2022/23	Proposed Investment in 2023/24	Proposed Investment in 2024/25	Proposed Investment 2025 - 2030	Revenue Implication	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation/Revenue Budget etc.)
				£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Asset Management and Investment													
ECP3	Property Services	Service Director - Resources	Council property improvements following condition surveys	688	-	433	255	0	0	0	0	0	Condition surveys have been carried out on a substantial number of the Authority's premises (substantially consists of Community Centres and Pavilions). This bid relates to 29 of those premises which are not currently subject to separate plans or review. The surveys have identified necessary works within priority bands required to ensure the continued use of the premises and to maintain premises in a reasonable condition. Enhancement works of this nature will reduce reliance on reactive maintenance repairs. The level of 'backlog' maintenance is also proposed as a national performance indicator by Central Government. An amount of £150k was approved to undertake the urgent works in 2014/15, based upon surveys carried out to date. In following years a full 5 year programme will be applied, based upon completed condition surveys or the whole estate. this is complementary to the Community Halls strategy (CHS), although covers a larger number of properties than those subject to CHS, i.e., it puts in place funds to allow works to be done that may assist in progressing that strategy (e.g. full repairing/partial repair leases). To help ensure that this project is delivered in the timeframe estimated within the Capital Programme, the investment was allotted over three years with an annual capital allocation of £255k from 2019/20.
NCP4	Property Services	Service Director - Resources	Replacement of boiler & windows at Mrs Howard Memorial Hall, Letchworth Garden City	63	-	63	0	0	0	0	0	0	A new boiler/heating system and new windows are required. The current heating system and windows are past the end of their useful life and yield poor energy efficiency. The heating system in particular is unreliable, requires frequent ongoing maintenance and replacement parts are increasingly difficult to source. The investment will also smooth negotiations with the tenant over a full repairing lease and the generation of annual rental income.
NCP48	Property Services	Service Director - Resources	Acquisition of Property Investments	20,000	-	4,000	4,000	4,000	4,000	4,000	0	tbc	Property investments in line with the Acquisition and Development Strategy
Sub-Total: Asset Management and Investment				20,751	-	4,496	4,255	4,000	4,000	4,000	-	-	5
Grants to Third Parties													
ECP1	Housing Services	Service Director - Regulatory	Private Sector Grants	600	-	60	60	60	60	60	300	0	HRAGs are a discretionary form of assistance specifically designed to provide practical help through a grant for small-scale works. This grant provides cash limited assistance up to £5K within any three-year period, for minor works for owner / occupiers and private tenants who meet certain criteria. HRAG funding is also used to support the Warm Homes Fund project where homes without central heating are provided with gas central heating. HRAGs are means tested and help to eradicate CAT1 Hazards, such as excess cold. In February 2015 Council approved an increase in the level of funding from £35k to £60k per annum for 2015/16 and future years. UPDATE CBP 20/21: Proposed to extend annual investment across the period of the ten year investment strategy (earmarked until 2023/24 in existing programme)
ECP7	Housing Services	Service Director - Regulatory	John Barker Place, Hitchin	1,096	270	1,096	0	0	0	0	0	0	Cabinet agreed to the commitment to the John Barker Place regeneration scheme in January 2013, subject to the availability of funds.

CAPITAL INVESTMENT PROPOSALS

Ref No	Service	Responsible Service Director	Description of Proposal	Total Project Investment 2020/21 onwards	Total Anticipated Funding from Grants or Other Contributions	Proposed Investment in 2020/21	Proposed Investment in 2021/22	Proposed Investment in 2022/23	Proposed Investment in 2023/24	Proposed Investment in 2024/25	Proposed Investment 2025 - 2030	Revenue Implication	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation/Revenue Budget etc.)
				£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
ECP4	Estates	Service Director - Commercialisation	Refurbishment and improvement of community facilities	420	-	420	0	0	0	0	0	0	To provide a five year fund from 2016/17 towards the refurbishment and improvement of community facilities in both rural and urban areas of North Hertfordshire with a total capital allocation over the period of £1.206m
Sub-Total: Grants to Third Parties				2,116	270	1,576	60	60	60	60	300	-	
Externally financed projects													
ECP28	Planning Services	Service Director - Regulatory	S106 Projects	129	129	129	0	0	0	0	0	0	Capital allocation is for the provision of an all weather hockey pitch in Royston. Originally intended to be located on the Heath, but as this is a public open space permission will not be granted to create an enclosed area on the Heath. Officers are looking to see if the S106 funds can be used at an alternative location in Royston.
ECP31	Planning Services	Service Director - Regulatory	Green Infrastructure implementation (GAF)	185	185	185	0	0	0	0	0	0	It is recommended that decisions on capital projects eligible for GAF funding are postponed until adoption of the Local Plan and any further strategies that may be recommended by the Inspector.
Sub-Total: Externally financed projects				314	314	314	-	-	-	-	-	-	

CAPITAL INVESTMENT PROPOSALS

Ref No	Service	Responsible Service Director	Description of Proposal	Total Project Investment 2020/21 onwards	Total Anticipated Funding from Grants or Other Contributions	Proposed Investment in 2020/21	Proposed Investment in 2021/22	Proposed Investment in 2022/23	Proposed Investment in 2023/24	Proposed Investment in 2024/25	Proposed Investment 2025 - 2030	Revenue Implication	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation/Revenue Budget etc.)
				£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Parking Related Proposals													
ECP8	Property Services	Service Director - Resources	Letchworth Multi_storey Car Park - parapet walls, soffit & decoration	134	-	134	0	0	0	0	0	0	Works to preserve this income generating asset in usable condition. The soffits are the internal ceiling coverings i.e. underside to the decks. Works requirement originally identified during earlier surfacing works due to some ceiling materials falling off.
ECP29	Property Services	Service Director - Resources	Lairage Multi-Storey Car Par - Structural wall repairs	111	-	111	0	0	0	0	0	0	Works to preserve this income generating asset in usable condition. Works necessary to protect surface following experience at Letchworth multi-storey.
ECP32	Property Services	Service Director - Resources	Refurbishment of lifts at Lairage Car Park	360	-	360	0	0	0	0	0	0	Estimated cost of the refurbishment of the four lifts. The work will be required to ensure that the lifts operate safely and reliably.
ECP33	Property Services	Service Director - Resources	Replace and enhance lighting at St Mary's Car Park	60	-	60	0	0	0	0	0	0	The existing lighting columns within the car park have suffered from ongoing electrical supply problems and structural decay. A temporary solution has been provided to provide lighting, however the existing columns need replacing. The lighting in the remainder of the car park is not to current recommended levels. This scheme will address all of these issues with new, energy efficient, lighting columns.
ECP34	Property Services	Service Director - Resources	Off Street Car Parks resurfacing and enhancement	47	-	0	0	47	0	0	0	0	Condition surveys have identified the need for a proactive programme of resurfacing for the council's off street car parking. Resurfacing, re-lining and enhancing the lighting enables the car parks to be used safely, reducing insurance claims for trips and falls, and allows the continued enforcement of the relevant traffic regulation orders. A. Planned maintenance programme should enable reduction in reactive repairs. B. No programme of repairs will require additional revenue maintenance funds for responsive repairs, and loss of income as Traffic regulation orders will become unenforceable.
NCP46	Parking	Service Director - Regulatory	Parking Charging, Payment and Management	235	-	235	0	0	0	0	0	0	Revision in scope of existing capital allocation for the the implementation of town centre pay & display machines for on-street parking. With the advance of technology it is considered that the use of physical machines and tickets is outdated. As such, this proposal seeks to utilise the capital allocation to still focus on charging, payment and management of parking but through more customer orientated systems. This proposal will encompass (where appropriate) a move to virtual payment and permits/tickets, pay-on-exit for car parks as identified within the Council's Parking Strategy.
Sub-Total: Parking				947	-	900	-	47	-	-	-	-	
Waste Collection													
NCP49	Waste Services	Service Director - Place	Northern transfer station (Waste and Recycling)	1,600	-	0	0	0	0	1600	0	0	Herts County Council are planning to build a waste and recycling transfer station which could accommodate both North and East Herts Councils residual, food and garden waste. This would enable surety on a long term disposal route for the materials. The anticipated build cost for this element of the site is circa 1.6m. The agreement for the site and confirmation on whether this is going ahead however is tbc.
NCP50	Waste Services	Service Director - Place	Vehicle fleet replacement program (Waste and Recycling)	4,000	3,200	0	0	0	0	0	4000	0	It is anticipated that the cost of replacing the current fleet of vehicles will have increased due to inflation by the time of required purchase in 2025/26. The vehicles currently in operation are held on the Council's balance sheet under a finance lease arrangement embedded within the waste contract, with the associated charge for their use met from the Council's cash reserves rather than the General Fund. As such the annual saving to the General Fund is transferred to an earmarked reserve with the intention that this will be used to help finance the cost of the new vehicles.
Sub-Total: Waste Collection				5,600	3,200	-	-	-	-	1,600	4,000	-	
Leisure Related Proposals													

CAPITAL INVESTMENT PROPOSALS

Ref No	Service	Responsible Service Director	Description of Proposal	Total Project Investment 2020/21 onwards	Total Anticipated Funding from Grants or Other Contributions	Proposed Investment in 2020/21	Proposed Investment in 2021/22	Proposed Investment in 2022/23	Proposed Investment in 2023/24	Proposed Investment in 2024/25	Proposed Investment 2025 - 2030	Revenue Implication	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation/Revenue Budget etc.)
				£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
ECP6	Leisure Facilities	Service Director - Place	Leisure Condition Survey Enhancements	266	-	87	0	39	140	0	0	0	A physical condition survey was carried out at all four leisure facilities in 2018. The survey identified all works that were needed and/ or would become necessary over the following five year period. Planned spend of £64k in 2019/20 means a total investment of £266k.
ECP18	Leisure Facilities	Service Director - Place	Royston Leisure Centre extension	1,000	170	0	0	1,000	0	0	0	0	To extend the front of the Royston Leisure Centre. This will provide a new multi functional room and increase the size of the fitness room. The gym membership at Royston Leisure Centre is close to capacity and a recent latent demand survey demonstrated there is a demand to increase the size of this facility. By undertaking the capital work the Council will renegotiate the Leisure Management contract and SLL will increase their management fee to the Council. UPDATE CBP 20/21: Proposed to bring investment forward by one year from 2023/24 to 2022/23.
Sub-Total: Leisure				1,266	170	87	-	1,039	140	-	-	-	
New Leisure Proposals - Hitchin Swim Centre													
NCP13	Leisure Facilities	Service Director - Place	HSC: Reception toilet refurbishment	30	-	0	0	30	0	0	0	0	To ensure customer satisfaction is maintained a project to fully refurbish the male, female and disabled toilets in the reception area is proposed.
NCP17	Leisure Facilities	Service Director - Place	HSC: Outdoor Pool Boiler Replacement	80	-	40	0	0	40	0	0	0	Hitchin outdoor pool is currently operating with one boiler due to an irreparable fault with the second boiler. A replacement of the redundant boilers is proposed to ensure the facility remains operational.
NCP19	Leisure Facilities	Service Director - Place	HSC: Boiler Replacement	200	-	0	0	0	0	200	0	0	Boilers are 15+ years old and are at the end of their economic lifespan. While repair works are carried out on a regular basis there is a risk that, if they are not replaced, they may fail which could result in pool closure.
NCP20	Leisure Facilities	Service Director - Place	HSC: Indoor Pool Cover Replacement	20	-	0	20	0	0	0	0	0	The indoor Pool cover and electric roller is over 20 years old and require replacement to ensure they remain efficient at reducing energy consumption and costs.
NCP23	Leisure Facilities	Service Director - Place	HSC: Future Refurbishment	905	-	0	0	0	0	0	905	0	Future investment proposed beyond 2024/25 includes refurbishment of; 2025/26: Archers Member Change and Relaxation Area (£300k) 2026/27: Change village (£225k) and Fitness facility (£50k) with purchase of new gym equipment (£300k) and a new outdoor pool cover (£30k)
Sub-Total: Leisure - Hitchin Swim Centre				1,235	-	40	20	30	40	200	905	-	
New Leisure Proposals - Letchworth													

CAPITAL INVESTMENT PROPOSALS

Ref No	Service	Responsible Service Director	Description of Proposal	Total Project Investment 2020/21 onwards	Total Anticipated Funding from Grants or Other Contributions	Proposed Investment in 2020/21	Proposed Investment in 2021/22	Proposed Investment in 2022/23	Proposed Investment in 2023/24	Proposed Investment in 2024/25	Proposed Investment 2025 - 2030	Revenue Implication	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation/Revenue Budget etc.)
				£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
NCP8	Leisure Facilities	Service Director - Place	NHLC: Circulation Pipework Replacement	50	-	50	0	0	0	0	0	0	The existing circulation pipework is brittle and fragile which has resulted in several failures in the past. A full replacement is proposed which includes pipework, inlets, seals and support brackets.
NCP9	Leisure Facilities	Service Director - Place	NHLC: Refurbishment of Gym Floor	50	-	0	50	0	0	0	0	0	The gym floor was laid in 2006, after 13 years the floor has now come to the stage where it can no longer be repaired and requires replacing. To ensure customer satisfaction is maintained a full replacement of the flooring in the main gym and weights area is proposed.
NCP10	Leisure Facilities	Service Director - Place	NHLC: Boiler Replacement	200	-	0	200	0	0	0	0	0	The two boilers are 15+ years old and are at the end of their economic lifespan. Repair works are carried out on a regular basis, however there is a high risk if they are not replaced they may fail which could result in a closure.
NCP13	Leisure Facilities	Service Director - Place	NHLC: Reception toilet refurbishment	30	-	0	0	30	0	0	0	0	To ensure customer satisfaction is maintained a project to fully refurbish the male, female and disabled toilets in the reception area is proposed.
NCP51	Leisure Facilities	Service Director - Place	NHLC: Dryside Changing Area	100	-	0	0	100	0	0	0	0	To ensure customer satisfaction is maintained a project to fully refurbish the male, female and disabled dry side changing areas is proposed.
NCP16	Leisure Facilities	Service Director - Place	NHLC: Refurbishment of Gym Members Changing Rooms	200	-	200	0	0	0	0	0	0	The gym members changing rooms were last refurbished in 2006. Due to the high use of these areas their condition has deteriorated and no longer meets customer expectations. To ensure customer satisfaction is maintained a project to fully refurbish the male, female and disabled changing areas is proposed.
NCP11	Leisure Facilities	Service Director - Place	NHLC: Sauna Steam Refurbishment	250	-	0	0	0	250	0	0	0	The steam and sauna area was last refurbished in 2006. To ensure customer satisfaction is maintained a proposal to fully refurbish the area is proposed.
NCP24	Leisure Facilities	Service Director - Place	NHLC: Interactive Water Feature	120	-	0	0	0	0	0	120	0	Investment proposal earmarked for 2027/28. To ensure continued improvements and customer satisfaction within our leisure facilities a project to transform the small pool into a highly interactive water play area for children of all age and ability groups is proposed. The proposed features for this area allow children to explore and discover their watery environment, and teaches them how to manipulate the flow of water through channels and interactive jets.

CAPITAL INVESTMENT PROPOSALS

Ref No	Service	Responsible Service Director	Description of Proposal	Total Project Investment 2020/21 onwards	Total Anticipated Funding from Grants or Other Contributions	Proposed Investment in 2020/21	Proposed Investment in 2021/22	Proposed Investment in 2022/23	Proposed Investment in 2023/24	Proposed Investment in 2024/25	Proposed Investment 2025 - 2030	Revenue Implication	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation/Revenue Budget etc.)
				£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
NCP25	Leisure Facilities	Service Director - Place	NHLC: Pool Flume Replacement	150	-	0	0	0	0	0	150	0	Investment proposal earmarked for 2028/29. The pool flume was installed in 1992 and due to its age a proposal to replace the flume with a newer model is proposed. This will ensure continued customer satisfaction for users of the leisure pool.
NCP18	Leisure Facilities	Service Director - Place	Letchworth Outdoor Pool Boiler Replacement	80	-	40	0	0	40	0	0	0	Letchworth outdoor pool is currently operating with one boiler due to an irreparable fault with the second boiler. A replacement of the redundant boilers is proposed to ensure the facility remains operational.
Sub-Total: Leisure - Letchworth				1,230	-	290	250	130	290	-	270	-	
New Leisure Proposals - Royston Leisure Centre													
NCP12	Leisure Facilities	Service Director - Place	RLC: Dry side Toilet Refurbishment	30	-	0	0	30	0	0	0	0	To ensure customer satisfaction is maintained a project to fully refurbish the male, female and disabled dry side toilet areas is proposed.
NCP15	Leisure Facilities	Service Director - Place	RLC: Change Village Refurbishment	225	-	0	0	225	0	0	0	0	The change village is over 17 years old and has not been refurbished since opening in 2005. A full refurbishment of the change village is proposed to ensure customer satisfaction is maintained.
NCP21	Leisure Facilities	Service Director - Place	RLC: Members Change Refurbishment	150	-	0	0	0	0	150	0	0	The members changing room is over 17 years old and has not refurbished since opening in 2005. To ensure customer satisfaction is maintained a proposal to fully refurbish the male, female and disabled areas is proposed.
NCP22	Leisure Facilities	Service Director - Place	RLC: Future Refurbishment	380	-	0	0	0	0	0	380	0	Future investments proposed for beyond 2024/25 include; 2025/26: Replacement of pool windows (£80k) 2026/27: Refurbishment of Fitness facility (£50k) with purchase of new gym equipment (£150k) 2027/28: Replacement of boiler (£100k)
Sub-Total: Leisure - Royston Leisure Centre				785	-	-	-	255	-	150	380	-	
Green Space Developments													
NCP29	Parks & Countryside Development	Service Director - Place	Football Goal Replacement Program	15	-	0	0	15	0	0	0	0	The existing football goals do not meet current FA standards and are in some cases dangerous due to corrosion or misuse. While the posts are repainted annually this only delays their deterioration. Normally posts are replaced at the beginning of the season on a need only basis based upon their condition - not if they meet FA standards.
NCP37	Parks & Countryside Development	Service Director - Place	Play Ground Renovation - District Wide	1,620	-	0	180	180	180	180	900	0	Moving forward from the existing policy to renovate a single play area annually to undertake a program of undertaking two locations each year. This technically would ensure that each play area is renovated on an 18 year cycle which still far exceeds manufacturer lifespan guidelines.
Sub-Total: Green Space Developments				1,635	-	-	180	195	180	180	900	-	

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				£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Green Space Developments - Baldock													
ECP10	Parks & Countryside Development	Service Director - Place	Replace items of play equipment Holroyd Cres, Baldock	10	-	10	0	0	0	0	0		Listed as a project for 2020/21 in the Council's adopted Green Space Management Strategy 2017 - 2021. Holroyd Cres is a large play area serving a large housing development. Some items of equipment have been identified as nearing end of life and in need of replacement.
NCP26	Parks & Countryside Development	Service Director - Place	Avenue Park Splash Pad	70	-	0	0	0	70	0	0		To replace the existing mains fed system with a recirculating system as found at our other splashpads. This will reduce water usage and help maintain good levels of water quality. Additionally this will help reduce the problems of algae on the surfacing which has caused significant injuries due to slipping in the past.
NCP33	Parks & Countryside Development	Service Director - Place	Ivel Springs Footpaths	10	-	0	0	10	0	0	0		To renovate the footpath around the common on a rotating program of works as per the Greenspace action plan for the site.
NCP41	Parks & Countryside Development	Service Director - Place	Weston Hills LNR Footpath Renovation	20	-	0	0	20	0	0	0		Many of the footpaths around the site are of an informal nature and are not currently compliant with disability access requirements. In order to minimise erosion of the existing footpath network the surfacing needs updating and renovating.
Sub-Total: Green Space Developments - Baldock				110	-	10	-	30	70	-	-	-	

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				£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Green Space Developments - Hitchin													
ECP13	Parks & Countryside Development	Service Director - Place	Walsworth Common Pavilion - contribution to scheme	300	287	0	300	0	0	0	0	0	<p>This project was originally listed as a project for 2016/17 in the Council's adopted Green Space Management Strategy 2014 - 2019. The project was slipped into 2017/18 pending the outcome of the Green Space Strategy review. Following the review, this project is now earmarked for 2020/21 in the Council's adopted Green Space Management Strategy 2017 - 2021. The project is dependent on securing section 106 contributions and/or external grants. In the review, the pavilion was identified as being beyond economic repair.</p> <p>UPDATE CBP 2020/21: Proposed to reprofile investment from 2020/21 to 2021/22.</p>
NCP27	Parks & Countryside Development	Service Director - Place	Bancroft and Priory Splash Pads	35	-	0	0	0	0	35	0	0	<p>These two systems were introduced 4 years ago and use the same systems to maintain water quality. Over time the systems wear and require replacement of the filter media and uv systems to ensure that they remain effective.</p>
NCP28	Parks & Countryside Development	Service Director - Place	Bancroft Lighting	45	-	0	0	0	45	0	0	0	<p>To remove the existing out of date and potentially dangerous lighting around the gardens and replace with new items. This would significantly improve personal safety of the public.</p>
NCP32	Parks & Countryside Development	Service Director - Place	Oughtonhead Common Footpaths	20	-	0	0	0	20	0	0	0	<p>To renovate the footpath around the common on a rotating program of works as per the Greenspace action plan for the site.</p>
NCP39	Parks & Countryside Development	Service Director - Place	Ransoms Rec Footpaths gates and railings	30	-	0	0	10	20	0	0	0	<p>Many of the footpaths are degrading and becoming uneven and would be greatly enhanced if the footpaths were brought up to a uniform standard throughout the site. The formal gates and railings off Nightingale Road are in need of investment to ensure they remain safe, fit for purpose and of an appropriate standard for the location.</p>
NCP40	Parks & Countryside Development	Service Director - Place	St Johns Cemetery Footpaths	40	-	10	0	0	0	30	0	0	<p>Previous investment options were removed from the Greenspace Strategy and the identified works have not been delivered. Planning for the renewal of the Greenspace Management Strategy in 2021.Many of the footpaths are degrading and becoming uneven. As many of the visitors to the cemetery are elderly this poses a significant risk. Additionally the aesthetic appearance of the cemetery would be greatly enhanced if the footpaths were brought up to a uniform standard throughout the site. Due to other priorities and limited staffing resources this is planned for 2024/25. In the meantime urgent repairs will be completed on an adhoc urgency basis.</p>
Sub-Total: Green Space Developments - Hitchin				470	287	10	300	10	85	65	-	-	
Green Space Developments - Letchworth													
ECP9	Parks & Countryside Development	Service Director - Place	Renovate play area Howard Park, Letchworth	75	-	75	0	0	0	0	0	0	<p>Listed as a project for 2020/21 in the Council's adopted Green Space Management Strategy 2017 - 2021. Situated in a town centre location, the high level of usage causes wear on equipment.</p>
ECP37	Parks & Countryside Development	Service Director - Place	Replace items of play equipment Wilbury Recreation Ground, Letchworth	10	-	10	0	0	0	0	0	0	<p>Listed as a project for 2019/20 in the Council's adopted Green Space Management Strategy 2017 - 2021. The recreation ground has a good catchment area with a range of equipment for all ages. Some items of equipment are however nearing end of life and in need of replacement.</p>
NCP31	Parks & Countryside Development	Service Director - Place	Howard Gardens Splashpad	33	-	0	0	33	0	0	0	0	<p>The facilities at Howard Gardens are now over 10 years old since the site was renovated with support of a HLF Grant. The equipment in the plant room is now well worn and is in need of renewal.</p>

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				£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
NCP32	Parks & Countryside Development	Service Director - Place	Ickneild Way Cemetery Footpaths	50	-	0	50	0	0	0	0	0	Previous investment options were removed from the Greenspace Strategy and the identified works have not been delivered. Many of the footpaths are degrading and becoming uneven. As many of the visitors to the cemetery are elderly this poses a significant risk. Additionally the aesthetic appearance of the cemetery would be greatly enhanced if the footpaths were brought up to a uniform standard throughout the site.
NCP42	Parks & Countryside Development	Service Director - Place	Wilbury Hills Cemetery Footpaths	70	-	10	10	0	10	10	30	0	Due to high volumes of visitors the existing footpath network through the site are wearing out this program will support an investment program over a period of time to maintain current standards.
NCP52	Parks & Countryside Development	Service Director - Place	Norton Common Footpaths	10	-	0	0	0	10	0	0	0	To renovate areas of footpath around the common on a rotating program of works as per the Greenspace action plan for the site.
Sub-Total: Green Space Developments - Letchworth				248	-	95	60	33	20	10	30	-	
Green Space Developments - Royston													
NCP35	Parks & Countryside Development	Service Director - Place	Newmarket Road Royston Skatepark and Access	60	-	0	0	0	60	0	0	0	Following the success of the new facility at Norton Common the existing item at Newmarket Road is in need of renovation and updating at the same time now the site is becoming more popular access into the site requires improvement and formalising.
Sub-Total: Green Space Developments - Royston				60	-	-	-	-	60	-	-	-	
Museum and Arts Development													
NCP43	Hitchin Town Hall	Service Director - Commercialisation	Hitchin Town Hall Additional Bar and Glassware Infrastructure	25	-	25	0	0	0	0	0	0	Replacement of original bar (new second bar installed this year). This would allow the keg couplers and other such items to be universal at the bars. Also proposed to install glass washers, an ice machine, a stock of glassware, and the racking to store these within the store room. This would reduce waste and recycling, while also allowing the waiver of current glass hire costs from quotes, which may help attract more bookings.
NCP44	Museum	Service Director - Commercialisation	North Herts Museum Platform Lift Solutions	40	-	40	0	0	0	0	0	0	The full opening of North Herts Museum in July 2019 has since highlighted that the two platform lifts within North Herts Museum are extremely temperamental and frequently break down. Due to the lifts being handed over in 2015, there is no way of holding the installation company accountable. It is therefore proposed to either replace the lifts or redesign both the main entrance and the access through the Mountford Hall so that the facility is fully accessible. The amount quoted for these works is a best estimate.
NCP45	Museum	Service Director - Commercialisation	Museum Storage Solution	1,200	-	1000	200	0	0	0	0	0	The Museum Store in Burymead is no longer fit for purpose. Objects from the collection are being held in make shift storage units, garages and dilapidated structures which are increasingly posing a health and safety risk to our staff. This project will involve relocating parts of the museum collection whilst the previously mentioned storage units are levelled and a new purpose built storage unit is built on the site. The storage unit will comprise of space saving roller racking, climate controlled spaces for fragile items of the collection and a small amount of office space for museum staff to utilise when on site. This office space could also be used under supervision to assist with third party research such as students or historians. The amount requested is an initial estimate, extrapolated from previous external costing exercises on a smaller storage unit on the site. It is the opinion of officers however, that a larger site would future proof the museum storage facilities and more costing work will need to be undertaken to provide a more precise quotation for the development. The completion of this work would see the former Hitchin Museum and Letchworth Museum sites be completely cleared of museum storage.
Sub-Total: Museum and Arts Development				1,265	-	1,065	200	-	-	-	-	-	
IT Schemes:													

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				£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
NCP1	IT	Service Director - Customers	Back-up Diesel 40 KVA Generator (DCO)	25	-	0	0	0	25	0	0	0	As part of Business Continuity and improving services, the authority purchased a Diesel Generator in 2015/16. The proposed investment in 2023/24 is for the renewal of this hardware.
NCP2	IT	Service Director - Customers	Additional Data Backup Storage	89	-	15	0	15	0	18	41	0	As the amount of data being stored is increasing annually, there is a need to ensure we keep adding additional storage to cope with the demands of the back-up storage.
NCP3	IT	Service Director - Customers	CCTV at DCO & Hitchin Town Hall	30	-	15	0	0	15	0	0	0	Replace the existing CCTV Controllers with newer, faster technology including more disc space to capture enhanced images. The cameras will remain.
NCP4	IT	Service Director - Customers	Data Switch Upgrade	74	-	0	0	15	0	18	41	0	The main data switch within the IT Server estate is a critical piece of hardware that connects the data packets moving between the Network Servers, Data Storage and the fibre infrastructure. It is critical to ensure that these are updated regularly.
NCP5	IT	Service Director - Customers	DR Hardware Refresh Inc UPS Battery Pk (Unit 3)	115	-	0	0	0	55	0	60	0	Hardware upgrade within the Disaster Recovery centre at Unit 3, as part of the hardware refresh programme. This includes the Servers, Switches and UPS at the DR Centre at Unit 3.
NCP6	IT	Service Director - Customers	Mobile Device Management software	36	-	18	0	0	0	18	0	0	Replace the current Mobile Device Management software, which enables the Council to lock down mobile devices and provides the ability to remotely wipe these, should they be lost or stolen. The replacement system will be a modern cloud solution meaning that any future upgrades can be done remotely without the need for the device to be brought into the Council Offices
NCP7	IT	Service Director - Customers	WiFi Upgrades for DCO and Hitchin Town Hall	35	-	35	0	0	0	0	0	0	To replace the current ageing equipment with newer and faster technology
ECP2	IT	Service Director - Customers	PC's - Refresh Programme	199	-	17	17	17	17	23	108	0	PC's identified as having reached their end of useful life as part of the annual refresh programme. The assets have been used well past their original end of life because of the introduction of the citrix thin client technology. UPDATE CBP 20/21: Annual allocations updated in line with latest ICT Strategy
ECP20	IT	Service Director - Customers	Additional PC's - Support Home Working/OAP	139	-	11	13	11	13	15	76	0	The authority has a large PC/Monitor estate which as part of the ICT Service Plan requires refreshing annually. UPDATE CBP 20/21: Annual allocations updated in line with new ICT Strategy
ECP5	IT	Service Director - Customers	Tablets - Android Devices	147	-	12	15	18	12	17	73	0	As part of the IT Strategy and supporting the channel migration programme, the tablets are required to continue the roll-out to identified officers who would benefit from having mobile devices to be more efficient and productive. It is becoming increasingly important for those staff who are mobile working that they have the correct tools to view emails and documents whilst on the move. The tablets also facilitate paperless Committee Meetings. UPDATE CBP 20/21: Annual allocations updated in line with new ICT Strategy
ECP15	IT	Service Director - Customers	Security - Firewalls	80	-	14	0	14	0	16	36	0	Firewalls are one of the most important pieces of hardware between the NHDC Network and the outside world and it is this equipment that stops cyber attacks from penetrating NHDC systems and data. There is a need to ensure this hardware is kept as current and up to date as possible to ensure the Council's networks and data are kept secure. UPDATE CBP 20/21: £14k earmarked for 21/22 is proposed to be brought forward to 20/21 with a new amount of £14k earmarked in 22/23. £18k requested in 2026/27 and 2028/29 in line with ICT Strategy.

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				£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
ECP16	IT	Service Director - Customers	Cabinet Switches - 4 Floors	54	-	0	18	0	0	18	18	0	This hardware connects each floor across the DCO to each other and back to the IT Data Centre on the ground floor. This hardware is the essential piece of kit that routes the traffic from desktops to the data servers and hence keeping this technology up to date and modern is essential to ensure data speeds are maintained. UPDATE CBP 20/21: Allocations requested in 2024/25 and 2027/28 in line with ICT Strategy.
ECP19	IT	Service Director - Customers	40 KVA UPS Device or Battery Replacement	53	-	0	11	0	12	0	30	0	The operation life of the batteries within the UPS Systems is 3 years and they need to be replaced periodically. The authority has got 3 40 KVA UPS Systems which have varying battery sizes installed. UPDATE CBP 2020/21: Additional £14k allocations proposed in 2021/22, 2023/24 and 2025/26, with £16k requested in 2028/29.
ECP22	IT	Service Director - Customers	Dell Servers	210	-	65	0	0	0	70	75	0	In 2015/16 the authority upgraded the Server Estate with 10 Physical high level Dell Servers which have 179 virtual servers running within them. The hardware has a 5 year shelf life before being unsupported. UPDATE CBP 2020/21: Allocation for replacement hardware in 2024/25 and 2028/29.
ECP23	IT	Service Director - Customers	New Blade Enclosure	124	-	32	0	0	0	40	52	0	The Blades are an integral part of the Servers and go hand in hand. These formed part of the hardware refresh programme in 2015/16 and have a shelf life of 5 years. UPDATE CBP 2020/21: Allocation for replacement hardware in 2024/25 and 2028/29.
ECP24	IT	Service Director - Customers	Replacement SAN	345	-	110	0	0	0	115	120	0	The Storage Area Network (SAN) is used to compliment the data storage and backups across the infrastructure estate. These are a critical element of the data infrastructure network as they also move the data traffic around the servers. The authority replaced the current SAN in 2015/16 and the life of this hardware is 5 years. UPDATE CBP 2020/21: Allocation for replacement hardware in 2024/25 and 2028/29.
ECP25	IT	Service Director - Customers	Core Backbone Switch	75	-	0	0	0	0	35	40	0	Dual processor switch, which links the virtual servers to the SAN. UPDATE CBP 2020/21: Allocation for hardware renewal in 2024/25 and 2028/29.
ECP26	IT	Service Director - Customers	Additional Storage	83	-	25	0	13	0	0	45	0	As part of the day to day collection and storage of data within the Information@Works (I@W) which is the Corporate Document Management solution, the amount of data that is being scanned and captured via the Doc's on-line contract provided by Northgate is increasing by the day. There has been a huge push over the past year to work towards enabling every department to have access to I@W as this compliments Home Working. UPDATE CBP 2020/21: Allocation proposed in 2022/23, with £25k requested to be earmarked in 2025/26 and £20k in 2028/29
ECP14	IT	Service Director - Customers	Laptops - Refresh Programme	27	-	6	6	0	5	0	10	0	Over the past 3 years IT have reduced the laptop estate from 149 devices down to only having 48 still in use. The small budget provision is to ensure we have funds to replace these devices when Windows 7 becomes de-supported or they have reached their end of life as part of the refresh programme. UPDATE CBP 2020/21: Additional allocations proposed in 2021/22 and 2023/24 with £5k allocations requested in 2025/26 and 2027/28.

CAPITAL INVESTMENT PROPOSALS

Ref No	Service	Responsible Service Director	Description of Proposal	Total Project Investment 2020/21 onwards	Total Anticipated Funding from Grants or Other Contributions	Proposed Investment in 2020/21	Proposed Investment in 2021/22	Proposed Investment in 2022/23	Proposed Investment in 2023/24	Proposed Investment in 2024/25	Proposed Investment 2025 - 2030	Revenue Implication	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation/Revenue Budget etc.)
				£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
ECP21	IT	Service Director - Customers	Alternative to safeword tokens for staff/members working remotely	79	-	16	0	12	0	18	33	0	<p>The technology has changed considerably since we first starting using the Safeword Tokens 7-8 years ago. With the changes in personal technology such as Smart/IOS Phones there are now products on the market that are PSN approved for getting Access Keys delivered for 2 Layer Authentication such as Texts or App's on Smart Phones etc. This enables Members, Staff and Support Agencies to gain access to the remote login site from anywhere with no need to have a physical hardware device to hand.</p> <p>UPDATE CBP 2020/21: Additional allocations proposed 2020/21, 2022/23, 2024/25 with £14k proposed in 26/27 and £19k in 2028/29</p>
ECP17	IT	Service Director - Customers	Microsoft Enterprise Agreement	1,278	-	0	0	390	0	0	888	0	<p>It is essential NHDC has the correct Microsoft Licences to ensure the Council does not fall foul of F.A.S.T (Fraud Against Software Threat) regulations. The current three year contract started from 1st April 2019.</p> <p>UPDATE CBP 2020/21: Earmarked capital allocation in 2022/23 reduced from £450k to £390k in line with ICT Strategy. Estimated £426k allocation required in 2025/26 and £462k allocation in 2028/29.</p>
ECP11	IT	Service Director - Customers	Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract	39	-	39	0	0	0	0	0	0	<p>Replacement of the current Cygnia Web Filtering (Bloxx) Software Solution and Clearswift Email Secure Gateway Software Solution. This contract for the software licenses is due for renewal in July 2020.</p>
ECP12	IT	Service Director - Customers	Email Encryption Software Solution	45	-	45	0	0	0	0	0	0	<p>Replacement of the Egress Email Encryption Software Solution, which was on a 3 year contract. North Herts have been using the Egress Email Encryption solution to ensure any Data above the protective marker of restricted is encrypted before leaving the Email Exchange Solution. The current three year software contract expires on the 31 March 2020.</p>
Subtotal: IT				3,381	-	475	80	505	154	421	1,746	-	
TOTAL				41,413	4,241	9,358	5,405	6,334	5,099	6,686	8,531	-5	

TOTAL CONSISTS OF:													
PROPOSALS ALREADY IN THE CAPITAL PROGRAMME:				8,468	1,041	3,562	695	1,621	259	427	1,904	0	
NEW PROPOSALS IN THE 2020/21 PROCESS				32,945	3,200	5,796	4,710	4,713	4,840	6,259	6,627	-5	

These totals exclude those capital projects planned to complete in 2019/20.

**FINANCE, AUDIT AND RISK COMMITTEE
20 JANUARY 2020**

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: FINANCIAL MANAGEMENT CODE

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND IT

CURRENT COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

NEW COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

1. EXECUTIVE SUMMARY

The Chartered Institute of Public Finance and Accountancy (CIPFA) have launched a Financial Management Code in response to the financial pressures that Authorities face. This report provides an assessment of how well the Council performs against the Code and actions that it plans to take.

2. RECOMMENDATIONS

- 2.1. That the Committee note and comment on this report.

3. REASONS FOR RECOMMENDATIONS

- 3.1. To demonstrate the extent to which the Council complies with the Code and areas where it plans to take further actions. This will support good governance and risk management.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1. The Code does not have any statutory backing, so the Council could choose not to adopt it. However adopting good practice in relation to financial management is an effective tool for managing risk.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. Executive Members have been made aware of the contents of this Code and have been asked to comment on the assessment attached at Appendix A.

6. FORWARD PLAN

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

7. BACKGROUND

- 7.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) recognise the financial pressures that Authorities face and have developed this Code in response to that.

8. RELEVANT CONSIDERATIONS

- 8.1 CIPFA (Chartered Institute of Public Finance and Accountancy) have launched a Financial Management Code. The intention is that the Code helps to create a culture of strong financial management to help address the financial pressures that Councils are facing. The intention is that a self-regulation approach will prevent any other Local Authorities 'failing'. This will then avoid any need for any external control or reductions in current powers.
- 8.2 The Code does not currently have any specific statutory backing. However CIPFA reference that compliance with the code should be linked to s151 of the Local Government Act 1972 ("every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs"). They also place an obligation on their Members to adhere to the Code.
- 8.3 Whilst there is a role for the Chief Finance Officer (s151 Officer) to manage compliance, this is not something that should be done in isolation. Adherence to the Code is a joint responsibility of the Authority's Leadership Team- both Officers and Members.
- 8.4 The Code should be applied from 1 April 2020. As it relates to the financial management cycle this means that elements may not be fully implemented until 31 March 2021.

- 8.5 The Appendix sets out the 17 standards contained within the Code, an assessment of the current situation and actions required to comply with the Code. The Code is not intended to be proscriptive, so the manner in which compliance is demonstrated will be proportionate to the circumstances of the Council.
- 8.6 In early 2020, CIPFA will be publishing some guidance notes. These may help with a further analysis of compliance with the Code. Where relevant an update will be provided when these notes are published.
- 8.7 The full version of the Code is a paid-for publication. The Council has purchased the publication (as part of an annual subscription package) and can distribute it to Members but can not make it publicly available. As a result the Code has been e-mailed to Members of the Committee and referenced as a background paper, rather than being attached as an appendix.

9. LEGAL IMPLICATIONS

- 9.1. The terms of reference for Finance, Audit and Risk Committee include to Assist the Council and the Cabinet in the development of its Budget and Policy Framework process by in-depth analysis of policy issues pertaining to finance, audit and risk (Constitution 10.1.5 (d)).

10. FINANCIAL IMPLICATIONS

- 10.1 These are covered in section 8.

11. RISK IMPLICATIONS

- 11.1. The Council has a corporate risk relating to 'Managing the Council's Finances'. Having effective financial management processes is a key part of managing 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. There are no equalities implications arising from this report.

13. SOCIAL VALUE IMPLICATIONS

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

14. HUMAN RESOURCE IMPLICATIONS

- 14.1. Whilst some of the actions included in Appendix A will create some more work, this is not considered to be significant.

15. APPENDICES

- 15.1. Appendix A- An assessment of the current situation and actions required to comply with the Code

16. CONTACT OFFICERS

- 16.1. Ian Couper, Service Director- Resources, ian.couper@north-herts.gov.uk, Ext: 4243

17. BACKGROUND PAPERS

- 17.1. CIPFA Financial Management Code (sent by e-mail to Members of the Committee)

Appendix A- An assessment of the current situation and actions required to comply with the Code

R ef.	Description	Pages of Code	Detail	CFO draft assessment and actions required
Responsibilities of the Chief Finance Officer and Leadership Team				
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money	17/18	Legislative requirement for Authorities to deliver VFM. Delivery of VFM depends on decisions by Elected Members. Shared responsibility across the Leadership Team to communicate and understand the risks involved.	<p>External Audit provide a VFM assessment in which they have determined that “in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”. However. External Audit had determined that Churchgate could be a significant risk, and so it was easier to make a positive assessment on the basis that nothing had happened in this regard. VFM becomes more of a concern when decisions are more risky and/or deviate away from areas that the Council understands well.</p> <p>All Committee reports include financial and risk implications sections. These sections should draw on the service detail within the main body of the report.</p> <p>Actions required: None specific, be aware of risks in new activities (Senior Managers and Executive Members).</p>
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	18/19	<p>In summary this Statement requires that the CFO:</p> <ol style="list-style-type: none"> 1. Is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation’s strategic objectives sustainably and in the public interest. 2. Must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and 	<ol style="list-style-type: none"> 1. Yes, part of Leadership Team. 2. As above, and team contributes to financial implications of all Committee reports. 3. Feedback from Senior Managers is that messages in relation to good financial management are appropriately clear and targeted. 4. Consider that the Team is sufficiently resourced, including some scope to support a changing organisation.

			<p>longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy.</p> <p>3. Must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.</p> <p>4. Must lead and direct a finance function that is resourced to be fit for purpose.</p> <p>5. Must be professionally qualified and suitably experienced.</p>	Actions required: None.
Governance and Financial Management Style				
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	21	<p>A proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles.</p> <p>Clarity over the role of Head of Paid Service and Monitoring Officer.</p> <p>Audit Committee provides independent assurance over governance, risk and internal control arrangements, with a focus on financial management, financial reporting and audit and assurance.</p> <p>Leadership Team with a culture of constructive challenge based on realism.</p> <p>Goals, assumptions and implementations plans are rigorously examined.</p>	<p>The Financial Regulations creates the role of a Budget Holder. This is assigned at a level so that service delivery and budget can be aligned.</p> <p>The roles of the Head of Paid Service and Monitoring Officer are defined in the Council's constitution.</p> <p>The terms of reference for Finance, Audit and Risk (FAR) Committee as the Council's Audit Committee) cover the areas referenced. The Shared Internal Audit Service (SIAS) have provided assurance over the effectiveness of FAR, although the scope of that review will be changed in future years.</p> <p>Regular meetings of Senior Managers and Executive Members provides the forum for constructive challenge.</p> <p>Actions required: None.</p>

D	The authority applies the CIPFA/SOLA CE Delivering Good Governance in Local Government: Framework (2016)	22	This framework recommends that the review of the effectiveness of the system of internal control is reported in an annual governance statement	Annual Governance Statement completed each year in line with the framework. Actions required: None.
E	The financial management style of the authority supports financial sustainability	22/23	Strong financial management is assessed against a hierarchy of (1) delivering accountability, (2) supporting performance and (3) enabling transformation. Need to perform well at each level before moving to the next. This is broadly linked to economy, efficiency and effectiveness.	Achieving stage 1 of the hierarchy. Budget Holders take responsibility for spend against their budgets, especially with the move away from recharges. Many examples of linking performance and cost, but not in all areas. Examples of financial management supporting transformation, but probably need to work towards acting as an enabler. Actions required: Initially, look at ways to better integrate performance and cost information (Budget Holders supported by Finance/ Performance).
Long to medium-term financial management				
F	The authority has carried out a credible and transparent financial resilience assessment	25/26	Requirement to test sustainability against plausible scenarios of cost drivers, service demands, resources and key risks. Review of alternative options to match demand and resources. CIPFA will be providing Authorities with a Financial Resilience Index which may assist in this.	The Council has introduced a narrative in to the Medium Term Financial Strategy to cover risk areas in terms of funding, expenditure and income. This need to be developed for next years MTFS to incorporate more detail on forecast costs (where they can be estimated and are meaningful) and consider resilience options. The updated Resilience Index has been published by CIPFA in December. This has been incorporated in to the budget report for 2020/21 budget Actions required: Development of MTFS for 2021/6 to include scenario testing (Service Director- Resources). Consideration of resilience options (Senior Managers

				and Executive Members).
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	26	Based on the above, have a long-term financial strategy that links to vision, strategy and outcomes. This should include a vision of what services will look like in the future to achieve financial sustainability. The length of the long-term is undefined and should be linked to the risks faced. Potentially should be 10 years+.	<p>The current Council Plan contains a list of potential actions, but these need to be costed and prioritised. The priority areas can then be factored in to a long-term financial strategy. To consider the period of the long-term based on the financial impacts of plans put forward.</p> <p>Actions required: Translate the Council Plan in to a specific set of actions (Senior Managers and Executive Members), determine the costs of those (Service Directors/ Finance) and prioritise (Senior Managers and Executive Members).</p>
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	26/27	The Council has a long-term Capital Strategy that ensures that assets are managed and future plans are linked to capital resources available. Commercial investment activity should be considered over a suitable time horizon with risks fully considered. Ensure compliance with Prudential Code if borrowing.	<p>Last year, the Council introduced a Capital Strategy (incorporated in to Investment Strategy). For the strategy commencing in 2020 there is a further focus on a 10 year time horizon for capital costs to maintain existing assets (these are already incorporated in to draft capital budgets). It also incorporates a forecast of expected capital receipts.</p> <p>The commercial property investment strategy has been developed by the Estates Team. That investment will need to primarily be funded from borrowing. To comply with the Prudential Code this will need to consider Security, Liquidity and Yield.</p> <p>Actions required: None</p>
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans	27	Translation of the long-term view in to a more detailed medium-term financial plan. The time frame of which should support financially sustainable decision making. Clear link to service plans.	<p>Medium-term financial strategy already being produced with a 4/5 year time horizon. Expecting that the long-term plan will primarily be based on the medium-term, and the medium-term will be based on the one year budget, so that helps to ensure consistency across the plans. Service plans reflect the key changes that are also reflected in the budget plans.</p> <p>Actions required: None, covered elsewhere.</p>
The Annual Budget				

J	The authority complies with its statutory obligations in respect of the budget setting process	29	These are generally covered by part 2 of Local Government Act 2003. This includes robustness of estimates and reserves (covered below) and the requirement for financial monitoring. It also includes section 114 of the Local Government Finance Act 1988, which requires the CFO to issue a report if the Council is about to incur unlawful expenditure. This would include setting an unbalance budget.	All estimates and reserves are reviewed by the s151 Officer. The commentary on this has been strengthened in the 2020/21 budget report.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	29/30	Reserves to be considered as part of the budget process and should be 'adequate' and 'necessary'. Should enable the Council to manage unexpected events from within its own resources. The budget report details earmarked reserves held, the purpose of each reserve and estimated opening and closing balances.	There is a commentary on the sufficiency of general fund and specific reserves. The purpose of each reserve is available in other documents, but previously has not had sufficient detail in the budget report. Also previously have not included a forecast. These have now been added in to the 2020/21 budget report.
Stakeholder Engagement and Business Plans				
L	The authority has engaged where appropriate with key stakeholders in developing its long-term	31	Enabling residents to understand that resources are limited and spending has to be prioritised. Leadership Team redirects resources to areas of higher priority. Understanding of statutory service delivery requirements. Use stakeholder consultation to set priorities. Helps to encourage community involvement,	There have been thoughts of carrying out a budget consultation process, but it has been considered that this is best carried out when there is some certainty over the quantum of funding. This then allows residents to consider priorities against a known limit. Depending on the timing of funding announcements in 2020/21, to hold during 2020/21 (although that will become impractical if there is no certainty until late Autumn/ Winter). The alternative

	financial strategy, medium-term financial plan and annual budget		which could help reduce costs.	<p>would be a light-touch consultation in 2020/21, followed by a more detailed one in 2021/22. The Council undertakes the statutory consultation required with Business Ratepayers.</p> <p>Actions required: To undertake public budget consultation in 2020/21 and 2021/22 (as required) (Senior Managers and Executive Members).</p>
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	31/32	Decisions are made from clear business cases that detail the up-front and ongoing costs and benefits. Where appropriate the time value of money should be considered. Alternative options should be considered. The complexity of the business case should be proportionate to the decision.	<p>The Council has a project business case template that covers the key headings, but does not proscribe the level of detail required. The template can therefore be expanded to ensure the level of detail is proportionate to the decision being taken. In any case, in the majority of cases the financial analysis would be contained within an accompanying spreadsheet (or other modelling tool). Where applicable this would incorporate the time value of money. Finance would be involved in all significant decisions and therefore would ensure that this is considered.</p> <p>Actions required: None.</p>
Monitoring financial performance				
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability	33	The Council should have timely information on its financial and operational performance. Performance indicators should be reviewed, alongside any overspends/ undelivered savings.	<p>Budget and performance monitoring is carried out on a quarterly basis to align with the Committee cycle. Due to the timings of Committees there can be quite a lag between the end of the Quarter and the reporting. For financial information, forecasts are available on a more regular basis and would be highlighted earlier if significant variances arose. Services will compile performance information on a more regular basis and where relevant highlight the impacts of these.</p> <p>Financial (FAR) and performance (OSC) reports go to separate committees so are in separate reports. SMT see both reports, usually at the same meeting. Without a</p>

				<p>fundamental change to the responsibilities to the terms of reference of Committees, the areas of improvement are relatively limited. However this probably reflects that currently most budgets are either (i) low risk or (ii) there is a very direct link between service performance and financial performance (e.g. number of car park ticket sales, planning applications).</p> <p>Actions required: A consideration as to whether there are any performance indicators that would provide an early warning of financial problems (Service Managers). Make greater use of performance information in explaining variances (Service Managers/ Finance).</p>
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability	33	<p>Need to await the guidance notes as the Code itself is unclear on the requirements. There is reference to monitoring material elements of the balance sheet that might give indications of departures from financial plans. Specific reference is made to commercial asset portfolios, contingencies and provisions. Cash flow is managed in accordance with guidance.</p>	<p>Already got an increased focus on debt management. Income is not real until it is paid.</p> <p>To wait for the guidance notes for further clarity.</p> <p>Actions required: None at the moment.</p>
External Financial reporting				
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by	35	<p>The CFO has statutory responsibility for (1) producing the accounts and ensuring they are published on a timely basis (2) maintaining financial records (3) certification of the accounts and confirmation of a 'true and fair view'.</p>	<p>These are all complied with. Assurance is provided through External Audit and Internal Audit (SIAS).</p> <p>Actions required: None.</p>

	the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom			
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions	36	The narrative report that accompanies the accounts provides a link to achievement of outcomes and performance. The Leadership Team understand variances from budget and how they have been managed. The future implications of variances should also be considered i.e. will it affect the financial strategy/ financial resilience.	<p>The narrative report includes a commentary on projects and performance indicators. As described in (N) above there is not much direct linkage between these and financial performance. Budget monitoring reports describe any management actions that have happened, and where there are ongoing impacts these are made clear and incorporated in to the budget process for the next (and future) years.</p> <p>Actions required: None.</p>