

NORTH HERTFORDSHIRE DISTRICT COUNCIL



5 June 2020

Our Ref FAR Committee/15.06.2020
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To: Members of the Committee: Kate Aspinwall (Chair), Sam North (Vice-Chair), Sam Collins, Steve Deakin-Davies, Morgan Derbyshire, Adem Ruggiero-Cakir and Michael Weeks

Substitutes: Councillors George Davies, Steve Jarvis, Ian Moody, Helen Oliver, Kay Tart and Terry Tyler

NOTICE IS HEREBY GIVEN OF A

MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE

to be held as

A VIRTUAL MEETING

On

MONDAY, 15TH JUNE, 2020 AT 7.30 PM

Yours sincerely,

Jeanette Thompson
Service Director – Legal and Community

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

Agenda

Part I

Item		Page
1.	APOLOGIES FOR ABSENCE	
2.	NOTIFICATION OF OTHER BUSINESS Members should notify the Chair 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 Chair will decide whether any item(s) raised will be considered.	
3.	CHAIR'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 Chair 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.	
4.	PUBLIC PARTICIPATION To receive petitions, comments and questions from the public.	
5.	UPDATE TO THE 2019/20 AUDIT PLAN REPORT OF ERNST AND YOUNG To provided an update considering the known and potential impacts of Covid-19.	(Pages 5 - 8)
6.	2019/20 ANNUAL ASSURANCE STATEMENT AND INTERNAL AUDIT ANNUAL REPORT To note the Annual Assurance Statement and Internal Audit Annual Report. To note the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP). To accept the SIAS Audit Charter.	(Pages 9 - 32)

7. **SIAS PROGRESS REPORT** (Pages 33 - 46)
To note the Internal Audit Progress Report for the period to 18 May 2020.
To note the implementation status of High priority recommendations.
8. **FINANCE, AUDIT AND RISK COMMITTEE ANNUAL REPORT 2019/20** (Pages 47 - 52)
REPORT OF THE SERVICE DIRECTOR – RESOURCES
To receive the Finance, Audit and Risk Annual Report.
9. **REVENUE BUDGET OUTTURN 2019/20** (Pages 53 - 70)
REPORT OF THE SERVICE DIRECTOR - RESOURCES
To consider the Revenue Budget Outturn 2019/20.
10. **INVESTMENT STRATEGY (CAPITAL AND TREASURY) END OF YEAR** (Pages 71 - 96)
REVIEW 2019/20
REPORT OF THE SERVICE DIRECTOR – RESOURCES
To consider the Investment Strategy (Capital and Treasury) End of Year Outturn Review 2019/20.
11. **POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS**
The Chair to lead a discussion regarding possible agenda items for future meetings.

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North Hertfordshire District Council Finance, Audit and Risk Committee 8 June 2020

Update to the EY 2019/20 Audit Plan as a result of Covid-19

3 June 2020

Overview

We previously presented the EY 2019/20 Audit Plan to the January 2020 Committee meeting. This paper provides an update considering the known and potential impacts of Covid-19 which will be similar at all local authorities.

We will provide a further update to the next Committee meeting as we expect issues to continue to develop and change.

Timetable

MHCLG have changed the financial reporting dates for local authorities in light of Covid-19. The Council is now required to publish its draft statements by the 31 August (from 31 May) and publish audited accounts (where they have been audited) by 30 November (from 31 July). At present the Council has indicated that it plans to prepare its draft accounts by 19 June. We are currently scheduling the audit of the accounts for a 4/5-week period commencing 6 July. The timetable is subject to change.

Risks and areas of focus

In the January Audit Plan, we identified no significant risks. However, there are new risks arising as a result of Covid-19:

- Misstatements due to fraud or error

In response to Covid-19 we will re-visit our fraud assessments as the incentive, opportunity and rationalisation for possible fraudulent misreporting may have changed.

- Going concern

There is presumption that the Council will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Council revenue as a result of Covid-19 increases the need for the Council to undertake a detailed going concern assessment to support its assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, this year, for example, we will need to see evidence of going concern up to and including around September / October 2021. This will need information relevant to the 2021/22 financial year, its budget, etc. We will be scrutinising the Council's revised financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We will also discuss with management the need to make specific disclosures in the 2019/20 statements on going concern and in particular any material uncertainties.

- Property, plant and equipment (PPE) valuations

The Audit Plan includes PPE valuations as an area of audit focus. The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of COVID-19 on markets might cause a valuer to conclude that there is a material uncertainty, which the valuer would then disclose in their report. RICS has explained this is not a 'disclaimer' in the valuation: valuers are continuing to apply their professional judgement, this is disclosing the additional uncertainty attached to current valuations. This is particularly relevant for Fair Value / Market Value based assets because of the paucity of market information available at 31 March upon which to give those valuations. If the Council's valuation report includes this reference, we will need to discuss with management what disclosures they will be including in the statements and the impact on the audit approach as currently outlined in the audit plan.

However, as the Council holds material investment property, which are valued at market value, we are now recognising the valuation of investment property as a significant risk and will be engaging our own experts to support our audit procedures.

- Impairment of receivables

There may be an increase in amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations. We will review significant judgements made by management.

- Annual Governance Statement

The widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on the ability to complete the remainder of the internal audit programme.

- Pensions

The pension liability and disclosures are already an area of audit focus in the Audit Plan. However, volatility in the financial markets is likely to have a significant impact on pension assets, and therefore net liabilities.

The above is not an exhaustive list of issues and we anticipate that several of the matters reported above will be covered by CIPFA's year end LAAP bulletin on 2019/20 Closedown.

We will provide an update on the impact of Covid-19 on the Council's financial statements, and how we have responded to the additional risks of misstatement, later in our audit.

Audit delivery

- Remote working

Our audit documentation tool, Canvas, and the EY Client Portal enable us to undertake the majority of our audit procedures by working remotely. To date, the Council's finance team have also been able to deal with audit queries and continue with their closedown preparations remotely.

- **Audit evidence**

Whilst remote working is operating relatively effectively, there are likely to be some aspects of audit evidence where we will need to work collaboratively with the finance team to ensure its appropriateness and sufficiency. For example, typically we would sit down with the finance team to observe them running reports from the ledger which support balances in the statements. We will need to agree a practical and effective way that we can gain the same assurance but working remotely.

Dealing pragmatically with these challenges may increase the duration of the year end audit.

- **Auditor's report**

Following the government's decision to enforce a lockdown, all audit firms implemented a moratorium on the majority of their auditor reports. Whilst the moratorium was lifted in mid-April, because of the ongoing uncertainty Covid-19 presents to the material accuracy of financial statements, the firm (in common with other firms) has introduced a rigorous consultation process for all auditor reports. Whilst we may not be seeking to issue the Council's auditor report until September, there is likely to remain in place a consultation process that may impact on the timing and the content of the audit report. We will update the Committee at its next meeting.

Fees

In the Audit Plan we referenced our intention to revisit and propose an increase to the scale fee as a result of the changes in the audit market and increases in regulation since the most recent PSAA tender exercise. We have shared with the Section 151 officer our proposal for increasing the scale fee and details of the main drivers. However, in light of the matters included in this update, we will need to consider further the impact on the 2019/20 audit fee.

We will update the Committee at its next meeting.

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North Herts District Council
2019/20 Annual Assurance Statement
and
Internal Audit Annual Report

15 June 2020

Recommendations

Members are recommended to:

Note the Annual Assurance Statement and Internal Audit Annual Report

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

Accept the SIAS Audit Charter

Seek management assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2019/20

Contents

1. Purpose and Background
 - 1.1 Purpose
 - 1.2 Background

2. Annual Assurance Statement for 2019/20
 - 2.1 Scope of Responsibility
 - 2.2 Control Environment
 - 2.4 Review of Effectiveness - compliance with the PSIAS and QAIP
 - 2.11 Confirmation of independence of internal audit and assurance on limitations
 - 2.12 Assurance Opinion on Internal Control
 - 2.13 Assurance Opinion on Corporate Governance and Risk Management

3. Overview of Internal Audit Activity at the Council in 2019/20

4. Performance of the Internal Audit Service in 2019/20
 - 4.1 Performance Indicators
 - 4.2 Service Developments

5. Audit Charter 2020/21

Appendices:

- A Final position against the Council's 2019/20 Audit Plan

- B Definitions of Assurance Levels and Priority of Recommendations

- C Position against Public Sector Internal Audit Standards as at May 2020

- D Internal Audit Charter 2020/21

1. Purpose and Background

Purpose of Report

- 1.1 This report:
- a) Details the Shared Internal Audit Service's (SIAS) overall opinion on the adequacy and effectiveness of North Herts District Council's (the Council) control environment. Reference is made to significant matters and key themes.
 - b) Summarises the audit work that informs this opinion.
 - c) Shows the outcomes of the self-assessment against the Public Sector Internal Audit Standards (PSIAS) incorporating the requirements of the Quality Assurance and Improvement Programme (QAIP).
 - d) Shows SIAS's performance in respect of delivering the Council's audit plan.
 - e) Presents the 2020/21 Audit Charter.

Background

- 1.2 A key duty of the Head of Assurance is to provide an annual opinion on the Council's internal control environment. This opinion informs the conclusions of the Council's Annual Governance Statement.
- 1.3 The assurance opinion in this report is based on 2019/20 internal audit work which was planned and amended to give sufficient assurance on the Council's management of its key risks. Also considered is any relevant work undertaken in 2020/21 before the audit committee report deadline.
- 1.4 SIAS is grateful for the co-operation and support it has received from client officers during 2019/20.

2. Annual Assurance Statement 2019/20

Context

Scope of Responsibility

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

Control Environment

- 2.2 The control environment comprises three key areas: internal control, governance, and risk management. Together these aim to manage risk to an acceptable level but not to eliminate it.
- 2.3 A robust control environment helps ensure that the Council's policies, priorities and objectives are achieved.

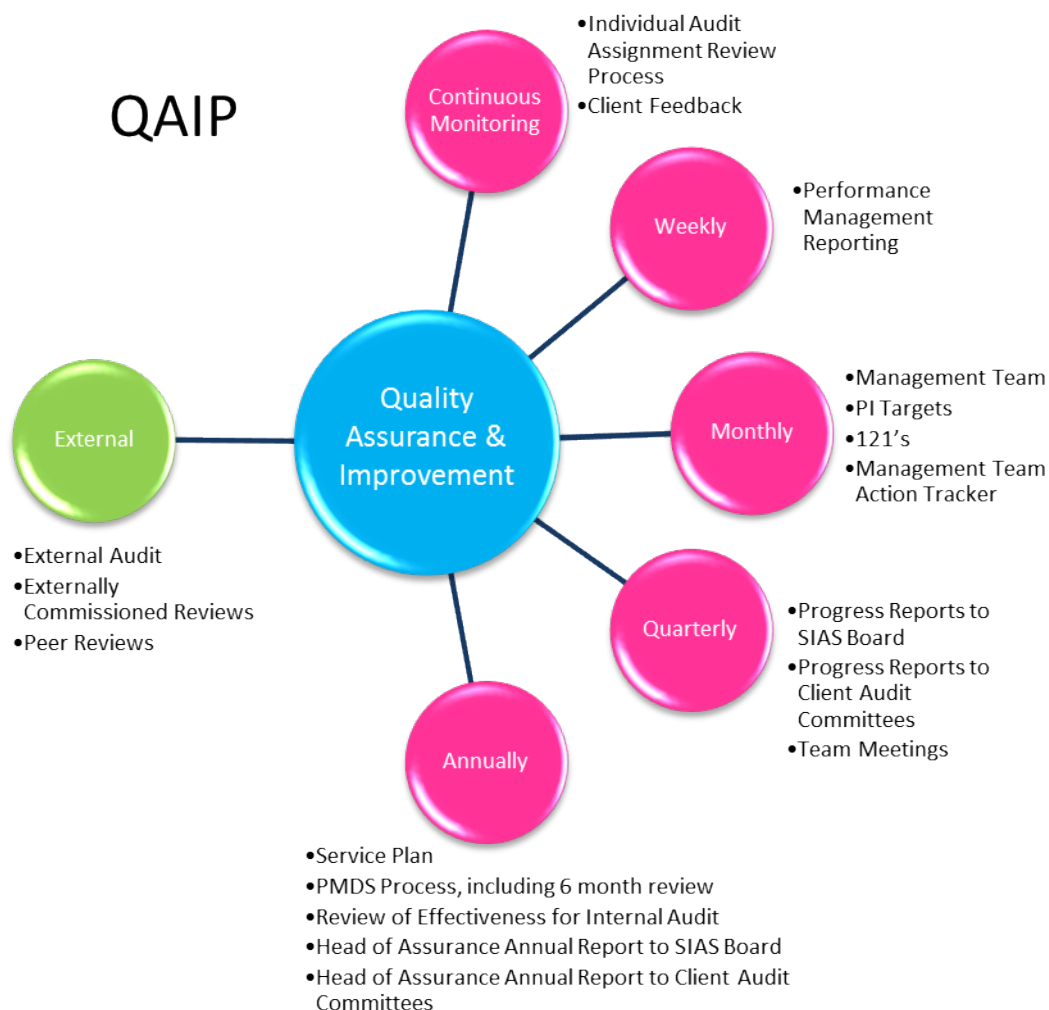
Review of Effectiveness

- 2.4 The Head of Assurance must confirm annually that the internal audit function is suitably qualified to carry out the work that informs the assurance opinion.
- 2.5 As part of a QAIP, a self-assessment was conducted against the Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF). They promote professionalism, quality, consistency and effectiveness of internal audit across the public sector. They highlight the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances needed to support them in both managing the organisation and producing the Annual Governance Statement.
- 2.6 The 2019/20 self-assessment identified 2 areas of agreed non-conformance. These are detailed in Appendix A. There are no significant deviations from Standards which warrant inclusion in the Council's Annual Governance Statement.
- 2.7 The PSIAS also requires that the SIAS be subject to an external quality assessment at least once every five years. This should be conducted by a qualified, independent assessor or assessment team from outside the organisation. The next external assessment is due in November 2020. However, it should be noted that the SIAS Board will be asked during June 2020 to defer the five-yearly external assessment from November 2020 to May 2021 at the latest. This is as a result of the impact of COVID-19. This approach helps ensure that the revised position is agreed by the SIAS Board, it is communicated to Audit Committees at the earliest reporting opportunity and it sets a new timeline for undertaking the review and/or determining when it will next take place.
- 2.8 The Head of Assurance has concluded, therefore, that SIAS 'generally conforms' to the PSIAS, including the Definitions of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. 'Generally conforms' is the highest rating and means that SIAS has a charter, policies and processes assessed as conformant to the Standards and is consequently effective.

Annual Assurance Statement and Internal Audit Annual Report - North Herts District Council

2.9 The SIAS QAIP includes both internal and external monitoring and reporting to assess the efficiency and effectiveness of internal audit activity and identify opportunities for improvement. The diagram below details the methods used to monitor and report on these. Detailed information outlining activity in each area is contained in the SIAS Audit Manual.

2.10 The Head of Assurance confirms that during 2019/20 SIAS operated according to its QAIP with evidence available within the service to support the achievement of each QAIP element.



Confirmation of independence of internal audit and assurance on limitations

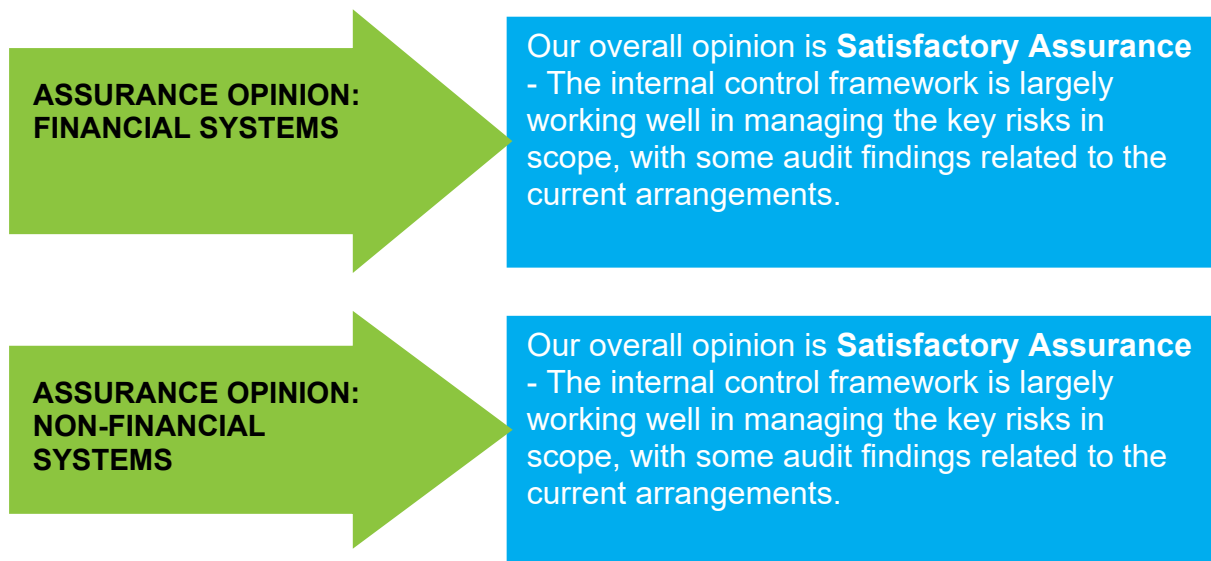
2.11 The Head of Assurance confirms that during the year that:

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

Annual Assurance Statement for 2019/20

Assurance opinion on internal control

- 2.12 Based on the internal audit work undertaken at the Council in 2019/20, SIAS can provide the following opinion on the adequacy and effectiveness of the Council's control environment, broken down between financial and non-financial systems.



Assurance opinion on Corporate Governance and Risk Management

- 2.13 SIAS has concluded that the corporate governance and risk management frameworks substantially comply with the CIPFA/SOLACE best practice guidance on corporate governance. This conclusion is based on the work undertaken by the Council and reported in its Annual Governance Statement for 2019/20. Corporate governance and risk management arrangements have been considered during the delivery of individual audit assignments.

Chris Wood
Head of Assurance for the Shared Internal Audit Service
May 2020

3. Overview of Internal Audit Activity at the Council in 2019/20

- 3.1 This section summarises work undertaken at the Council by SIAS in 2019/20. It highlights any significant internal control matters and opportunities for improvement.
- 3.2 Appendix A shows the final position against the agreed revised audit plan, assurance levels and the number of recommendations made. A summary of assurance levels and recommendations priority is shown in the tables below.

Assurance Level	Number of reports 2019/20 (2018/19 data in brackets)	Percentage of reports 2019/20 (2018/19 data in brackets)
Good	4 (13)	15% (37%)
Satisfactory	11 (11)	40% (33%)
Limited	1 (3)	4% (9%)
No	0 (0)	0% (0%)
Not Assessed	4 (4)	15% (12%)
Not Complete	7 (2)	26% (9%)
Total	27 (33)	100% (100%)

Recommendation Priority Level	Number of recommendations 2019/20 (2018/19 data in brackets)	Percentage of recommendations made 2019/20 (2018/19 data in brackets)
Critical	0 (0)	0% (0%)
High	1 (3*)	2% (4%)
Medium	19 (35)	49% (50%)
Low	19 (32)	49% (46%)
Total	39 (70)	100% (100%)

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

- 3.3 **The Satisfactory assurance opinion overall on financial systems** has been concluded from the five financial systems audits where an opinion has been given. Two received Good assurance and three received Satisfactory assurance.
- 3.4 **The Satisfactory assurance opinion overall on non-financial systems** has been concluded from the eleven audits where an opinion has been given. Two received Good assurance, eight Satisfactory assurance and one Limited assurance.

- 3.5 In arriving at our overall opinion for financial and non-financial systems, we highlight that most opinions from audit reports issued for individual assignments were Good or Satisfactory. This demonstrates that the Council has sound internal control environments across a wide of range of key service areas. In addition, four audits were classified as “Not Assessed”, i.e. no audit assurance opinion was given. These four audits have however contributed to the assurance opinion on non-financial systems as they were important pieces of advisory work carried out during the year.
- 3.6 A limited assurance opinion was provided in the Time Recording System audit. This was due to the High priority recommendation raised relating to line managers being provided with an overview of the timeliness of timesheet completion and being reminded of their responsibilities to monitor officers time records. Also, to provide corporate oversight, the Council may consider developing monthly reports to be presented to Service Directors, to give an overview of the flexi time system usage, compliance with policy and potential staff wellbeing issues. The limited assurance opinion in this audit has contributed to the overall satisfactory opinion as has the High priority recommendation that was made resulting from our work. We have determined that the issue affecting the Time Recording System is isolated and does not represent a weakness in the overall control environment of the Council. It has therefore not reduced the overall opinion to limited.
- 3.7 Six audits were at draft report stage at the time of writing this Annual Report. The level of assurance provided across these audits was either Good assurance or Satisfactory assurance. These levels are unlikely to change and as a result they have contributed to the overall assurance opinion for financial and non-financial systems. These audits are:
- a) Budgetary Control
 - b) Recycling
 - c) Insurance
 - d) Development Management
 - e) Financial Resilience of Suppliers
 - f) SAFS Review
- 3.8 In addition to the above, the Herts Home Improvement Agency Follow Up audit was not complete at the time of writing this report. This follow up audit was paused as a result of the COVID-19 pandemic and it will recommence as soon as possible. Delivery of the Council’s Internal Audit Plan for 2019/20 was otherwise unaffected by the pandemic.
- 3.9 Our opinion has taken into consideration the risks and impacts associated with any control weaknesses in those areas receiving Limited assurance, both in draft and final reports. Members will continue to receive updates on the implementation progress of critical and high priority recommendations through the SIAS quarterly progress reports to the Audit Committee.

4. Performance of the Internal Audit Service in 2019/20

Performance indicators

- 4.1 The table below compares SIAS's performance at the Council against the 2019/20 targets set by the SIAS Board.

Indicator	Target 2019/20	Actual to 31 March 2020
1 SIAS Planned Days – percentage of actual billable days delivered against planned billable days (excluding contingency)	95%	99% (333 / 338)
2 SIAS Planned Projects – actual completed projects to draft report stage against planned completed projects	95%	96% (26 / 27 audit projects)
3 SIAS Annual Plan – presented to the March Audit Committee or the first meeting of the financial year should a March committee not meet.	Deadline met	Yes
4 Client Satisfaction - client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	100%	100% (11 returned)
5 Head of Assurance's Annual Report – presented at the first Audit Committee meeting of the financial year.	Deadline met	Yes
6 Number of High Priority Audit Recommendations agreed	95%	100% (1 agreed)

Service Developments

4.2 During 2019/20 the development activities for SIAS included:

- a) Staffing - the delivery of core learning and coaching for all members of staff. This included external training on the principles of risk and internal control, and the practical application of data analytics within audit testing strategies. This will need to become embedded professional practice in 2020/21 in order to add further value to internal audit work. A Team Charter has also been developed to set expectations for core values and behaviours amongst staff and to create a link to the IPPF and the PSIAS.
- b) Practice - the template used for setting out the terms of reference for each audit assignment was revised and subsequently piloted at two SIAS partners. This received positive feedback from recipients and will now need to be rolled out during 2020/21. The revised template provides a means to explicitly link internal audit work to those things which prevent service objectives being met and to highlight alternative sources of assurance so that any audit duplication/overlap can be avoided where possible.
- c) Technology – replacement computer hardware and software has been rolled out to all staff. This has facilitated more effective remote working, for example by using video conferencing and other communication tools. An automated Performance Dashboard has also been produced as a means of monitoring individual staff performance against targets. This tool has helped to inform one to one discussions and annual appraisals. A review of the SIAS web offering has also commenced.

5. Audit Charter 2020/21

- 5.1 The PSIAS require a local authority to formally adopt an Audit Charter which covers the authority and responsibility for an internal audit function.
- 5.2 The SIAS Audit Charter sets out the framework within which it discharges its internal audit responsibilities to those charged with governance in the partner councils. It details the permanent arrangements for internal audit and key governance roles and responsibilities to ensure the effectiveness of internal audit provision.
- 5.3 The Audit Charter is reviewed annually. The review in April 2020 did not result in any fundamental changes and the 2020/21 Charter is attached at Appendix D.

APPENDIX A – FINAL POSITION FOR THE 2019/20 AUDIT PLAN FOLLOWING APPROVED PLAN CHANGES

2019/20 North Herts District Council Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L			
Key Financial Systems								
Integra 2	Good	0	0	0	0	14	14	Final Report Issued
Budgetary Control						10	9.5	Draft Report Issued
Treasury Management	Satisfactory	0	0	0	4	8	8	Final Report Issued
Revenues	Good	0	0	0	0	15	15	Final Report Issued
Expenses	Satisfactory	0	0	2	1	10	10	Final Report Issued*
Benefits	Satisfactory	0	0	1	1	10	10	Final Report Issued
Operational Audits								
Recycling						15	14.5	Draft Report Issued
Temporary Accommodation	Good	0	0	0	0	12	12	Final Report Issued
Time Recording System	Limited	0	1	1	1	14	14	Final Report Issued
Members Expenses Benchmarking	Not Assessed	0	0	0	0	8	8	Final Report Issued*
Parking Strategy and Enforcement								Cancelled
Transparency Code	Satisfactory	0	0	0	0	12	12	Final Report Issued
Equality and Diversity	Good	0	0	0	2	10	10	Final Report Issued
Herts Home Improvement Agency						2	1.5	Quality Review
Review of FAR	Not Assessed	0	0	0	0	3	3	Final Report Issued
King George V Playing Fields	Not Assessed	0	0	0	0	1	1	Final Report Issued
Insurance						10	9.5	Draft Report Issued
Development Management						10	9.5	Draft Report Issued
Workman's Hall	Not Assessed	0	0	0	0	1	1	Final Report Issued
Careline Stock	Satisfactory	0	0	2	3	10	10	Final Report Issued

APPENDIX A – FINAL POSITION FOR THE 2019/20 AUDIT PLAN FOLLOWING APPROVED PLAN CHANGES

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L			
Procurement / Contracts								
Financial Resilience of Suppliers						15	14.5	Draft Report Issued
Corporate Governance								
Data Quality of Performance Information								Cancelled
Workforce Planning & Development	Satisfactory	0	0	2	1	22	22	Final Report Issued
Corporate Resilience	Satisfactory	0	0	1	2	15	15	Final Report Issued
Corporate Change Management	Satisfactory	0	0	2	0	15	15	Final Report Issued*
Audits								
General Data Protection Regulations	Satisfactory	0	0	2	2	10	10	Final Report Issued
Cyber Risk	Satisfactory	0	0	4	1	15	15	Final Report Issued
Systems Access – Passwords	Satisfactory	0	0	2	1	12	12	Final Report Issued
Shared Learning and Joint Reviews								
SAFS Review						2	1.5	Draft Report Issued
Joint Reviews						2	2	Complete
Shared Learning						3	3	Complete
Contingency & Ad Hoc Activity								
Contingency						2	0	As Required
Strategic Support								
Head of Internal Audit Opinion 2019/20						3	3	Complete
Audit Committee						8	8	Complete
Client Meetings						8	8	Complete

APPENDIX A – FINAL POSITION FOR THE 2019/20 AUDIT PLAN FOLLOWING APPROVED PLAN CHANGES

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L			
Liaison with External Audit						1	1	Complete
Progress Monitoring						10	10	Complete
SIAS Development						5	5	Complete
2020/21 Audit Planning						6	6	Complete
2018/19 Projects requiring completion								
Various						11	11	Complete
Total - North Herts D.C.		0	1	19	19	340	334.5	

* At Draft Report stage at 31 March 2020, Final Report issued after year end.





Key to Assurance Level and Recommendation Priority Levels:

N/A = Not Applicable

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

APPENDIX B – DEFINITIONS OF ASSURANCE AND PRIORITY LEVELS OF RECOMMENDATIONS

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

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

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

Section A: Conformance - During 2019/20 all areas apart from those identified in Section B below are conforming.

Section B: Intentional Non-Conformance

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



Audit Charter 2020/21

1. Introduction and Purpose

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

2. Scope

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

3. Statutory Basis of Internal Audit

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

4. Role

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

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

5. Professionalism

5.1. SIAS governs itself by adherence to the Public Sector Internal Audit Standards (PSIAS). These standards include the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (IPPF). They set out the fundamental requirements for the professional practice of internal auditing and the evaluation of the effectiveness of an internal audit function's performance.

5.2. SIAS also recognise the Mission of Internal Audit as identified within the IPPF, 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight' and the Core Principles for the Professional Practice of Internal Auditing, which demonstrate an effective internal audit function, achieving internal audit's mission.

5.3. SIAS's operations are guided by its operating procedures manual as well as applicable, Chartered Institute of Internal Auditors (CIIA) Position Papers, Practice Advisories and Guides, and relevant council policies and procedures, including compliance with the Bribery Act 2010.

5.4. Should non-conformance with the PSIAS be identified, the Head of Assurance will investigate and disclose, in advance if possible, the exact nature of the non-conformance, the reasons for it and, if applicable, its impact on a specific engagement or engagement outcome.

6. Authority and Confidentiality

6.1. Internal auditors are authorised full, free, and unrestricted access to any and all of a client's records, physical properties, and personnel as required to carry out an engagement. All client employees are requested to assist SIAS in fulfilling its roles and responsibilities. Information obtained during the course of an engagement is safeguarded and confidentiality respected.

6.2. Internal auditors will only use information obtained to complete an engagement. It will not be used in a manner that would be contrary to the law, for personal gain, or detrimental to the legitimate and ethical objectives of the client organisation(s). Internal auditors will disclose all material facts known which if not disclosed, could distort a report or conceal unlawful practice.

7. Organisation

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

8. Stakeholders

The following groups are defined as stakeholders of SIAS:

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

8.5 The SIAS Board is the governance group charged with monitoring and reviewing the overall operation of SIAS, including:

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

9. Independence and Objectivity

9.1. No element in the organisation should interfere with audit selection, scope, procedures, frequency, timing, or report content. This is necessary to ensure that internal audit maintains the necessary level of independence and objectivity.

9.2. As well as being impartial and unbiased, internal auditors will have no direct operational responsibility or authority over any activity audited. They will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that might impair their judgment.

9.3. When asked to undertake any additional roles/responsibilities outside internal auditing, the Head of Assurance will highlight to the Audit Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the PSIAS Code of Ethics as well as any relevant requirements set out in other professional bodies to which the CAE may belong. The Audit committee will approve and periodically review any safeguards put in place to limit any impairments to independence and objectivity.

9.4. The Head of Assurance will confirm to the Audit Committee, at least annually, the organisational independence of SIAS.

10. Conflicts of Interest

10.1. Internal auditors will exhibit clear professional objectivity when gathering, evaluating, and communicating engagement information. When forming judgments, they will make a balanced assessment of all relevant circumstances and not be influenced by their own interests or the views and interests of others.

10.2. Each auditor will comply with the ethical requirements of his/her professional body and proactively declare any potential conflict of interest, whether actual or apparent, prior to the start of an engagement.

10.3. All auditors sign an annual declaration of interest to ensure that the allocation of work avoids conflict of interest. Auditors who undertake consultancy work or are new to the team will be prohibited from auditing in those areas where they have worked in the past year. Audits are rotated within the team to avoid over-familiarity and complacency.

- 10.4. SIAS procures an arrangement with an external partner to provide additional internal audit days on request. The external partner will be used to deliver engagements as directed by the Head of Assurance in particular providing advice and assistance where SIAS staff lack the required skills or knowledge.
- 10.5. In the event of a real or apparent impairment of independence or objectivity, (acceptance of gifts, hospitality, inducements or other benefits) the Head of Assurance will investigate and report on the matter to appropriate parties.

11. Responsibility and Scope

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

12. Role in Anti-Fraud

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

13. Internal Audit Plan

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

14. Reporting and Monitoring

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

- 14.3. SIAS will follow-up the implementation of agreed recommendations in line with the protocol at each client. As appropriate, the outcomes of this work will be reported to the audit committee and may be used to inform the risk-based planning of future audit work. Should follow-up activity identify any significant error or omission, this will be communicated by the Head of Assurance to all relevant parties. A revised internal audit opinion may be issued on the basis of follow-up activity.
- 14.4. In consultation with senior management, the Head of Assurance will consider, on a risk-basis, any request made by external stakeholders for sight of an internal audit report.
- 14.5. Quarterly update reports to the Audit Committee will detail the results of each engagement, including significant risk exposures and control issues. In addition, an annual report will be produced giving an opinion on the overall control, governance, and risk management environment (and any other issues judged relevant to the preparation of the Annual Governance Statement), with a summary of the work that supports the opinion. The Head of Assurance will also make a statement of conformance with PSIAS, and detail the nature and reasons for any impairments, qualifications or restrictions in scope for which the Committee should seek reassurances from management.

15. Periodic Assessment

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

16. Review of the Audit Charter

- 16.1. The Head of Assurance will review this charter annually and will present, to the first audit committee meeting of each financial year, any changes for approval.
- 16.2. The Head of Assurance reviewed this Audit Charter in April 2020. It will next be reviewed in April 2021.

Glossary of Terms

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

Note:

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

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North Herts District Council Audit Committee Progress Report

15 June 2020

Recommendations

Members are recommended to:

- Note the Internal Audit Progress Report for the period to 18 May 2020, and
- Note the implementation status of High priority recommendations.

Contents

- 1 Introduction and Background
 - 1.1 Purpose
 - 1.2 Background

- 2 Audit Plan Update
 - 2.1 Delivery of Audit Plan and Key Findings
 - 2.4 High Priority Recommendations
 - 2.7 Annual Audit Plan Progression for 2020/21
 - 2.8 Performance Management

Appendices

- A Progress against the 2020/21 Audit Plan

- B Implementation Status of High Priority Recommendations

- C 2020/21 Audit Plan Start Dates Agreed with Management

- D Assurance and Finding Definitions 2020/21

1. Introduction and Background

Purpose of Report

- 1.1 This report details:
- a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Audit Plan for 2020/21 as at 18 May 2020.
 - b) Implementation status of previously agreed High priority audit recommendations and request to agree removal of completed actions.
 - c) Annual Audit Plan Progression for 2020/21.
 - d) An update on performance management information as at 18 May 2020.

Background

- 1.2 The 2020/21 Annual Audit Plan was approved by the Finance, Audit and Risk Committee (the FAR Committee) on 16 March 2020.
- 1.3 The Committee receives periodic updates of progress against the Annual Internal Audit Plan. This is the first report giving feedback on the delivery of the 2020/21 Internal Audit Plan.
- 1.4 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 18 May 2020, 8% of the 2020/21 Audit Plan days had been delivered.
- 2.2 The following 2019/20 final reports have been issued since 4 March 2020 (cut-off date for the SIAS Update Report for 16 March 2020 FAR Committee):

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Revenues	March 2020	Good	N/A
Benefits	March 2020	Satisfactory	One Medium, One Low Priority
Temporary Accommodation	March 2020	Good	N/A
Careline Stock	March 2020	Satisfactory	Two Medium, Three Low Priority

Systems Access - Passwords	March 2020	Satisfactory	Two Medium, One Low Priority
Expenses	April 2020	Satisfactory	Two Medium, One Low Priority
Members Expenses Benchmarking	April 2020	Not Assessed	N/A
Treasury Management	May 2020	Satisfactory	Four Low Priority
Corporate Change Management	May 2020	Satisfactory	Two Medium Priority

2.3 We have not yet issued any final reports relating to the 2020/21 Audit Plan. Details on the status of all audits in this year's plan can be found in Appendix A.

High Priority Recommendations

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

2.5 No high priority recommendations have been made as a consequence of the work undertaken in the audits detailed in paragraph 2.2 above.

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

Annual Audit Plan Progression

2.7 While there have been no proposed amendments to the Annual Audit Plan, we have not been able to progress the Audit Plan as originally intended as a result of the Council's required response to Covid-19. Any resulting amendments to the Audit Plan will be incorporated in future progress reports.

Performance Management: Reporting of Audit Plan Delivery Progress

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

Summary – 18 May 2020			
Status	No of Audits at this Stage	% of Total Audits (25)	Profile to date
Draft / Final Report Issued	1	5%	(1/25)
In Fieldwork / Quality Review	2	8%	(3/25)
Terms of Reference Issued / In Planning	0	0%	(2/25)
Not Yet Started	22	88%	(19/25)

2.9 Annual performance indicators and associated targets were approved by the SIAS Board in March 2020. As at 18 May 2020, actual performance for North Herts District Council against the targets that can be monitored in year was as shown in the table below:

Performance Indicator	Annual Target	Profiled Target to 18 May 2020	Actual to 18 May 2020
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	15% (48 / 320 days)	8% (26.5 / 320 days)
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	4% (1 / 25 projects)	4% (1 / 25 projects)
3. Client Satisfaction with Conduct of the Audit – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	0 (No surveys issued)
4. Number of High Priority Audit Recommendations agreed	95%	95%	0 (No high priority recommendations made)

2.10 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2020/21 Head of Assurance's Annual Report:

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

APPENDIX A – PROGRESS AGAINST THE 2020/21 AUDIT PLAN AS AT 18 MAY 2020

2020/21 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS	AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
Financial Systems Audits						
Benefits			10	Not yet assigned	0	Not yet started
Integra (Financial System)			15	Not yet assigned	0	Not yet started
Payroll Processing			15	Not yet assigned	0	Not yet started
Revenues			15	Not yet assigned	0	Not yet started
Treasury Management			8	Not yet assigned	0	Not yet started
Cross-Council Audits						
Community Engagement			15	Not yet assigned	0	Not yet started
Performance Indicators			15	Not yet assigned	0	Not yet started
Operational Audits						
Anti-Social Behaviour			10	Not yet assigned	0	Not yet started
Climate Change and Sustainability			7	Not yet assigned	0	Not yet started
Commercial Strategy			15	Not yet assigned	0	Not yet started
Customer Services – Digitalisation			10	Not yet assigned	0	Not yet started
Corporate Debt Management Follow Up			2	Yes	1	In Fieldwork
Health and Safety of Out of Hours Workers			12	Not yet assigned	0	Not yet started
Housing Allocations			10	Not yet assigned	0	Not yet started
King George V Playing Fields and Workman’s Hall			1	Not yet assigned	0	Not yet started
Medium Term Financial			12	Not yet assigned	0	Not yet started

APPENDIX A – PROGRESS AGAINST THE 2020/21 AUDIT PLAN AS AT 18 MAY 2020

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
Strategy								
Parking Strategy and Enforcement					15	Not yet assigned	0	Not yet started
Review of FAR					5	Yes	3.5	In Fieldwork
Trade Waste					10	Not yet assigned	0	Not yet started
Waste Contract Follow Up					3	Not yet assigned	0	Not yet started
Workman’s Hall					1	Not yet assigned		Not yet started
Contract Audits								
Green Space Providers					12	Yes	11.5	Draft Report Issued
Risk Management Audits								
Risk Management Framework					12	Not yet assigned	0	Not yet started
IT Audits								
Disaster Recovery					12	Yes	0	Not yet started
IT Asset Management					15	Yes	0	Not yet started
Shared Learning and Joint Reviews								
Joint Reviews					2	Not yet assigned	0	Not yet started
Shared Learning					3	Not yet assigned	0	Not yet started
Contingency								
Contingency					2	Not yet assigned	0	As Required
Client Management - Strategic Support								
Head of Internal Audit Opinion 2019/20					3	Yes	2.5	In Progress
Audit Committee					8	Yes	0	Through Year

APPENDIX A – PROGRESS AGAINST THE 2020/21 AUDIT PLAN AS AT 18 MAY 2020

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
Client Meetings					8	Yes	0	Through Year
Liaison with External Audit					1	Yes	0.5	Through Year
Progress Monitoring					10	Yes	0	Through Year
SIAS Development					5	Yes	5	Through Year
2021/22 Audit Planning					6	Yes	0	Through Year
Completion of outstanding 2019/20 projects					15	Yes	2.5	In Progress
Total - North Herts D.C.					320		26.5	

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	Status of Progress
1.	Time Recording System (September 2019)	<p>We recommend that the MSU to send details of timesheets having to be unlocked, to the Line Managers to provide an overview of the timeliness of timesheet completion.</p> <p>Management should be reminded of their responsibilities, as highlighted in recommendation 1, relating to monitoring and oversight of officers' time records. Consideration should be given to the production of exception reports that detail incomplete time records at the end of the period and these should be shared with management.</p> <p>In order to ensure corporate oversight, the Council may consider developing a monthly report to be presented to Service Directors, to provide an overview of the</p>	<p>Management Support Unit (MSU) Manager to arrange for confirmation that the request has been received to unlock will be sent to individual's line managers, with the reason for the unlock request.</p> <p>IT to develop functionality for reporting incomplete timesheets at the end of each four-week flexi period.</p>	Service Director (Customers)	31 December 2019	<p>September 2019 – not applicable</p> <p>November 2019 – The unlocking procedure has been changed so that now a request to unlock a timesheet has to be made by the line manager and not the officer concerned. This ensures that line managers are immediately aware of a request to unlock and are better placed to deal with repeat occurrences. In terms of the reports, IT has confirmed that these can be amended and produced. There is an ongoing review of the flexi-scheme at the moment, which has in part come about because of the audit report and a review of whether the existing scheme is now fit for purpose considering the substantial changes in working practices over the last few years. The Service Director – Customers is not proposing to ask for the changes to reports to be implemented until that review has been completed and any revised scheme adopted. This will avoid wasting resources to change reports now and then having to do it again in a few months' time, bearing in mind that it is proposed to bring in any new scheme for 1 April 2020.</p>	Implemented

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	Status of Progress
		flexi time system usage, compliance with policy and potential staff wellbeing issues.				<p>March 2020 - The unlocking procedure has been changed so that now a request to unlock a timesheet has to be made by the line manager and not the officer concerned. This ensures that line managers are immediately aware of a request to unlock and are better placed to deal with repeat occurrences. In terms of the reports, IT have confirmed that these can be amended and produced. Following a review of the current flexi-scheme, which in part came about because of the audit report, changes to the scheme were approved and relevant preparations are being made for these to be implemented from April 2020. As part of these preparations, IT are currently rewriting the software to capture the changes agreed by the Leadership Team. As previously advised by the Service Director – Customers, the required changes to reports have been scheduled to coincide with the changes to the wider scheme.</p> <p>May 2020 - The unlocking procedure was changed so that a request to unlock a timesheet now has to be</p>	

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	Status of Progress
						<p>made by the line manager and not the officer concerned. This ensures that line managers are immediately aware of a request to unlock and are better placed to deal with repeat occurrences. Following a review of the current flexi-scheme, which in part came about because of the audit report, changes to the scheme were approved and these will be implemented with effect from 18 May 2020. As part of the preparations, IT rewrote the software to capture the changes agreed by the Leadership Team and in terms of the reports, developed the required reporting functionality, which will continue to be refined and improved once the new system is used on a day-to-day basis. These required changes to reports were scheduled to coincide with the improvements to the wider scheme.</p> <p>The Service Director – Customers now considers this action to be complete, although as detailed in the commentary, the reporting functionality will continue to be refined as the system starts to be used on a regular basis and feedback is received from service directors and line managers.</p>	





APPENDIX C – 2020/21 AUDIT PLAN START DATES AGREED WITH MANAGEMENT

Quarter 1	Quarter 2	Quarter 3	Quarter 4
Waste Contract F/U Not Yet Started	Customer Services	Integra	Climate Change and Sustainability
Debt Management F/U In Fieldwork	Commercial Strategy	Treasury Management	King George V Playing Fields
Review of FAR In Fieldwork	Anti-Social Behaviour	Payroll Processing	Workman’s Hall
Disaster Recovery Not Yet Started	Housing Allocations	Revenues	Trade Waste
Performance Indicators Not Yet Started	Health and Safety LW	Benefits	Parking Strategy and Enforcement
Green Space Providers Draft Report Issued	Community Engagement	Medium Term Financial Strategy	
2019/20 Projects Requiring Completion	Risk Management Framework	IT Asset Management	

Page 44

APPENDIX D – ASSURANCE AND FINDINGS DEFINITIONS 2020/21

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

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

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NORTH HERTFORDSHIRE
DISTRICT COUNCIL



North Hertfordshire District Council

Finance, Audit & Risk Committee Annual Report

2019 to 2020

Contents

Introduction from the Chair

Role of the Committee

Effectiveness

Members of the Committee

Meetings in 2019-20

Main Achievements

Planned work for 2020-21

Introduction from the Finance Audit & Risk Committee Chair

I am pleased to present the Annual Report of the Finance, Audit & Risk (FAR) Committee which describes the Committee's work and achievements over a 12 month period to March 2020.

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

As well as elected members, the Committee is supported by the Service Director: Resources and the Accountancy Manager. The Policy and Community Engagement Manager supports us in approving and reviewing the Annual Governance Statement. Similarly representatives from the Shared Internal Audit Service (SIAS), the Shared Anti-Fraud Service (SAFS) and our External Auditors (Ernst Young) regularly attend the meetings of the Committee.

Councillor Kate Aspinwall

May 2019

Role of the Committee

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

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

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

https://www.north-herts.gov.uk/sites/northherts-cms/files/S.10_0.pdf

Effectiveness

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

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

A further review is in progress and will be sent around the Committee when it has been completed.

Members of the Committee

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

Councillor Kate Aspinwall	Labour	Chair
Councillor Sam North	Liberal Democrat	Vice-Chair
Councillor Steve Deakin-Davis	Conservative	
Councillor Morgan Derbyshire	Conservative	
Councillor Steve Jarvis	Liberal Democrat	
Councillor Kay Tart	Labour	
Councillor Michael Weeks	Conservative	

Substitutes:

Councillor Sam Collins	Liberal Democrat
Councillor George Davies	Conservative
Councillor Ian Moody	Conservative
Councillor Adem Ruggiero-Cakir	Labour

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

Meetings

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

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

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

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

3 June 2019

Annual Assurance Statement and Internal Audit Annual Report 2018-2019
SIAS update on progress against the 2019-20 audit plan
FAR Annual Report
Draft Annual Governance Statement for 2018-19
Revenue Budget Outturn 2018-2019
Capital Programme Outturn 2018-18
Annual Treasury Management Review 2018-19

29 July 2019

Shared Anti-Fraud Service Annual Report 2018-19
Annual Governance Statement for 2018-19
Audit findings report 2018-19
Statement of Annual Accounts for 2018-2019
Risk Management Update and Annual Report on Risk Management
First Quarter Revenue Monitoring 2019-20
First Quarter Investment Strategy (Integrated Capital and Treasury) 2019-20
Medium Term Financial Strategy

16 September 2019

SIAS Annual Report for 2018-19
SIAS update on progress against the 2019-20 Audit Plan
Annual Governance Statement Action Plan 2019/20- Progress Review
Fraud Policy Review
Risk Management Update

5 December 2019

SAFS Anti-Fraud Progress Report
NHDC Annual Audit Letter 2018-19
SIAS update on progress against the 2019-20 Audit Plan
Amendments to the Contract Procurement rules
Draft Budget 2020/21
Second Quarter Revenue Monitoring 2019-20
Second Quarter Investment Strategy (Integrated Capital and Treasury) 2019-20
Risk Management Update

20 January 2020

External Audit Plan for the year ending 31st March 2020
Revenue Budget 2020-21
Investment Strategy (Integrated Capital and Treasury)
Financial Management Code

16 March 2020

SIAS update on progress against the 2019-20 Audit Plan
Internal Audit Plan for 2020-21
SAFS Anti-Fraud Plan for 2020-21
SAFS Anti-Fraud Progress Report
Review of the Annual Governance Statement Action Plan and Local Code of Corporate Governance
Risk Management Update and proposed changes to the Risk Management framework
Third Quarter Revenue Monitoring 2019-20
Third Quarter Investment Strategy (Integrated Capital and Treasury) 2019-20

Main Achievements

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

The Committee received a report on changes to the Contract Procurement Rules, the Fraud Policy and the Risk Management Framework. This allowed the Committee to review the proposals, and in the case of the Fraud Policy to make a recommendation on a change. These were all referred on to Cabinet or Council (as relevant) where they were adopted.

Planned work for 2020-21

The Committee will receive the items that ensure it covers its remit. This will include fulfilling its statutory requirement to approve the Annual Governance Statement and Statement of Annual Accounts. The Committee will also comment on an update to the financial regulations.

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

**FINANCE, AUDIT AND RISK COMMITTEE
15 JUNE 2020**

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: REVENUE BUDGET OUTTURN 2019/20

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

1. EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to inform Cabinet of the summary position on revenue income and expenditure as at the end of the financial year 2019/20. The net outturn of £14.692m represents a £129k decrease from the working budget of £14.821million. There are corresponding requests to carry forward £195k (of underspends) to fund specific projects that will now take place in 2020/21. There is a further forecast impact on the 2020/21 base budget of a £149k increase. Within these summary totals there are a number of budget areas with more significant variances, which are detailed and explained in table 3. The report also provides an update on;
- the delivery of planned efficiencies (paragraph 8.4)
 - the use of budget approved to be carried forward from 2018/19 (paragraph 8.5)
 - performance against the four key corporate 'financial health' indicators (paras 8.6-8.8)
 - confirmation of the funding position as at the end of 2019/20 (table 6)
 - details of earmarked reserves movements and balances (table 8)

2. RECOMMENDATIONS

- 2.1. That Cabinet note this report.
- 2.2. That Cabinet approves a decrease of £129k in the 2019/20 net General Fund expenditure, as identified in table 3 and paragraph 8.1, to a total of £14.692million.
- 2.3. That Cabinet approves the changes to the 2020/21 General Fund budget, as identified in table 3 and paragraph 8.2, a total £344k increase in net expenditure.

- 2.4. That, as referred to in paragraph 8.3, Cabinet approves the transfer of £59k from the underspend on the General Fund to the Strategic Priority fund to enable the Leadership Team to undertake invest to save and/or continuous improvement projects.

That Cabinet recommends to Council

- 2.5. That Council approves the net transfer to earmarked reserves, as identified in table 8, of £2.161million.

3. REASONS FOR RECOMMENDATIONS

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

4. ALTERNATIVE OPTIONS CONSIDERED

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

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

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

6. FORWARD PLAN

- 6.1. The report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 13th March 2020.

7. BACKGROUND

- 7.1. Council approved the revenue budget for 2019/20 of £15.251million in February 2019. At the end of the year the working budget has decreased to £14.821million. Table 1 below details the approved changes to this budget to get to the current working budget:

Table 1 - Current Working Budget

	£k
Original approved budget for 2019/20	15,251
Quarter 3 2018/19 Revenue Monitoring report – 2019/20 budget changes approved by Cabinet (March 2019)	25
2018/19 Revenue Outturn Report – 2019/20 budget changes approved	521

	£k
by Cabinet (June 2019)	
Quarter 1 2019/20 Revenue Monitoring report - 2019/20 variances approved by Cabinet (July 2019)	(239)
Playgrounds report - delaying the removal of play equipment from two playgrounds in Royston until the 31st March 2020 – additional expenditure approved by Cabinet (July 2019)	4
Waste Collection from Multi Occupancy Properties report – retention of weekly residual waste collection service – variation to contract approved by Cabinet (July 2019)	68
Quarter 2 2019/20 Revenue Monitoring report – 2019/20 variances approved by Cabinet (December 2018)	(360)
Revenue monitoring included within 2020/21 budget report – 2019/20 variances approved by Cabinet (January 2020)	(187)
Quarter 3 2019/20 Revenue Monitoring report – 2019/20 variances approved by Chief Executive under delegated authority as a result of the Cabinet meeting on 24 March 2020 being cancelled due to Covid-19 situation (March 2020)	(262)
Current Working Budget	14,821

- 7.2. The Council is managed under Service Directorates. Table 2 below confirms the current net direct resource allocation of each Service Directorate in 2019/20 and how this has changed from the allocations published in the quarter three monitoring report.

Table 2 – Service Directorate Budget Allocations

Service Directorate	Working Budget at Q3	Changes approved at Q3	Other Budget Transfers	Current Net Direct Working Budget
	£k	£k	£k	£k
Chief Executive	1,807	(86)	(169)	1,552
Commercialisation	(463)	(50)	11	(502)
Customers	3,544	17	38	3,599
Legal & Community	2,262	(51)	33	2,244
Place	4,563	59	149	4,771
Regulatory Services	867	(142)	38	763
Resources	2,503	(9)	(100)	2,394
TOTAL	15,083	(262)	0	14,821

8. RELEVANT CONSIDERATIONS

- 8.1. Cabinet are asked to approve the net expenditure on the General Fund in 2019/20 of £14.692 million (recommendation 2.2). This is a net decrease of £129k on the working budget of £14.821million. Table 3 below highlights the most significant variances, which are generally more than £25k, and contains an explanation for each. The final columns detail if a carry forward into 2020/21 is requested and the estimated ongoing impact of any variances:

Table 3 - Summary of significant variances

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2020/21 £k
Strategic Priorities Fund	41	0	(41)	A total budget of £100k was made available for the Strategic Priorities Fund in 2019/20, of which a total of £59k was allocated to successful investment bids. It is requested that the remaining £41k goes towards a new allocation of £100k for 2020/21.	41	0
Commercialisation Projects	85	52	(33)	A commercial consultant has compiled a report with several recommendations. The expertise of the consultant will be required in delivering these recommendations in the new year. The unspent budget is therefore requested to be carried forward to meet the associated costs in 2020/21.	33	0
COVID-19 Government Grant Income	0	(48)	(48)	Grant was received in March 2020 from MHCLG. The funding has not been ringfenced and can be allocated to COVID-19 pressures in whatever way the Council feels is appropriate.	0	0
Customers Directorate Employee Costs – Redundancy Costs	0	32	+32	Redundancy costs associated with the closure of the Document Centre in January.	0	0
Careline Service – Community Alarms Equipment	231	309	+78	Careline are now purchasing and installing digital alarms when an alarm requires replacement. The digital alarm costs twice as much as the analogue product previously installed but can be used up to three times, whereas the old analogue equipment could only be used once. Once there is sufficient turnover of the new alarm, annual equipment costs should reduce as alarms returned from former clients can be used for new installations.	0	78

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2020/21 £k
Council Tax Court Summons Income	(228)	(201)	+27	Lower than budgeted Council Tax summons income follows the closure of the Court until at least June 30 th , in response to the COVID-19 pandemic. The Council has since not made any applications for the issue of court summons.	0	57
Net Housing Benefit Expenditure	400	430	+30	Increase in net cost is primarily due to an increase in benefit payments relating to temporary accommodation, which are not eligible for Housing Benefit Subsidy funding from Government. In 2018/19 this cost was £20k and this increased to £42k in 2019/20.	0	0
Commingled Recycling – Haulage and Processing Costs	381	462	+81	Variance reflects recent steep falls in sales prices for the materials collected, the income from which reduces the charge for haulage and processing. Monthly income from materials in the first eight months of the year averaged £38k, whereas for the remainder of the year the monthly average dropped to £20k. In addition, the total volume of commingled material collected in 19/20 was higher than the prior year, therefore increasing the amount of haulage and processing required.	0	0
Commingled Recycling – Recycling Credits Income	(446)	(472)	(26)	The higher volume of comingled material collected for recycling, and hence diverted from landfill, has increased the corresponding total of recycling credit income eligible from Hertfordshire County Council. The total annual tonnage rose from 9,360 tons in 2018/19 to 10,051 tons in 2019/20, an increase of 7%.	0	0
Textiles Recycling – Sales Income	(11)	0	+11	Both the volume of materials collected, and the price received for textiles, have fallen significantly. As such, officers are now investigating the viability of the service.	0	11
Garden Waste Service Expenditure	299	269	(30)	The underspend variance is due to a performance management reduction issued to the contractor for missed bin collections.	0	0

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2020/21 £k
Garden Waste Service Income	(781)	(849)	(68)	Higher than budgeted income follows the removal, for the subscription period commencing 1 st August 2019, of both the £35 'early bird' offer and the £20 rate offered for those who joined partway through the first year of the service.	0	0
Green Space Management – Development and Maintenance of Howard Park	51	11	(40)	The Council supports the Friends of Howard Park group in maintaining the park through purchasing materials and equipment. Last year a large volume was purchased which meant that little extra was required this year. The activities of the Park Ranger in 2019/20 have also generally been focused on Norton Common rather than Howard Park, while the Countryside Management Service have used volunteers to carry out works such as hedge laying and cleaning ditches at no additional cost to the Council.	0	0
NHDC Trees Maintenance	110	74	(36)	Planned tree works were put on hold in 19/20 due to staff sickness. It is therefore proposed that the unspent budget is carried forward to fund the completion of the scheduled works in 2020/21.	36	0
Crematorium Project Consultants	30	6	(24)	The planning appeal hearing has been deferred to a later date. Consultants will be representing NHDC at the hearing and these costs will be invoiced once the hearing has taken place. It is therefore requested that the unspent budget is carried forward.	24	0
Car Parking – Pay-As-You-Use Income	(1,885)	(1,823)	+62	Shortfall in parking income is indicative of the impact of the response from the government and public to the COVID-19 pandemic. Income recorded for March of £107k is significantly lower than the £164k recorded for March 2019. On 16th March, the Government advised the public to stay at home where possible by working from home and limiting time in public spaces. On 20th March restaurants, pubs and cafes were ordered to close. These actions have affected the number of people going to town centres and using the car parks.	0	0

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2020/21 £k
Parking Lines and Signs Maintenance	25	43	+18	The working budget total was reduced by the £64k approved to be carried forward into 20/21 (originally requested at Q2). Certain lines and signs however were since identified as being in urgent need of re-marking to ensure the necessary enforcement could be undertaken and prevent safety or anti-social parking issues. These works were consequently carried out in 2019/20. As a result, the carry forward budget requested has been amended accordingly.	(18)	0
Local Plan Legal and Consultants Costs	168	99	(69)	Local Plan hearings in March were suspended due to COVID-19 restrictions. This has resulted in the majority of the associated costs also being deferred until the resumption of the hearings when circumstances allow. As such, it is requested that the unspent budget is carried forward into 2020/21.	66	0
Planning Application Income	(820)	(861)	(41)	Forecast income from planning applications was reduced at Q3 based on the experience of the first three quarters of 2019/20. The overachievement of the revised budget at outturn indicates an increase in activity in the final quarter of the year.	0	0
Electric Vehicle Charging Consultants	15	0	(15)	This budget was an investment bid to engage consultants to undertake a study to review and consider opportunities from Electric Vehicle Charging. Officers have prepared a Scoping Document and undertaken a consultation to define the extent of a Strategy and agreed action plan for adoption in 2020/21. Work on the Strategy was underway prior to the pandemic and will continue into 20/21. The requested carry forward of the unspent budget will fund any specialist advice required.	15	0
Total of explained	(2,335)	(2,467)	(132)		197	146

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2020/21 £k
variances						
Other minor balances	17,156	17,159	+3		(2)	3
Overall Total	14,821	14,692	(129)		195	149

- 8.2. Cabinet are asked to approve the estimated impact on the 2020/21 budget, a £344k increase in budget, which includes:
- £195k of budget carry-forwards from 2019/20 to 2020/21 for projects that were not completed by the end of the financial year. These are shown in the penultimate column of table 3 above. This will take the total carry-forward to £679k, after including those reported and approved at quarter 2, month 8 and quarter 3.
 - £149k increase in budget to reflect the estimated ongoing net impact in 2019/20 of variances identified in Q4. These are shown in the final column of table 3 above.
- 8.3. Cabinet are asked to approve the transfer of £59k from the underspend in 2019/20 into the Strategic Priorities Fund in the following year (recommendation 2.4). Along with the Strategic Priorities Fund carry forward of £41k requested, this will bring the total amount in the fund next year to £100k. The fund provides the Council's Leadership Team with authority to approve the allocation of the funds during the year for invest to save or continuous improvement projects as the opportunity arises. As identified in the Corporate Peer Challenge Action Plan report (also on the agenda of this Cabinet meeting) there could be transformation and continuous improvement projects identified that could be funded from this budget.
- 8.4. The original approved budget for 2019/20 (and therefore working budget) included efficiencies totalling £610k, which were agreed by Council in February 2019. Progress in delivering the efficiencies identified has been monitored throughout the year and reported at each quarter. All the efficiencies approved in February last year for 2019/20 have been delivered.
- 8.5. The working budget for 2019/20 includes budgets totalling £689k that were carried forward from the previous year. These are generally carried forward so that they can be spent for a particular purpose that had been due to happen in 2018/19 but was delayed into 2019/20. At the end of the year a total of £197k of the budget carried forward has not been spent in 2019/20, as detailed in Table 4 below, of which £187k has been requested to be carried forward into 2020/21.

Table 4 – Unspent Carry Forward Budget in 2019/20

Monitoring Report	Carry Forward Budget in 19/20 (£k)	Project	Underspend reported (£k)
Q2	13	Herts Warmer Homes Project	10
Q2	64	Parking Lines and Signs; forecast underspend at Q2 of £64k since revised at Outturn, as highlighted and explained in Table 3 above.	46
Q3	17	Brexit Grant Expenditure	17
Q3	87	Community Infrastructure Levy	87
Outturn	95	Commercialisation projects; £52k of the £85k carry forward budget has been spent in 2019/20, with the remainder requested to be carried forward into 2019/20 (as highlighted and explained in table 3 above).	33
Outturn	18	Letchworth Area Committee; 50% of a grant awarded in June 2019, funded from 2018/19 carry forward budget, is payable in June 2020.	2
Outturn	6	Southern Rural Area Committee; The March 2020 meeting of the Southern Rural Area Committee was cancelled due to COVID-19 so the balance of the 2018/19 carry forward was not spent in 2019/20. This has since been allocated and spent as grants were awarded by delegated decision in April 2020.	2
Total Underspend 2019/20			197

- 8.6. There are 4 key corporate ‘financial health’ indicators identified in relation to key sources of income for the Council. Table 5 below shows the performance for the year. A comparison is made to the original budget to give the complete picture for the year. Each indicator is given a status of red, amber or green. A green indicator means that income recorded matched or exceeded the budgeted level of income. A red indicator means that the outturn has not met the budgeted level of income. An amber indicator is only used during the year to highlight that there is a risk that the budgeted level of income may not be met.
- 8.7. At the end of the year, three indicators are green and one indicator is red.
- 8.8. The red indicator in relation to income from planning applications was highlighted within the revenue monitoring report at quarter 3. While the position improved during quarter four, as indicated by the income variance highlighted in table 3 above, the uncertainty around the next steps of the Local Plan and the national situation with regards to Brexit are believed to have impacted upon the level of income during the year; either through uncertainty with regard to the timescale for sites to progress or through uncertainty around house prices and mortgage rates.

Table 5 - Corporate financial health indicators

Indicator	Status	Original Budget	Outturn	Projected Variance
		£k	£k	£k
Planning Application Fees (including fees for pre-application advice)	Red	(950)	(861)	+89
Land Charges	Green	(164)	(165)	(1)
Car Parking Fees	Green	(1,809)	(1,823)	(14)
Parking Penalty Charge Notices	Green	(532)	(726)	(194)

FUNDING, RISK AND GENERAL FUND BALANCE

- 8.9. The Council's revenue budget is funded from the following main sources; Council Tax, New Homes Bonus and Retained Business Rates income. The Council was notified by Central Government in February 2019 of the amount of New Homes Bonus it could expect to receive in 2019/20 and planned accordingly.
- 8.10. Council Tax and Business Rates are accounted for in the Collection Fund rather than directly in our accounts, as we also collect them on behalf of other bodies. Each organisation has a share of the balance on the Collection Fund account.
- 8.11. At the end of 2019/20, there is an overall deficit on the NHDC share of the Council Tax Collection Fund of £82k. Part of the deficit (£21k) relates to the deterioration in the position in the final quarter of 2018/19, as explained in the Quarter One Revenue Monitoring report. The £82k overall deficit is £27k higher than the £55k deficit anticipated for 2019/20 at the time of setting the budget for 2020/21. Statute requires that the £55k estimate must be repaid to the Collection Fund in 2020/21. The £27k difference will be incorporated in the calculation of the surplus/deficit for 2020/21 and therefore not impact the General Fund position until 2021/22.
- 8.12. The recent trend of deficits on the Council Tax Collection Fund, after several consecutive years of recording annual surpluses, is attributed to the amount of Council Tax reduction awarded. In previous years falling numbers of claimants eligible for Council Tax reduction had more than offset the absolute increase in the reduction amount awarded to those eligible, which has increased as Council Tax has risen. The trend of falling numbers of claimants has however plateaued over the last eighteen months and is now likely to increase with the economic impact of the COVID-19 pandemic.

- 8.13. With regards to Business Rates, while income collected in year was in line with original estimates, at the end of 2019/20 there is an overall surplus on the NHDC share of the Business Rates Collection Fund of £365k. The overall surplus position comprises a £911k in-year surplus for 2019/20 that is partially offset by the £546k adjustment for the prior year final outturn, as detailed and explained at Quarter One. Both amounts are primarily explained by changes to the calculation of the provision required for business rates appeals. At the end of 2018/19, it was considered prudent that the provision calculation reflected the experience of Hertfordshire as a whole in terms of the impact of successful appeals on rates income. This change increased the contribution required to the provision in 2018/19 and hence increased the final recorded deficit for that year. In reviewing the position at the end of this financial year, a revised approach was taken to identifying premises most likely to appeal successfully and for which provision should be made. This has reduced the total amount of provision required at the end of 2019/20, with the release of some of the provision making an £820k contribution to the £911k in-year surplus recorded.
- 8.14. The Central Government return submitted in January 2020 estimated an overall Business Rates Collection Fund deficit for 2019/20 of £294k. The contribution to the Collection Fund required in 2020/21 in respect of the position for 2019/20 is based on this January estimate. The £659k difference between the actual surplus of £365k and the January estimated deficit of £294k will be included in the calculation of the estimated surplus/deficit for 2020/21 (submitted to Central Government in January 2021), and hence will affect the calculation of the Council's retained business rates income for 2021/22.
- 8.15. While legislation requires that annual Collection Fund surpluses or deficits do not affect the General Fund balance in the year they are recorded, the Council's share of the gain from Hertfordshire being a Business Rate pilot in 2019/20 will increase the General Fund balance at the end of March 2020. The actual gain is dependent on the overall Business Rates collected across Hertfordshire. Calculation of the gain is being coordinated by Hertfordshire County Council. At the time of writing the amount is still to be confirmed, with timetables and processes delayed by the impact of the COVID-19 emergency. The funding total in table 6 below currently assumes only the budgeted business rates baseline amount, which represents close to the minimum level of funding the Council can expect to receive from business rates. It should therefore be noted that, once notification of the final gain amount is received from the County Council, accounting for the gain will increase the General Fund balance at 31 March 2020 to a total higher than that currently shown in table 6.
- 8.16. The Council also receives compensation in the form of a grant from Central Government for business rate reliefs introduced, which goes into our funds rather than the Collection Fund. In 2019/20 NHDC received grant totalling £1.922m. We are holding the grant received in a reserve to fund the repayment of deficits recorded in future years.

Some of the amount held in reserve has been used in 19/20 to fund the repayment to the Collection Fund of the deficit for 2018/19, as shown in table 6, and some will be used in the next financial year to fund the repayment of the £294k deficit amount highlighted above.

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

Table 6 – General Fund impact

	Working Budget £k	Outturn £k	Difference £k
Brought Forward balance (1st April 2019)	(7,862)	(7,862)	-
Net Expenditure	14,821	14,692	(129)
Funding (Council Tax, Business Rates, NHB)	(15,319)	(15,319)	0
Contribution to Funding Equalisation Reserve	68	68	0
Contribution to Collection Fund	58	58	0
Funding from Reserves (including Business Rate Relief Grant and transfer of reserves as approved at Full Council in February 2020)	(405)	(405)	0
Carried Forward balance (31st March 2020)	(8,639)	(8,768)	(129)

- 8.18. The minimum level of General Fund balance is determined based on known and unknown risks. Known risks are those things that we think could happen and we can forecast both a potential cost if they happen, and percentage likelihood. The notional amount is based on multiplying the cost by the potential likelihood. The notional amount for unknown risks is based on 5% of net expenditure. There is not an actual budget set aside for either of these risk types, so when they occur they are reflected as budget variances (see table 3). We monitor the level of known risks that actually happen, as it highlights whether there might be further variances. This would be likely if a number of risks come to fruition during the early part of the year. We also use this monitoring to inform the assessment of risks in future years. The notional amount calculated at the start of the year for known risks was £1,203k, and at the end of the financial year a total of £349k have come to fruition. The identified risk realised in the final quarter relates to;

- Recycling services. Increase in net cost due to both; increased cost of haulage and processing of commingled recycling collected - £81k; the reduction in income from textiles collected for recycling - £11k (both highlighted in table 3 above).

Table 7 – Known financial risks

	£'000
Original allowance for known financial risks	1,203
Known financial risks realised in Quarter 1	(17)
Known financial risks realised in Quarter 2	(84)
Known financial risks realised in Quarter 3	(156)
Known financial risks realised in Quarter 4	(92)
Remaining allowance for known financial risks	854

EARMARKED RESERVES

8.19. The Council has a number of earmarked reserves, which can be used to fund revenue expenditure. These are detailed in Table 8 below. A total of £3.372million has been contributed to the reserves in 2019/20 and a total of £1.211million has been transferred out of the reserves to the General Fund. The total transferred to the General Fund includes the release of those balances no longer needed - the Community Right to Challenge Reserve, Environmental Warranty Reserve, Property Maintenance Reserve and the Street Furniture Reserve - as detailed and explained in the Revenue Budget Report 2020/21 and approved by Council in February this year.

8.20. Cabinet are therefore asked to recommend to Council that the net contribution to reserves of £2.161million be approved (recommendation 2.5), which leaves a total balance in earmarked reserves at 31 March 2020 of £9.344million.

Table 8 – Earmarked Reserves

	Balance at 1 April 2019	Contributions to reserve	Transfers out of reserves	Balance at 31 March 2020
	£'000	£'000	£'000	£'000
Cemetery Mausoleum Reserve	161	7	(1)	167
Childrens Services Reserve	7	52	(2)	57
Climate Change Grant Reserve	28	0	(2)	26
Community Right to Challenge Reserve	45	0	(45)	0
MHCLG Grants Reserve	1,814	2,004	(77)	3,741
DWP Additional Grants Reserve	190	116	(121)	185
Environmental Warranty Reserve	209	0	(209)	0
Funding Equalisation Reserve	0	68	0	68
Growth Area Fund Reserve	53	0	0	53
Homelessness Grants Reserve	262	210	(59)	413
Housing & Planning Delivery Reserve	1,142	95	(168)	1,069
Information Technology Reserve	82	0	(4)	78
Insurance Reserve	34	0	0	34
Land Charges Reserve	94	0	0	94

	Balance at 1 April 2019	Contributions to reserve	Transfers out of reserves	Balance at 31 March 2020
	£'000	£'000	£'000	£'000
Leisure Management Maintenance Reserve	47	30	0	77
Museum Exhibits Reserve	12	1	0	13
Neighbourhood Plan Reserve	41	40	(3)	78
Office Move IT Works	7	0	(7)	0
Paintings Conservation Reserve	11	0	0	11
Property Maintenance Reserve	72	0	(72)	0
S106 Monitoring Reserve	36	0	(17)	19
Special Reserve	1,395	0	(220)	1,175
Street Furniture	21	0	(21)	0
Street Name Plates	16	0	0	16
Syrian Refugee Project	115	339	(182)	272
Taxi Licences Reserve	13	2	0	15
Town Centre Maintenance	45	8	0	53
Traffic Regulation Orders	347	0	(1)	346
Waste Reserve	631	99	0	730
Waste Vehicles Reserve	253	301	0	554
Total Revenue Reserves	7,183	3,372	(1,211)	9,344

9. LEGAL IMPLICATIONS

- 9.1. The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. Specifically, 5.6.8 of Cabinet's terms of reference state that it has remit "*to monitor quarterly revenue expenditure and agree adjustments within the overall budgetary framework*". By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget and to maintain a prudent balance of reserves.
- 9.2. The Accounts and Audit Regulations 2015 require that the Annual Statement of Accounts be approved and published.
- 9.3. The requirement for financial reserves is acknowledged in statute. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 9.4. The Council must ensure sufficient flexibility to avoid going into deficit at any point during the financial year. The Chief Financial Officer is required to report on the robustness of the proposed financial reserves, under Section 25 of the Local Government Act 2003.
- 9.5. Section 151 of the Local Government Act 1972 requires every local authority to 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. The level of the general reserve is a matter for the Council to determine having had regard to the advice of the S151 Officer.
- 9.6. This is a requirement of the Council Procedure Rules as set out in Part 4.4.1 (b) and 4.4.1 (k) of the Council's Constitution.

10. FINANCIAL IMPLICATIONS

- 10.1. Members have been advised of any variations from the budgets in the body of this report and of any action taken by officers.
- 10.2. The General Fund balance of £8.768million (table 6) meets the recommended minimum balance of General Fund reserves agreed when the budget was set. The Statement of Accounts is however yet to be audited and changes to the General Fund balance may arise as a result of the final audit. As the Housing Benefit claim is also yet to be audited, the relevant values included in the reported outturn are based on un-audited figures.

11. RISK IMPLICATIONS

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

12. EQUALITIES IMPLICATIONS

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2. For any individual new revenue investment proposal of £50k or more, or affecting more than two wards, a brief equality analysis is required to be carried out to demonstrate that the authority has taken full account of any negative, or positive, equalities implications; this will take place following agreement of the investment.

13. SOCIAL VALUE IMPLICATIONS

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

14. ENVIRONMENTAL IMPLICATIONS

- 14.1. There are no known Environmental impacts or requirements that apply to this report.

15. HUMAN RESOURCE IMPLICATIONS

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

16. APPENDICES

- 16.1. None.

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

- 18.1. None.

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**FINANCE, AUDIT AND RISK COMMITTEE
15 JUNE 2020**

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: INVESTMENT STRATEGY (CAPITAL AND TREASURY) END OF YEAR REVIEW 2019/20

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T.

CURRENT COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

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

1 EXECUTIVE SUMMARY

- 1.1 As at the end of financial year 2019/20, there is a reduction in Capital spend compared to quarter 3 of **£0.331million**. The majority of this change is due to revisions to the profile of planned project spend, with **£0.277million** that will now instead be incurred in 2020/21.
- 1.2 During the year the Council has generated **£0.411million** of interest from its investments. This is slightly below the budgeted total of £0.418million. The Council continued to invest in smaller Building Societies (subject to checks that compare the size of the Society with that of the investment) and also now invests in non-UK banks.
- 1.3 The Council has repaid £0.017million of borrowing during the year as it has matured. The Council has £0.423million of remaining borrowing. This borrowing is at a fixed rate for a fixed period. The premium incurred from repaying this borrowing early means that it is not worthwhile to do so.
- 1.4 The Council complied with its legislative and regulatory requirements throughout the year.

- 1.5 The forecast for 2020/21 is that investment income will continue to reduce due to market conditions, the use of cash balances to fund the capital programme and the effect of Covid-19.

2 RECOMMENDATIONS

- 2.1 That Cabinet notes expenditure of **£1.473million** in 2019/20 on the capital programme, paragraph 8.3 refers, and in particular the changes detailed in table 3 which resulted in a net decrease on the working estimate of **£0.055million**.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2020/21 as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2020/21 by **£0.277million** (re-profiled from 2019/20).
- 2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 4 paragraph 8.6 and the requirement to keep the capital programme under review for affordability.
- 2.4 That Cabinet approves the application of **£0.639million** of capital receipts towards the 2019/20 capital programme and the drawdown of £0.397million from set aside receipts, paragraph 8.6 refers.
- 2.5 Cabinet is asked to note the position of Treasury Management activity as at the end of March 2020.
- 2.6 Cabinet is asked to recommend this report to Council and ask Council to:
- 1) Approve the actual 2019/20 prudential and treasury indicators.
 - 2) Note the annual Treasury Report for 2019/20.

3. REASONS FOR RECOMMENDATIONS

- 3.1 Cabinet is required to approve adjustments to the capital programme and ensure the capital programme is fully funded.
- 3.2 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.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Options for capital investment are considered as part of the Corporate Business Planning process.
- 4.2 The primary principles governing the Council's investment criteria are the security of its investments (ensuring that it gets the capital invested back) and liquidity of investments (being able to get the funds back when needed). After this the return (or yield) is then considered, which provides an income source for the Council. In relation to this the Council could take a different view on its appetite for risk, which would be reflected in the Investment Strategy. In general, greater returns can be achieved by taking on greater risk. Once the Strategy has been set for the year, there is limited scope for alternative options as Officers will seek the best return that is in accordance with the Investment Strategy.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 Consultation on the capital expenditure report is not required. Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.
- 5.2 There are quarterly updates with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Link).

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key Executive decision that was first notified to the public in the Forward Plan on the 13th March 2020.

7. BACKGROUND

- 7.1 In February 2019, Council approved the Integrated Capital and Treasury Strategy for 2019/20 to 2022/23. This was a change from having a separate Capital Programme and Treasury Strategy. The change was in response to guidance from the Ministry for Housing, Communities and Local Government (MHCLG) and the Chartered Institute of Public Finance and Accountancy (CIPFA). To be consistent with the strategy (and the guidance), the monitoring reports for Capital and Treasury are also integrated.
- 7.2 The Medium Term Financial Strategy for 2019 to 2024 confirmed that the Council will seek opportunities to utilise capital funding (including set aside receipts) for 'invest to

save' schemes and proposals that generate higher rates of return than standard treasury investments. This is one way the Council will allocate resources to support organisational transformation that will reduce revenue expenditure.

7.3 Link Asset Services Ltd were first contracted to provide Treasury advice for the financial year 2012/13 and this arrangement has been extended until 2022/23. The service includes:

- Regular updates on economic and political changes which may impact on the Council's borrowing and investment strategies
- Information on investment counterparty creditworthiness
- Technical updates
- Access to a Technical Advisory Group.

8. RELEVANT CONSIDERATIONS

8.1 The Council has £117.0 million of capital assets that it currently owns. This has increased from £114.5 million as at 31 March 2019. The Investment Strategy set out the reasons for owning assets that are not for service delivery, including an assessment of Security, Liquidity, Yield and Fair Value. There have been no changes in relation to these since the Strategy was set.

Capital Programme 2019/20

8.2 The full capital programme is detailed in Appendix A and shows the revised costs to date, together with the expected spend from 2019/20 to 2022/23 and the funding source for each capital scheme.

8.3 The outturn Capital expenditure for 2019/20 is **£1.473million**. This is a reduction of **£0.331million** on that reported at the end of the third quarter. The decrease in spend is largely due to re-profiling spend into future years and underspend on projects. Table 1 below details the changes from what was reported at Quarter 3.

Table 1- Current Capital Estimates

	2019/20 £M	2020/21 £M	2021/22 to 2024/25 £M
Original Estimates approved by Full Council February 2019	8.213	0.962	
Changes approved by Cabinet in 2018/19 Capital Outturn report	1.007	0	

	2019/20 £M	2020/21 £M	2021/22 to 2024/25 £M
Revised Capital estimates at start of 2019/20	9.220	0.962	
Changes at Q1	-1.398	1.408	
Changes at Q2	-1.936	1.450	
Changes in 20/21 strategy approved by full Council in February	0	5.507	
Changes at Q3	-4.082	3.831	
Changes since Q3	-0.331	0.277	
Outturn 2019/20	1.473	13.435	23.524

8.4 Table 2 lists the schemes in the 2019/20 Capital Programme that will start or continue in 2020/21:

Table 2: Scheme Timetable Revision:

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

Scheme	2019/20 Working Budget £'000	2019/20 Outturn £'000	Difference £'000	Reason for Difference	Estimated impact on 2020/21 onwards £'000
Community Facilities Refurbishment	313	210	-103	Community facilities are run with minimal resource to service the needs of the building. Many facilities are solely supported by volunteers. Officers have found that these committees are often under-resourced to complete any additional work over and above the maintenance of the building, taking bookings and other general up-keep of a facility. The completion of applications has, therefore, taken more time than anticipated since the inception of the grant scheme.	103

Scheme	2019/20 Working Budget £'000	2019/20 Outturn £'000	Difference £'000	Reason for Difference	Estimated impact on 2020/21 onwards £'000
Baldock Town Hall Improvements	70	21	-49	This project is demand led and spend is dependent on invoices being submitted for payment once works have been completed.	49
Cyber Attacks	30	0	-30	The pre-planned Cyber Essentials training and procurement of new hardware was put back due to a delay in the annual Penetration Test being carried out. The results of the test will contain recommendations for any new hardware required.	30
Leisure Condition Survey	30	0	-30	Works were originally programmed in 20/21 but an opportunity arose to bring the work forward to 19/20. However, only one formal price was received from contractors and, as this did not comply with our contract procurement rules, the work was unable to commence before the end of March.	30
Total Minor (under £25k) slippage on other projects			-65		65
Total Revision to Budget Profile			-277		277

8.5 There are also changes to the overall costs of schemes in 2019/20. These changes total a net decrease of £0.055million and are detailed in Table 3.

Table 3: Changes to Capital Schemes Commencing in 2019/20:

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

Scheme	2019/20 Working Budget £'000	2019/20 Forecast Spend £'000	Difference £'000	Comments
Home Repair Assistance	60	21	-39	Spend on this budget is demand led. All applications received during the year were actioned. Some have taken longer to process due to resourcing issues and some have been delayed by the request of the applicant. £15K income offset the spend as previously award grant funding was returned as per the terms of the grant agreements.
Other minor changes			-16	
Total revision to scheme spend			-55	

8.6 The following capital schemes have been completed during 2019/20:

- Channel Shift - Housing Register
- Museum / Town Hall Lift
- Acoustic Panelling Hitchin Town Hall
- Bar Facility Hitchin Town Hall
- Letchworth Outdoor Pool Safety
- Auto Chemical Dosing Pumps
- Renovate District Park Great Ashby
- Renovate King George V Play Area
- Various IT Projects

Capital Programme 2019/20 Funding onwards

8.7 Table 4 below shows how the Council will fund the 2019/20 capital programme.

Table 4: Funding the Capital Programme:

	2019/20 Balance at start of year £M	2019/20 Additions £M	2019/20 Funding Used £M	2019/20 Balance at end of year £M
Useable Capital Receipts and Set-aside Receipts	8.490	0.0	(1.036)	7.454
IT Reserve			(0.005)	
S106 receipts			(0.346)	
Other third party grants and contributions			(0.083)	
Revenue contributions			(0.003)	
Total	8.490		(1.473)	

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

8.9 The Council's Capital Financing Requirement (CFR) at 31st March 2020 was negative £5.60 million (negative £5.99 million 31st March 2019). As the CFR is negative the Council does not have a need to borrow to fund capital spend. However, should the Capital programme be fully spent in 20/21 there will be a potential need to borrow £4.0M, which will have an impact on the General Fund by way of a Minimum Revenue Provision (MRP). This need to borrow will mainly be dependent on spend in line with the property acquisition and development strategy. It is expected that any such spend will generate income that will exceed the cost of capital (interest costs and Minimum Revenue Provision).

Treasury Management 2019/20

- 8.10 In summary, the Council has operated both within the treasury and prudential indicators set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices. The £5 million limit on the Council's current account was exceeded on two separate occasions and each was reported to Members in the quarterly monitoring reports.
- 8.11 The Council generated £0.411M of interest during 2019/20. The average interest rate agreed on new deals during the year was 0.99%. The average interest rate on all outstanding investments at the 31st March was 1.18%.
- 8.12 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authority's appetite for the level of exposure to these risks.
- 8.13 **Security Risk** – The possibility that other parties fail to pay amounts due to the Authority.
- The Council's counterparty list comprises UK building societies and UK banks with a Fitch (a credit rating agency) credit rating greater than BBB, non-UK banks with a credit rating greater than AA- with a AAA Country rating, but also includes other Local Authorities and Public Corporations. It also includes smaller Building Societies that do not have a credit rating.
- 8.14 **Liquidity Risk** – the possibility that the Authority may not have funds available to meet its commitments to make payments.
- 8.15 **Market Risk** - the possibility that financial loss might arise as a result of changes in interest rates.
- Investing long term (greater than one year) currently achieves higher interest rates than short term deals. The risks of long term deals are:
- (i) The longer the time period the longer the investment is exposed to default.
 - (ii) If the investment has a fixed interest rate, interest rates could rise and the potential to invest at a higher rate will be lost until the investment matures.
- 8.16 Members have indicated that they are prepared to accept this risk within the limits expressed in the Treasury Strategy, which allows no more than 12M of outstanding investments to be invested for longer than 365 days at any one time. At the end of the year the Council had £1.0M (3.4%) invested for longer than 365 days.

- 8.17 **Interest (Yield)** - This year has continued to prove challenging to find counterparties willing to pay a reasonable return on cash investments, either long or short term. The uncertainty around interest rate changes has continued in 19/20, with the latest predictions indicating that there will be no increase in base rate during 2020/21.
- 8.18 The investments outstanding at the 31 March 2020 were £37.5million. This compares to a balance of £32.4million at 31 March 2019. These figures include the balance on the interest-bearing current account. Investment in capital projects will continue during 2020/21 and combined with declining returns for new investments, means that the estimated investment interest for 2020/21 was set at £0.300million. This was set, however, prior to a further fall in interest rates and the outbreak of Covid-19. This figure is therefore expected to reduce and will be updated in the first monitoring report of 2020/21.

9. LEGAL IMPLICATIONS

- 9.1 Cabinet's terms of reference under 5.6.7 specifically includes "to monitor expenditure on the capital programme and agree adjustments within the overall budgetary framework". The Cabinet also has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget.
- 9.2 Section 151 of the Local Government Act 1972 states that:
"every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."
- 9.3 Asset disposals must be handled in accordance with the Council's Contract Procurement Rules.
- 9.4 The Prudential Indicators comply with the Local Government Act 2003.

10. FINANCIAL IMPLICATIONS

- 10.1 The main financial implications are covered in section 8 of the report. Tolerance
- 10.2 The Authority operates a tolerance limit on capital projects that depends on the value of the scheme and on this basis over the next ten-year programme it should be anticipated that the total spend over the period could be £4.022million higher than the originally budgeted £45.491million.
- 10.3 The capital programme will need to remain under close review due to the limited availability of capital resources and the affordability in the general fund of the cost of using the Council's capital receipts. When capital receipts are used and not replaced the availability of cash for investment reduces. Consequently interest income from investments reduces. £1.0million currently earns the Authority approximately £10.0k a year in interest. The general fund estimates are routinely updated to reflect the reduced income from investments. When the Capital Financing Requirement (CFR) reaches zero the Council will need to start charging a minimum revenue provision to the general fund for the cost of capital and will need to consider external borrowing for further capital spend. The CFR at the 31 March 2020 was negative £5.6million.
- 10.4 The Council also aims to ensure that the level of planned capital spending in any one-year matches the capacity of the organisation to deliver the schemes to ensure that the impact on the revenue budget of loss of cash-flow investment income is minimised.

11. RISK IMPLICATIONS

- 11.1 The inherent risks in undertaking a capital project are managed by the project manager of each individual scheme. These are recorded on a project risk log which will be considered by the Project Board (if applicable). The key risks arising from the project may be recorded on Pentana (the Council's Performance & Risk management software). Some of the major capital projects have been included in the Council's Corporate Risks (such as the new North Hertfordshire Museum). The Corporate Risks are monitored by the Finance, Audit and Risk Committee and Cabinet.
- 11.2 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003 and is revisited annually as part of the Treasury Strategy review. The risk on the General Fund of a fall of investment interest below the budgeted level is dependant on banks and building societies need for borrowing.

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 2019/20 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. ENVIRONMENTAL IMPLICATIONS

- 14.1. There are no known Environmental impacts or requirements that apply to recommendations of this report. The projects at section 8.4 may have impacts that contribute to an adverse impact. As these projects go forward, an assessment will be made where necessary.

15. HUMAN RESOURCE IMPLICATIONS

- 15.1. There are no direct human resource implications.

16. APPENDICES

- 16.1. Appendix A, Capital Programme Detail including Funding 2019/20 onwards.
Appendix B, Treasury Management Annual Review.

17. CONTACT OFFICERS

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17. BACKGROUND PAPERS

- 17.1 Investment Strategy (Integrated Capital and Treasury Strategy) <https://democracy.north-herts.gov.uk/documents/s4263/Appendix%20A-%20Investment%20Strategy.pdf>

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Project	Service Directorate	Spend Forecasts				Funding					
		Actual 2019/20 Funding £	2020/21 Funding £	2021/22 Funding £	2022/23 Funding £	Funded from capital contributions	Funded from Government Grant	Funded from s106 contributions	Funded from Revenue / IT Reserve	Funded from Planned Borrowing	Balance funded from Capital Receipts/ Set-aside receipts
PC's - Refresh Programme	Customers	19,500	17,000	17,000	17,000	0	0	0	0	0	70,500
Playground Renovation District Wide	Place	0	0	180,000	180,000	0	0	0	0	0	360,000
Private Sector Grants	Regulatory	20,800	60,000	60,000	60,000	0	0	0	0	0	200,800
Provide housing at market rents.	Commercial	4,800	2,976,700	0	0	0	0	0	0	0	2,981,500
Refurbishment and improvement of community facilities	Legal and Community	210,000	522,900	0	0	0	0	0	0	0	732,900
Refurbishment of lifts at Lairage Car Park	Regulatory	700	359,300	0	0	0	0	0	0	0	360,000
Ransoms Rec Footpaths, Gates and Railing	Place	0	0	0	10,000	0	0	0	0	0	10,000
Renovate play area Howard Park, Letchworth	Place	0	75,000	0	0	0	0	0	0	0	75,000
Renovate play area King George V Recreation Ground, Hitchin	Place	30,000	800	0	0	0	0	0	0	0	30,800
Renovate play area, District Park, Gt. Ashby	Place	74,200	800	0	0	0	0	0	0	0	75,000
Replace and enhance lighting at St Mary's Car Park	Regulatory	0	60,000	0	0	0	0	0	0	0	60,000
Replace items of equipment Brook View	Place	300	0	0	0	0	0	0	0	0	300
Replace items of play equipment Holroyd Cres, Baldock	Place	0	10,000	0	0	0	0	0	0	0	10,000
Replace items of play equipment Wilbury Recreation Ground, Letchworth	Place	0	10,000	0	0	0	0	0	0	0	10,000
Replace items of play equipment, Chiltern Road, Baldock	Place	0	0	0	0	0	0	0	0	0	0
Replacement SAN	Customers	0	110,000	0	0	0	0	0	0	0	110,000
Royston Leisure Centre extension	Place	0	0	0	1,000,000	0	0	0	0	0	1,000,000
Royston Leisure Centre Changing Village Refurbishment	Place	0	0	0	225,000	0	0	0	0	0	225,000
Royston Leisure Centre Dry Side Toilet Refurbishment	Place	0	0	0	30,000	0	0	0	0	0	30,000
S106 Projects	Various	162,700	128,800	0	0	0	0	288,900	2,600	0	0
Security - Firewalls	Customers	12,600	14,000	0	14,000	0	0	0	0	0	40,600
St Johns Cemetery Footpath	Place	0	10,000	0	0	0	0	0	0	10,000	0
Storage Facilities	Resources	-4,000	0	0	0	0	0	0	0	0	-4,000
Tablets - Android Devices	Customers	13,100	12,900	15,000	18,000	0	0	0	0	0	59,000
Telephony system	Customers	0	10,600	0	0	0	0	0	0	0	10,600
Transport Plans implementation (GAF)	Regulatory	0	250,000	0	0	0	250,000	0	0	0	0
Walsworth Common Pavilion - contribution to scheme	Place	0	0	300,000	0	250,000	0	37,000	0	0	13,000
Walsworth Common Pitch Improvements	Place	73,600	18,900	0	0	0	0	85,300	0	0	7,200
Weston Hills LNR Footpath Renovation	Place	0	0	0	20,000	0	0	0	0	0	20,000
Wilbury Hills Cemetery Footpaths	Place	0	10,000	10,000	0	0	0	0	0	20,000	0
WiFi Upgrades for DCO & Hitchin Town Hall	Customers	0	35,000	0	0	0	0	0	0	0	35,000

1,472,800	13,435,500	5,405,000	6,334,100	379,800	764,500	800,900	7,900	3,827,700	20,866,600
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Annual Treasury Management Review

2019/20

English Local Authorities

April 2020

Annual Treasury Management Review 2019/20

1. Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 07/02/2019)
- a mid-year (minimum) treasury update report (Cabinet 18/12/2019)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

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

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

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Finance Audit and Risk Committee before they were reported to the full Council.

2. The Council's Capital Expenditure and Financing

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

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

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

	2018/19 Actual £'000	2019/20 Working Budget £'000	2019/20 Actual £'000
Capital expenditure	5,574	1,804	1,473
Financed in year	1,233	1,220	1,076
Unfinanced capital expenditure	4,341	584	397

3. The Council's Overall Borrowing Need

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2019/20 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

CFR (£m): General Fund	31 March 2019 Actual	31 March 2020 Budget	31 March 2020 Actual
Opening balance	-10,335	-4,394	-5,993
Add unfinanced capital expenditure (as above)	4,342	4,332	397
Closing balance	-5,993	-62	-5,596

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2019/20. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2019 Actual £'000	31 March 2020 Budget £'000	31 March 2020 Actual £'000
Gross borrowing position	440	423	423
CFR	-5,993	-62	-5,596

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

The authorised limit - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2019/20 the Council has maintained gross borrowing within its authorised limit.

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

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

	2019/20
Authorised limit	£10.0m
Maximum gross borrowing position during the year	£0.440m
Operational boundary	£4.1m
Average gross borrowing position	£0.432m
Financing costs as a proportion of net revenue stream	-2.3%

4. Treasury Position as at 31 March 2020

At the end of 2019/20 the Council’s treasury position was as follows:

	31 March 2019 Principal £'000	Rate/ Return	31 March 2020 Principal £'000	Rate/ Return
Fixed rate borrowing:				
-PWLB	440	9.7%	423	9.82%
-Market	0		0	
Variable rate borrowing:				

-PWLB	0		0	
-Market	0		0	
Total debt	440	9.7%	423	9.82%
CFR	-5,993		-5,596	
Over / (under) borrowing	6,433		6,019	
Investments:				
Total investments	30,000	1.17%	29,500	1.18%

The maturity structure of the debt portfolio was as follows:

	31 March 2019 Actual £'000	31 March 2020 Actual £'000
Under 12 months	17	18
12 months and within 24 months	18	18
24 months and within 5 years	58	61
5 years and within 10 years	82	69
10 years and above	265	257

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

INVESTMENT PORTFOLIO	Actual 31.3.19 £000	Actual 31.3.19 %	Actual 31.3.20 £000	Actual 31.3.20 %
Treasury investments				
Banks	9,900	30	10,000	27
Building Societies	16,500	51	9,500	25
Local authorities	6,000	19	16,000	43

Money Market Funds	0	0	0	0
Central Government	0	0	2,000	5
TOTAL TREASURY INVESTMENTS	32,400	100	37,500	100

Money market funds provide a short-term investment option with no entry or exit fees. Due to changes in accounting regulations the Council would have been required to obtain (and possibly pay for) professional advice on the risk of default in relation to balances held in Money Market Funds at 31st March 2020. To avoid these fees, it was decided to temporarily remove the funds and then reinvest them after the 1st April 2020.

The maturity structure of the investment portfolio was as follows:

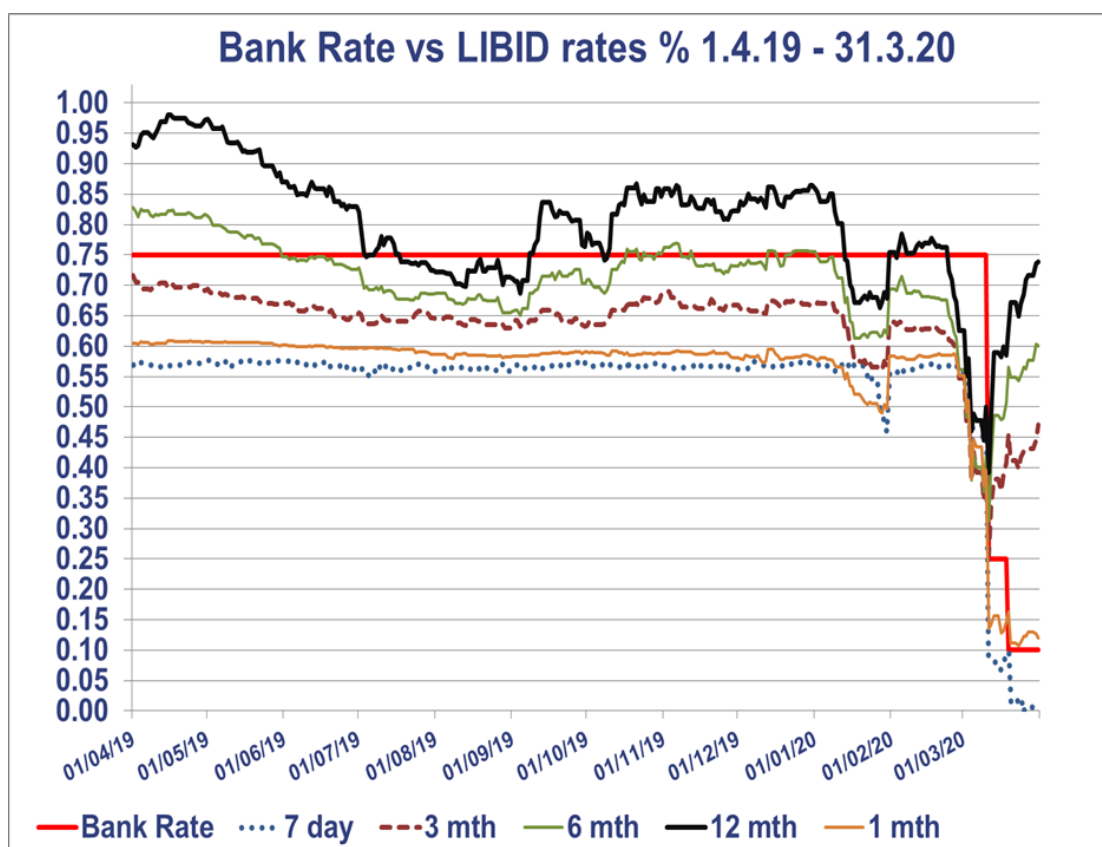
	2018/19 Actual £000	31 March 2020 Actual £000
Investments Longer than 1 Year	1,500	1,000
Investments Up to 1 Year	28,500	28,500
Total	30,000	29,500

5. The strategy for 2019/20

The strategy in 2019/20 was to continue only lending to UK banks, building societies, money market funds, Local Authorities and property funds. Only UK banks with a credit rating, for longer term deals, greater than “BBB” and F3 or above for short term credit ratings were on the Council’s lending list. (These are Fitch definitions of ratings). Not all building societies are credit rated but this did not preclude them from the lending list as lending to a building society was dependant on their asset size. Where a society did have a rating, this was considered at the time of the deal taking into account the amount of investment and the length of the deal. In addition, the strategy was changed in 2019/20 to allow investments with non-UK banks with a credit rating greater than AA- with a AAA Country rating. The strategy moved from imposing limits based on a percentage of the total investments outstanding to a fixed limit.

Change in strategy during the year – the strategy adopted in the original Treasury Management Strategy Report for 2019/20, approved by the Council on 07/02/2019, was not changed during the year.

5.1 Investment strategy and control of interest rate risk



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.75	0.58	0.61	0.72	0.83	0.98
High Date	01/04/2019	09/05/2019	15/04/2019	01/04/2019	01/04/2019	15/04/2019
Low	0.10	0.00	0.11	0.26	0.31	0.39
Low Date	19/03/2020	25/03/2020	23/03/2020	11/03/2020	11/03/2020	11/03/2020
Average	0.72	0.53	0.56	0.63	0.70	0.80
Spread	0.65	0.58	0.50	0.46	0.52	0.59

Link Asset Services Interest Rate View		31.3.20							
		Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID		0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID		0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID		0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate		1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate		2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate		2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate		2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50

Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.

Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the

coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

6. Borrowing Outturn

Borrowing

No new long term loans were taken during the year.

A temporary loan of £2.0M was borrowed for cash flow on the 20 June until the 1 July at a rate of 0.7%

£17K of PWLB loans were repaid during the year, as they became due.

Borrowing in advance of need

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

Rescheduling

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

7. Investment Outturn

Investment Policy – the Council’s investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 07/02/19. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the Fitch credit rating agency for banks and asset size for building societies.

The investment activity during the year conformed to the approved strategy. The £5M limit on the Council’s current account was exceeded on two separate occasions and were reported to Members in the quarterly monitoring reports.

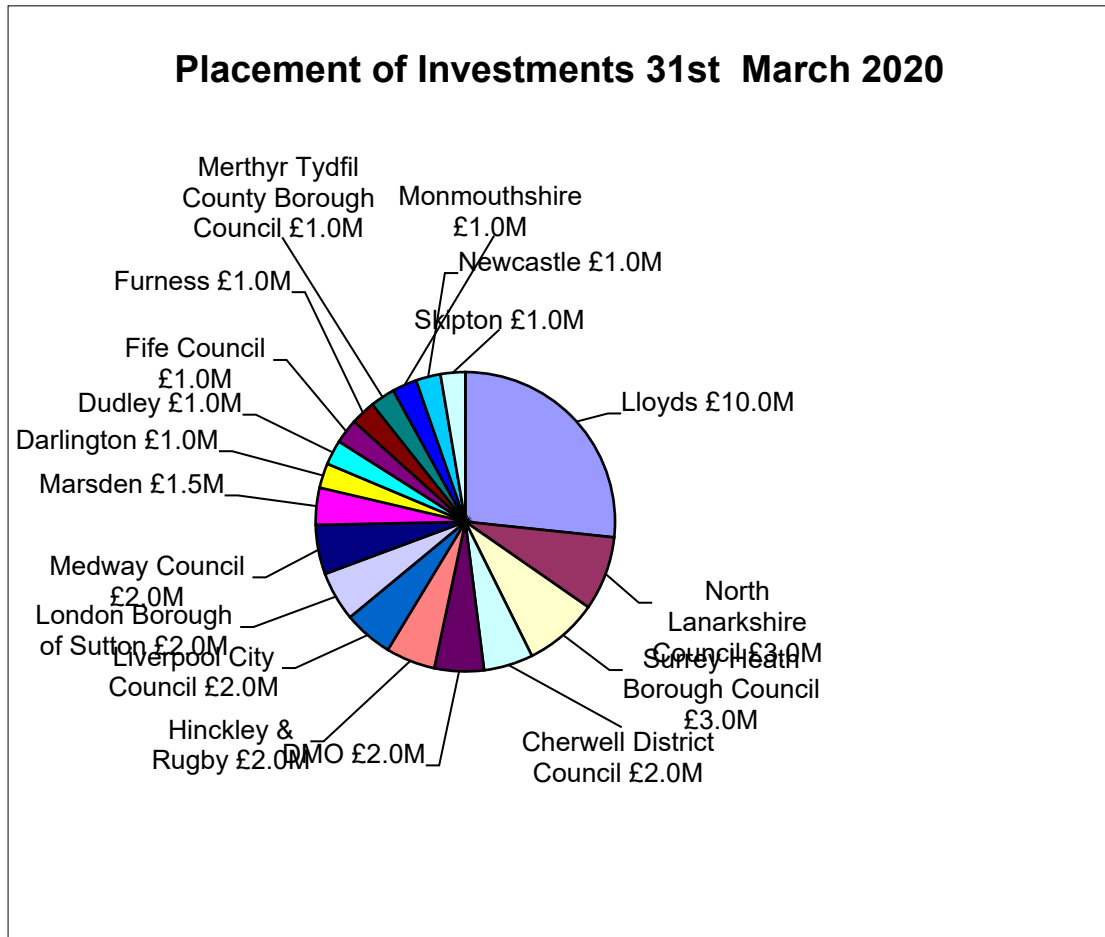
Investments placed by Cash Managers – the Council used an external cash manager to invest some of its longer term cash balances, where the rate achieved (after fees) is better than can be obtained by the Council directly. At the start of the year, Tradition had £8.5m of outstanding investments. This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

Cash Manager	Investments Placed	Interest	Return	Benchmark*
Tradition	£8.5M	£0.116M	1.36%	0.55%

* Ave 7 days notice Rate 0.55%

This compares with an original budget of £0.111M.

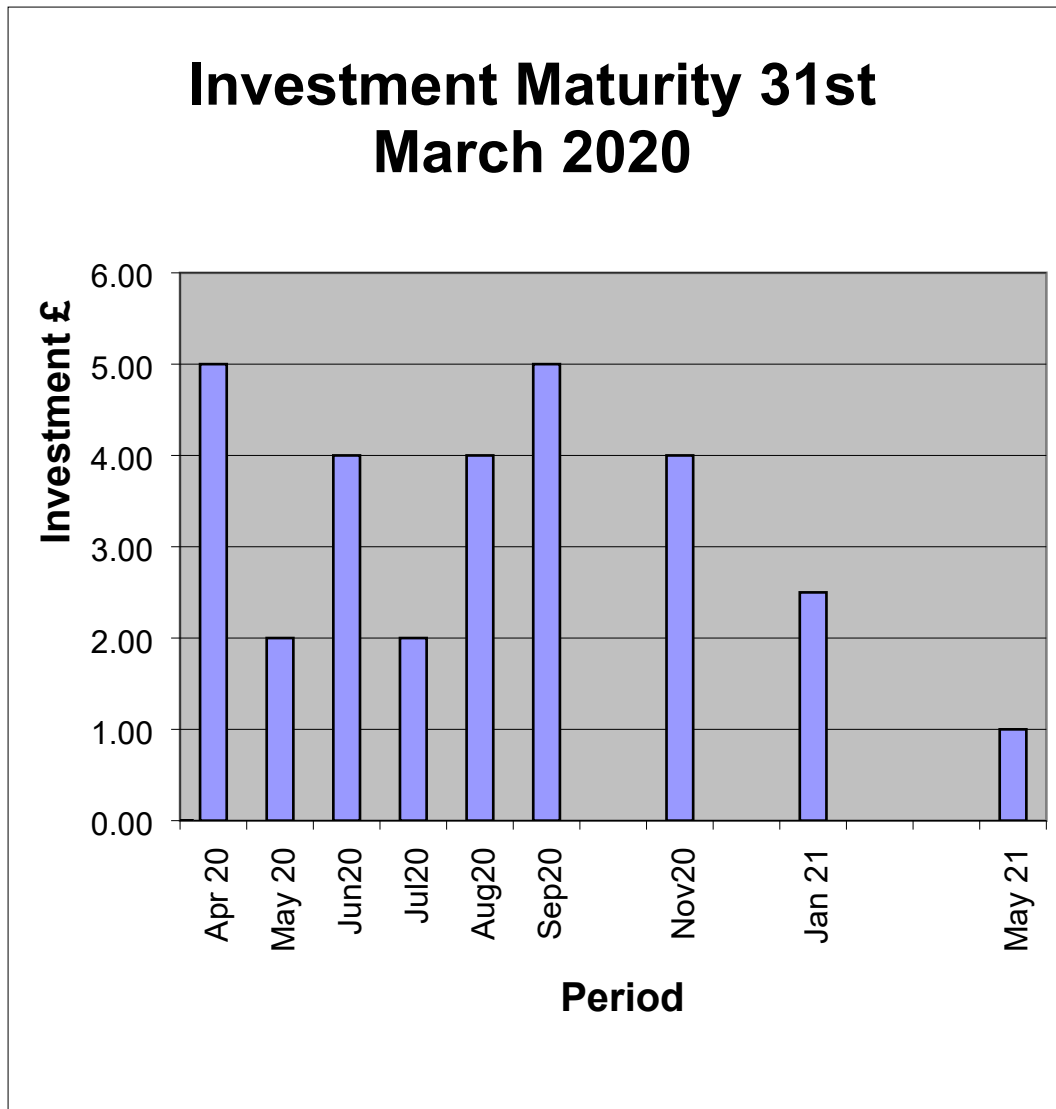
The pie chart below shows the spread of investment balances as at 31 March 2020. This is a snapshot in time that demonstrates the diversification of investments.



The average daily balance of investments was £39.8m with balances varying between £29.5m and £51.0m.

£0.411m of interest was generated from investments during the year. This is slightly less than the estimated interest of £0.418m (as per Quarter 3 forecast).

The graph below shows the maturity profile of investments at 31st March 2020.



The level of risk of any investment will be affected by the riskiness of the institution where it is invested and the period that it is invested for. Where an institution has a credit rating this can be used to measure its riskiness. This can be combined with the period remaining on the investment to give a historic risk of default percentage measure. The table below shows the Historic Risk of Default for outstanding investments at 31 March. The most risky investment still has a historic risk of default of below 1%. It should also be noted that in general the interest rate received is correlated to the risk, so the interest income received would be less if it took on less risk. All investments have been made in accordance with the Investment Strategy.

Borrower	Interest Rate %	Principal	Days to Maturity from 31/03/20	Historic Risk of Default	Risk of Default
DMO	0.09	2,000,000	3	0.00%	0.00000
HINCKLEY & RUGBY	1.35	2,000,000	24	0.15%	0.00010
SKIPTON	0.92	1,000,000	29	0.15%	0.00012
DUDLEY	1.3	1,000,000	37	0.15%	0.00015
MERTHYR TYDFIL COUNTY BOROUGH COUNCIL	0.85	1,000,000	58	0.00%	0.00000
FURNESS	1.3	1,000,000	63	0.15%	0.00026
LONDON BOROUGH OF SUTTON	0.8	2,000,000	66	0.00%	0.00000
FIFE COUNCIL	1.15	1,000,000	90	0.00%	0.00000
LIVERPOOL CITY COUNCIL	0.83	2,000,000	118	0.00%	0.00000
LLOYDS	1.25	1,000,000	125	0.05%	0.00017
SURREY HEATH BOROUGH COUNCIL	0.9	3,000,000	146	0.00%	0.00000
NORTH LANARKSHIRE COUNCIL	0.9	3,000,000	163	0.00%	0.00000
CHERWELL DISTRICT COUNCIL	0.87	2,000,000	174	0.00%	0.00000
LLOYDS	1.1	1,000,000	219	0.05%	0.00030
MEDWAY COUNCIL	1.25	2,000,000	220	0.00%	0.00000
NEWCASTLE	1.17	1,000,000	241	0.15%	0.00099
DARLINGTON	1.2	1,000,000	283	0.15%	0.00116
MARSDEN	1.6	1,500,000	297	0.15%	0.00122
MONMOUTHSHIRE	1.5	1,000,000	423	0.15%	0.00174

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

Balance Sheet Resources	31 March 2019 £,000	31 March 2020 £'000
Balances	8,800	9,332
Earmarked reserves	7,184	9,271
Provisions	1,245	2,446
Usable capital receipts	2,580	1,941
Total	19,679	22,990

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