NORTH HERTFORDSHIRE DISTRICT COUNCIL

27 August 2020

Our Ref FARC – 07.09.2020
Contact. Committee Services
Direct Dial. (01462) 474655
Email. committee.services@north-herts.gov.uk

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, 7TH SEPTEMBER, 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.	**SIAS - ANNUAL REPORT 2019/20** REPORT OF THE SHARED INTERNAL AUDIT SERVICE To consider the SIAS – Annual Report 2019/20.	(Pages 5 - 18)
6.	**SIAS - AUDIT COMMITTEE PROGRESS REPORT** REPORT OF THE SHARED INTERNAL AUDIT SERVICE To consider the SIAS – Audit Committee Progress Report.	(Pages 19 - 32)
7.	**ANNUAL GOVERNANCE STATEMENT 2019/20** REPORT OF THE POLICY AND COMMUNITY ENGAGEMENT MANAGER For the Finance, Audit & Risk Committee to approve the Annual Governance Statement (AGS) for the year 2019/20 and Action Plan. The Statement reviews the Council's governance arrangements for the 2019-20 period.	(Pages 33 - 46)

8. **MEDIUM TERM FINANCIAL STRATEGY** (Pages 47 - 64)
REPORT THE SERVICE DIRECTOR – RESOURCES

To consider the Medium Term Financial Strategy.

9. **RISK MANAGEMENT UPDATE** (Pages 65 - 78)
REPORT OF THE SERVICE DIRECTOR – RESOURCES

An update on Risk Management at North Hertfordshire District Council.

10. **FIRST QUARTER REVENUE MONITORING 2020/21** (Pages 79 - 94)
REPORT OF THE SERVICE DIRECTOR – RESOURCES

To consider the First Quarter Revenue Budget Monitoring report 2020/21

11. **FIRST QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2020/21** (Pages 95 - 126)
REPORT OF THE SERVICE DIRECTOR – RESOURCES

To update the Committee on progress with delivering the Capital and Treasury Strategy as at the end of June 2020.

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

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SIAS
Shared Internal Audit Service
Hertfordshire in Partnership

Shared Internal Audit Service

Annual Report **2019/20**

Annual Report Contents

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Introduction

Welcome to the Shared Internal Audit Service (SIAS) Annual Report for 2019/20.

As I write, we are experiencing a gradual easing of lockdown, isolation and restricted movement as a result of the Covid-19 pandemic. Many of us have been charting a course through the unfamiliar waters of home working, while simultaneously managing family demands and caring responsibilities. For me, it has been trying to strike the right balance between the priorities of the workplace with home schooling duties, most recently finding myself immersed in the world of fractions, grammar and punctuation and a project on trees.

We have been through a period of rapid and unexpected change that has challenged our wellbeing and left many exhausted, fatigued and anxious. We would all do well to reach into our reserves of empathy and patience, listen to one another and recognise that mistakes may be made. I am in awe though of the courage, resilience and sheer energy of friends and colleagues, who have achieved so much so quickly transforming services, throwing themselves into the fray and raising the spirits of others.

I am proud that SIAS did not stand on the side lines, but that several members of the team volunteered for redeployment opportunities at some of our partners and got involved with the Covid-19 response. It is fascinating to hear from them about their new experiences, skills developed, and confidence acquired on the frontline. It is equally gratifying to hear the sincere praise for their efforts which has brought credit to themselves and made them great ambassadors for SIAS.

It has been a year of promotions and departures. On the one hand, I am thrilled that Darren Williams has been appointed to the Head of SIAS role as of 1 April 2020 and saddened to see my friend and mentor, Terry Barnett, head off into a much-deserved retirement. Covid-19 reared its head here too, as it denied everybody the opportunity to say their farewells, and I found myself having a somewhat surreal and unusual start to my tenure as Head of Assurance. This is certainly not what was planned for during my handover, but in its own way, it has been fascinating and brimming with opportunity for SIAS as it looks to recovery phase planning and the rapidly unfolding future of assurance provision.

The events of March 2020 seemed to overshadow all that preceded it, but for further highlights and reflections, I invite you to delve into the Annual Report itself. As ever, I enjoy the engagement, dialogue and feedback the report fosters.

Chris Wood

Head of Assurance

June 2020

SIAS
Shared Internal Audit Service
Hertfordshire in Partnership

Levels of Delivery

The Service faced some challenges during the year arising from staff sickness absences and vacancies. The impact of COVID-19 was keenly felt in March 2020 and posed significant audit delivery challenges at a key time in the year when our partners were rapidly refocusing on the COVID-19 response.

The Figures below indicate the outturn for our performance objectives against the original audit plans, as well as revisions in performance that account for the impact of audits unable to commence or complete.

That we managed to do as well as we did in the end on our overall objectives, is testament to the hard work and resilience of the SIAS Team.

The impact of COVID-19 was keenly felt in March 2020 and posed significant audit delivery challenges...

Figure 1: Percentage of audits days delivered

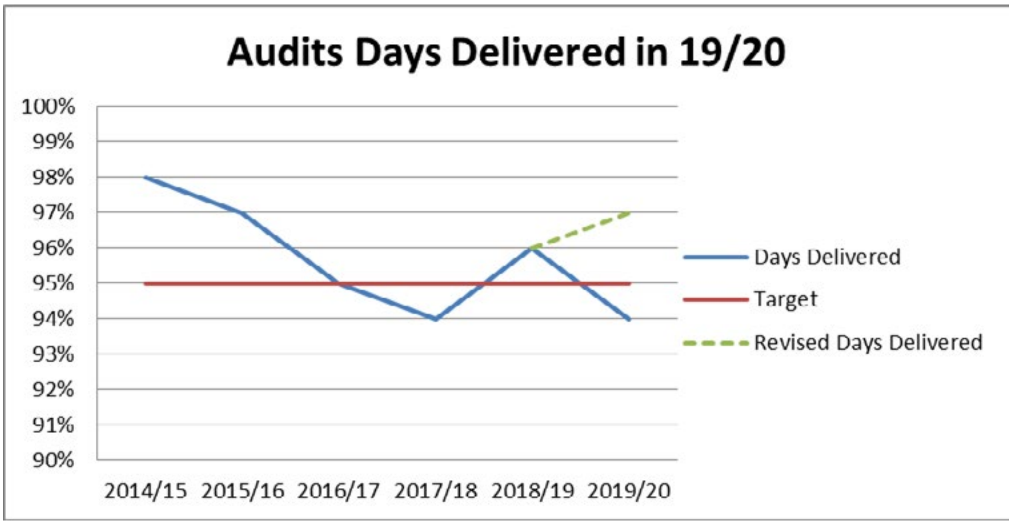
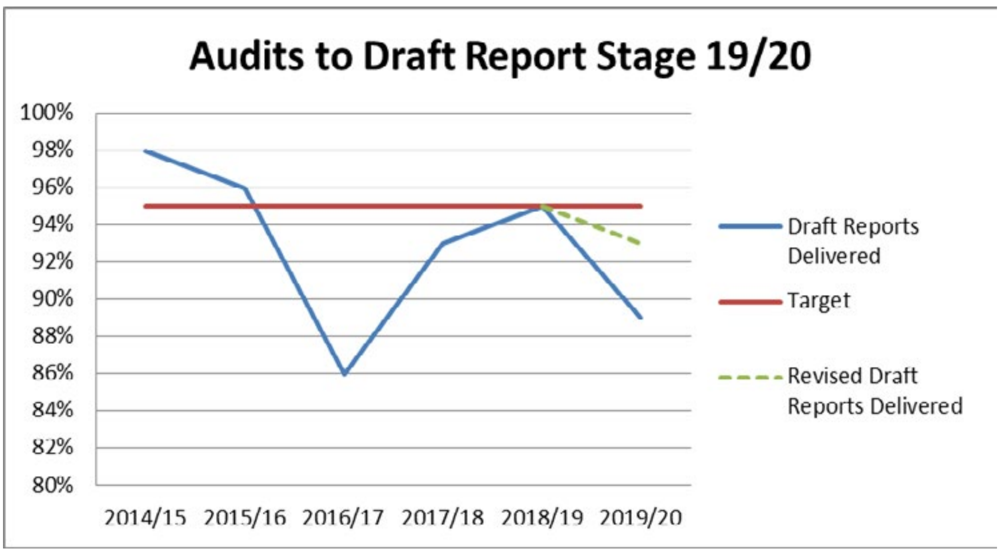


Figure 2: Percentage of audits to draft stage



Shared learning - The Power of Partnership

Shared learning happens through the dialogue we have with others. It has long been part of the vision of our Board that the service acts to facilitate the sharing of learning across its partners. A shared learning culture, both formal and informal, is embedded through our team, our sister services within Assurance and across our partners and opportunities abound to promote issues big and small.

During 2019/20, our quarterly shared learning papers continued to be a feature at management boards and governance groups across our partners. General learning points arising from our work and the wider local government environment have been disseminated with contributions from across our Assurance Services. A key theme arising from our internal audit work as the Covid-19 pandemic developed in March 2020 was the importance of focusing on the basics of decision making, record keeping and sound governance in a rapidly evolving environment requiring an urgent response. This would ensure that our partners' Covid-19 response was able to respond to any challenge and scrutiny, especially if there was a worst-case scenario involving a breach of duty of care or gross negligence that had significant legal, reputational or financial implications.

Shared learning happens through the dialogue we have with others...

In addition to our shared learning papers and newsletters, we normally host a very well received follow-up workshop for our partners and other stakeholders. This year, we scoped a workshop on Artificial Intelligence, Machine Learning and Robotic Process Automation and the future of local government, however this was deferred as most partners are in the very early stages of development and the learning to be achieved had not sufficiently progressed.

We have used our governance expertise to develop internal audit recommendation databases, update Audit Committee Terms of Reference and facilitate the Annual Governance Statement process for our partners. Joint internal audit reviews across relevant partners also took place on the Hertfordshire Building Control Service and Shared Anti-Fraud Service.

Our involvement with 'Audit Together', a strategic alliance of similar internal audit partnerships, our audit delivery partners (BDO) and an array of contacts through bodies such as the Local Authority Chief Auditors Network (LACAN) and Home Counties Chief Internal Auditors Group (HCCIAG) have been invaluable in sharing experiences, points of practice and ideas that help us to develop as a service in response to client need and the ever-evolving field of internal audit. This was particularly notable as the Covid-19 pandemic unfolded.

Delegates from SIAS have also attended the annual Internal Audit Conference of the Chartered Institute of Internal Auditors (Chartered IIA), which has proved a valuable learning and networking opportunity, while helping our team connect to their profession.

Our staff, partners and Audit Committee members continue to provide helpful challenge, which causes us to pause and think about matters big and small, whether about assurance levels, recommendation priorities, professional judgement and intellectual curiosity or about our skills, performance, systems and culture.

Developing our People and Processes

SIAS is committed to providing an exemplar service to its partners and clients that successfully blends cost effectiveness, resilience and quality.

Invested in the delivery of core learning and coaching for all team members

Well placed with technology upgrades to support service delivery through new collaboration and communication tools

At the core of our service are our team members, and we have invested in the delivery of core learning and coaching for all members of staff. This included external refresher training on the principles of risk and internal control, and the practical application of data analytics using simple and advanced Excel techniques 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 International Professional Practices Framework and the Public Sector Internal Audit Standards.

We have conducted a review of our internal audit practices, with an outcome that our 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 be rolled out during 2020/21. The revised template provides a means to explicitly link internal audit work to those risks which prevent service objectives being met and to highlight alternative sources of assurance so that any audit duplication/overlap can be avoided where possible. The revised template has also improved integration with our audit working papers.

Technology is a key enabler of modern smart and agile working, as has been demonstrated by the Covid-19 pandemic. The replacement and update of laptops and applications could not have been better timed, and we have been well placed to support service delivery through new collaboration and communication tools. An automated Performance Dashboard has also been implemented 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.

We also commenced the process of reviewing and updating our Internal Audit Manual. This is a comprehensive set of working documents designed to inform, direct, guide and train internal auditors within the team, and includes things such as our vision, structure charts, policies, audit methodology, quality control arrangements and working paper and report templates.

First Class Customer Service

In order to monitor our effectiveness and improve our service, at the end of each assignment we request the completion of a short satisfaction survey. We have been given and have acted upon invaluable improvement ideas, and we are proud of the fact that in 2019/20 we have received 100% satisfactory or higher feedback rating from our customers. This is an improvement on the previous year.

Some of the comments that accompany the formal scoring document are shown below:

" All very easy to follow, contacts and meeting were at times of my choosing. No complaints."

"The purposed and the process of the audit was made very clear. The auditor took time to understand the contract and how we are delivering the programme as a whole before looking into the financial aspect of the programme. The auditor also made it very clear what information was required to be able to carry out the audit in order for me to identify the most appropriate documents to support the process."

"The auditor understood the need for business continuity planning but balanced against the 'appetite' at the council. The scope and recommendations reflected this perfectly."

"The Debtors audit was conducted in an efficient manner with minimum disruption to the service. Requests for information before the office visit meant we were able to gather it at a time convenient to ourselves thus reducing service disruption. It helped that the auditor had the knowledge of what a Debtors system is and how it works in principle."

"We felt the service was very useful and helped us highlight areas of improvement."

"Good audit that was carried out with very little client input as promised. Results seem to be very thorough and gave us actions to work on."

"A useful and productive exercise which hopefully will lead to improved outcomes."

"We felt the service was very useful and helped us highlight areas of improvement."

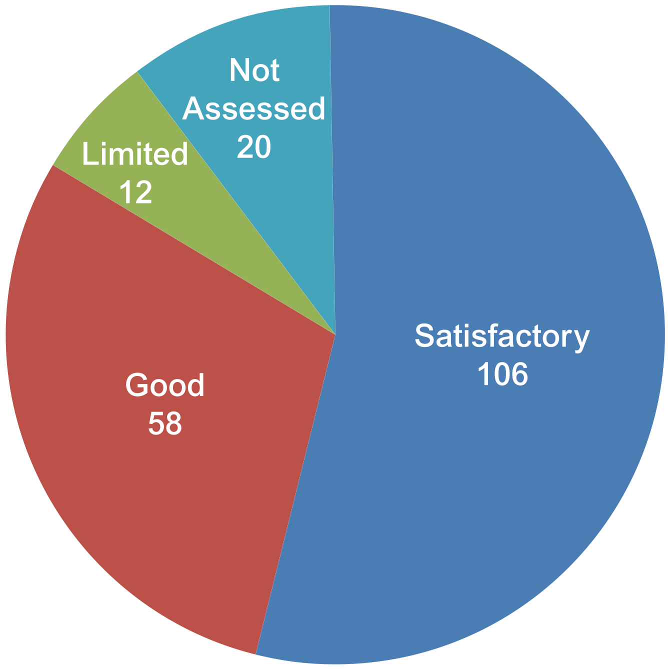
Performance - Outcomes

SIAS completed 196 assurance and other projects to final report stage, giving the assurance opinions and recommendations detailed in the charts below.

196 assurance and other projects identifying 555 recommendations

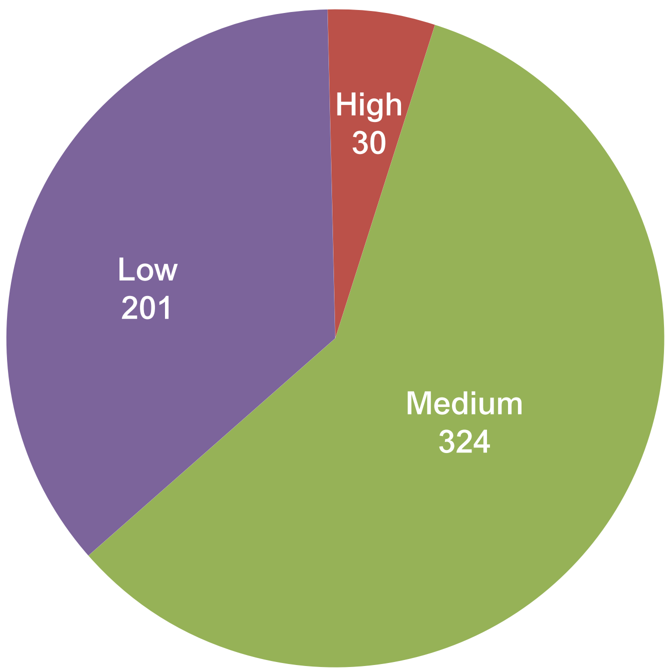
For those pieces which resulted in a formal assurance opinion, the distribution of opinions is set out in figure 3 below:

Figure 3: Distribution of Audit Opinions 2019/20



For those audits where recommendations were required, the priority ratings are set out in figure 4 below:

Figure 4: Prioritisation of Recommendations 2019/20



Performance Indicators

The overall business performance of SIAS is monitored by the SIAS Board by means of a balanced scorecard which provides a range of measures by which progress can be evaluated.

The overall performance of SIAS against our key performance indicators is reported below.

Table 1: SIAS Business Performance

Indicator	Target	Actual as at 31 March 2019	Actual as at 31 March 2020	Commentary
Progress against plan: actual days delivered as a percentage of planned days.	95%	96%	94% (97%)	The impact of COVID-19 was keenly felt in March 2020 and posed significant audit delivery challenges at a key time in the year when our partners were rapidly refocusing on the COVID-19 response. Figures in brackets represent revisions to account for the impact of audits unable to commence or complete.
Progress against plan: audits issued in draft by 31 March	95%	95%	89% (93%)	
Client satisfaction	100% client satisfaction questionnaires returned at 'satisfactory overall' level or above	97%	100%	Continued good performance in this area

Financial Performance of SIAS

SIAS began operating on a fully traded basis in 2012/13.

Appendix A sets out the summary financial position at 31 March 2020. The partners determined that the service should aim to build a reasonable surplus and to consider the financial position of the service on a three-year rolling basis.

The intention of this is to smooth the impact of any unforeseen events impacting on trading performance in future years.

Future Developments

The intervention of the Covid-19 pandemic has naturally posed some challenges to overcome, not least the health and wellbeing of the team, caring responsibilities, redeployment of some team members to frontline roles at our partners and the commencement of 2020/21 internal audit plans whether as originally envisaged or revised as part of Covid-19 assurance provision.

A key part of the upcoming year will be responding to the impact of Covid-19 on the team and audit delivery, with recovery phase planning being central to the 2020/21 Service Plan.

While reshaping our planned activity for the year, SIAS are also cognisant of the unique opportunity to reimagine the service, its ways of working and the value proposition it offers.

The Public Sector Internal Audit Standards (PSIAS) require SIAS to have an external quality assessment (EQA) at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The next external assessment is due in November 2020. While the SIAS Board has agreed a deferral of the EQA to May 2021 at the latest, taking account of Chartered IIA guidance, the service will use the deferral to ensure it will be in good shape for the EQA when it comes around and completing the annual self-assessment of compliance with the PSIAS (using the Chartered IIA's checklist) as normal to develop a plan to address any gaps identified.

The service has also been reviewing income generation with the SIAS Board and will continue to explore opportunities that complement existing SIAS skillsets and experience. SIAS are working closely with a number of academies and have developed an academy offering that continues to attract new clients for the coming year.

Our Board Members

The SIAS Board provides strategic direction and oversight for the partnership, bringing a wealth of local government experience and insight to our operation.

In 2019/20, our Board members were as follows:

Name	Title	Partner
Clare Fletcher	Strategic Director (S151)	Stevenage Borough Council
Matthew Bunyon	Head of Finance and Business Services	Hertsmere Borough Council
Steven Pilsworth	Assistant Director Finance	Hertfordshire County Council
Ian Couper	Service Director (Resources)	North Hertfordshire District Council
Ka Ng	Corporate Director (Resources, Environment and Cultural Services)	Welwyn Hatfield Borough Council
Bob Palmer	Interim Head of Strategic Finance and Property	East Herts Council
Alison Scott	Interim Director of Finance	Watford Borough Council and Three Rivers District Council
Terry Barnett	Head of Assurance	SIAS

Appendix A - SIAS cost centre: revised budget against outturn 2019/20

	Budget £	Outturn £
Salaries & Salary Related	1,092,885	1,002,069
Partner / Consultancy Costs	112,320	194,887
Transport	7,500	6,788
Supplies	18,483	9,968
Office Accommodation Cost	17,005	17,005
Total expenditure	1,248,198	1,230,717
Income	-1,230,926	-1,245,127
Net (surplus) / deficit	**17,267**	**(14,410)**

Appendix B - Definitions of Assurance Levels and Priority 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**	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 / Advisory	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.

Shared Internal Audit Service
Hertfordshire in Partnership

North Herts District Council

Audit Committee Progress Report

7 September 2020

Recommendations

Members are recommended to:
• Note the Internal Audit Progress Report for the period to 21 August 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
2.8 Annual Audit Plan Progression for 2020/21
2.10 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 21 August 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 21 August 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 second 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 21 August 2020, 23% of the 2020/21 Audit Plan days had been delivered.

2.2 The following 2019/20 final reports have been issued since 22 May 2020 (cut-off date for the SIAS Update Report for 8 June 2020 FAR Committee):

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Budgetary Control	June 2020	Good	4 Low
SAFS Review	May 2020	Good	3 Low
Insurance	June 2020	Satisfactory	1 Medium
Development Management	July 2020	Limited	2 High, 2 Medium, 1 Low

2.3 The following 2020/21 final reports have been issued since 22 May 2020 (cut-off date for the SIAS Update Report for 8 June 2020 FAR Committee):

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Debt Management Follow Up	June 2020	Not Assessed	N/A
Green Space Providers	June 2020	Good	None

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 We have made two high priority recommendations as a consequence of the work undertaken in the audits detailed in paragraph 2.2 above. The two recommendations were raised as part of the Development Management audit completed.

2.6 The recommendations relate to ensuring compliance with GDPR regulations on the storage of personal information and to ensuring both the Uniform and Information at Work systems are utilised effectively to ensure a full audit trail is in place to support decisions made. The implementation status of these recommendations will be followed up and presented to the Audit Committee as per the arrangements outlined in paragraph 2.4. The first update from management is included in Appendix B.

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

Annual Audit Plan Progression

2.8 At the start of the financial year, Council and SIAS resources were focused on responding to the COVID-19 pandemic. As a result, there have been some delays in progressing with 2020/21 audit plan (delays to the 2020/21 audit plans were experienced across all SIAS partners). As a result of the loss of available time to deliver the originally agreed plan, the SIAS Board agreed to a reduction in the total number of planned days across the partnership, this amounted to 28 days for North Herts District Council. As a result, the following changes were agreed with management and are proposed to this committee:

Audit Cancellations and Adjustments to Plan Days

a) Antisocial Behaviour Audit (10 days) – This audit was intended to start in quarter 2 but has been removed from the 2020/21 audit plan. The decision to remove this audit was based upon….
b) Shared Learning and Joint Reviews (5 days) – The allocation of plan days for Shared Learning and Joint Reviews has been removed from the audit plan.
c) Contingency (12 days) – The allocation of plan days for contingency purposes has been removed from the audit plan. The contingency includes 10 days which have been re-allocated from 2019/20 carry forward projects.
d) Progress Monitoring (1 day) – The allocation of plan days for progress monitoring has been reduced by 1 day in the audit plan. Therefore, the new proposed allocation is 9 days.

2.9 The impact of the above changes means that the total number of days to be delivered is 292 days, reduced from 320 as originally approved by this Committee in March 2020. In making the above changes, the planned audit projects have been safeguarded as far as possible to ensure that assurance opinions provided to the Council for this financial year are well informed.

Performance Management: Reporting of Audit Plan Delivery Progress

2.10 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 – 21 August 2020			
Status	**No of Audits at this Stage**	**% of Total Audits (24)**	**Profile to date**
Draft / Final Report Issued	3	13%	(5/24)
In Fieldwork / Quality Review	5	20%	(4/24)
Terms of Reference Issued / In Planning	4	17%	(2/24)
Not Yet Started	12	50%	(13/24)

2.11 Annual performance indicators and associated targets were approved by the SIAS Board in March 2020. As at 21 August 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 21 August 2020	Actual to 21 August 2020
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	32% (92 / 292 days)	23% (68.5 / 292 days)
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	21% (5 / 24 projects)	13% (3 / 24 projects)
3. Client Satisfaction with Conduct of the Audit – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100% (2 out of 2 surveys issued have been returned)
4. Number of High Priority Audit Recommendations agreed	95%	95%	100%

2.12 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 21 AUGUST 2020

2020/21 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
Financial Systems Audits									
Benefits						10	Yes	0	Not yet started
Integra (Financial System)						15	Yes	0	Not yet started
Payroll Processing						15	Yes	0	Not yet started
Revenues						15	Yes	0	Not yet started
Treasury Management						8	Yes	0	Not yet started
Cross-Council Audits									
Community Engagement						15	Yes	0	Not yet started
Performance Indicators						15	Yes	3.5	In Fieldwork
Operational Audits									
Anti-Social Behaviour						0	N/A	0	Cancelled
Climate Change and Sustainability						7	Yes	0	Not yet started
Commercial Strategy						15	Yes	2.5	In Fieldwork
Customer Services – Digitalisation						10	Yes	1.5	In Fieldwork
Corporate Debt Management Follow Up	Not Assessed	0	0	0	0	2	Yes	2	Final Report Issued
Health and Safety of Out of Hours Workers						12	Yes	0.5	In Planning
Housing Allocations						10	Yes	1	In Planning
King George V Playing Fields						1	Yes	0	Not yet started
Medium Term Financial Strategy						12	Yes	0	Not yet started

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

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
Parking Strategy and Enforcement						15	Yes	0	Not yet started
Review of FAR						5	Yes	4.5	Draft Report Issued
Trade Waste						10	Yes	0	Not yet started
Waste Contract Follow Up						3	Yes	1	In Planning
Workman's Hall						1	Yes	0	Not yet started
Contract Audits									
Green Space Providers	Good	0	0	0	0	12	Yes	12	Final Report Issued
Risk Management Audits									
Risk Management Framework						12	Yes	3.5	In Fieldwork
IT Audits									
Disaster Recovery						12	Yes	10.5	In Fieldwork
IT Asset Management						15	Yes	0.5	In Planning
Shared Learning and Joint Reviews									
Joint Reviews						0	N/A	0	Cancelled
Shared Learning						0	N/A	0	Cancelled
Contingency									
Contingency						0	N/A	0	Through Year
Client Management - Strategic Support									
Head of Internal Audit Opinion 2019/20						3	Yes	3	Complete
Audit Committee						8	Yes	4	Through Year
Client Meetings						8	Yes	4	Through Year

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

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
Liaison with External Audit						1	Yes	0.5	Through Year
Progress Monitoring						9	Yes	5	Through Year
SIAS Development						5	Yes	5	Through Year
2021/22 Audit Planning						6	Yes	0	Through Year
Completion of outstanding 2019/20 projects						5	Yes	4	In Progress
Total - North Herts D.C.						**292**		**68.5**	

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.	Development Management (July 2020)	At the earliest opportunity, management must ensure that all files which are no longer required to be kept are deleted from each system in accordance with the requirements set out in the document retention schedule. Additionally, management should implement an annual review process to ensure all required files are removed in a timely manner. In line with Information Commissioners Office (ICO) guidance, the Council should assess the level of risk to people's rights of the breach and consider whether a disclosure to the ICO is necessary.	Deletion of files where no breach was established in accordance with the Retention Schedule Deletion of remaining files in accordance with the Retention Schedule (taking account of any public register requirements) Formal assessment of risk re: DPA Review process implementation	Planning Control and Conservation Manager Technical Support Manager	By September 2020 By January 2021 31 August 2020 31 August 2020	**August 2020:** Recommendations on track for implementation by original target date.	**In Progress**

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
2.	Development Management (July 2020)	Management should ensure that Uniform records detail the reasons for any delays in the process and that all files are promptly closed following decisions made. Additionally, where inspection visits are considered unnecessary the rationale for this should be documented. Spot checks on closed files should be completed by the Planning Control and Conservation Manager on a quarterly basis to ascertain the levels of compliance with policy and implement corrective actions where necessary.	Internal protocol to be established together with monitoring regime and record keeping	Planning Control and Conservation Manager	30 September 2020	**August 2020:** Recommendations on track for implementation by original target date.	**In Progress**

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

Quarter 1	Quarter 2	Quarter 3	Quarter 4
Debt Management F/U **Final Report Issued**	Customer Services **In Fieldwork**	Integra	Climate Change and Sustainability
Review of FAR **Draft Report Issued**	Commercial Strategy **In Fieldwork**	Treasury Management	King George V Playing Fields
Disaster Recovery **In Fieldwork**	Anti-Social Behaviour **Cancelled**	Payroll Processing	Workman’s Hall
Performance Indicators **In Fieldwork**	Housing Allocations **In Planning**	Revenues	Trade Waste
Green Space Providers **Final Report Issued**	Health and Safety LW **In Planning**	Benefits	Parking Strategy and Enforcement
2019/20 Projects Requiring Completion	Risk Management Framework **In Fieldwork**	Medium Term Financial Strategy	Community Engagement (Moved from Q2)
	Waste Contract F/U (Moved from Q1) **In Planning**	IT Asset Management **In Planning**	

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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FINANCE, AUDIT & RISK COMMITTEE
7 SEPTEMBER 2020

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: ANNUAL GOVERNANCE STATEMENT 2019/20

REPORT OF THE POLICY AND COMMUNITY ENGAGEMENT MANAGER

EXECUTIVE MEMBER: [NON-EXECUTIVE FUNCTION]

COUNCIL PRIORITY: BE A MORE WELCOMING AND INCLUSIVE COUNCIL / BUILD THRIVING AND RESILIENT COMMUNITIES / RESPOND TO CHALLENGES TO THE ENVIRONMENT / ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY / SUPPORT THE DELIVERY OF GOOD QUALITY AND AFFORDABLE HOMES

1. EXECUTIVE SUMMARY

1.1 For the Finance, Audit & Risk Committee to approve the Annual Governance Statement (AGS) for the year 2019/20 and Action Plan. The Statement reviews the Council's governance arrangements for the 2019-20 period. It also proposes an Action Plan to update/improve those arrangements for the next financial year. This report also provides details of the amendments to the Statement and Action Plan since the draft AGS for 2019/20 was reported to the Committee in July 2020.

2. RECOMMENDATIONS

2.1 That the Committee is recommended to approve the amended AGS and Action plan (Appendix A)

3. REASONS FOR RECOMMENDATIONS

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

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

3.3 Reviewing the AGS Action Plan during 2020-21 will provide the Committee with assurances that the Council is examining and where necessary improving its governance arrangements

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 There are no alternative options to be considered.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 At the Committee meeting on the 20th July, members were asked to provide feedback on the draft AGS that was presented at that meeting. A copy of the draft was also provided to both the Shared Internal Audit Service (SIAS)and Ernst & Young (External Auditors). Ernst & Young requested that the AGS contain updates in respect of the impact of Covid-19 and the corresponding actions of the Council. An amended version was sent to Ernst & Young and Committee members at the end of July for review and comment. The amendments include the following additions:

- Principle B – the Council's In response to the COVID-19 pandemic, North Hertfordshire District actively supported the most impacted/vulnerable by the outbreak of the virus. When the country went into full scale lockdown on the 24th March, the council quickly set out its support by signposting residents and businesses to the Council's and central Government's package of guidance and support measures including grant funding awards. The Council's website established multiple pages with information and links and these have also been heavily publicised on various social media platforms. (Page 3)
- Principle D - That Council have been alerted to a forecast impact of Covid-19 in comparison to available reserves and confirms that these reserves will be used to fund the impact. (Page 4) .http://srvmodgov01.north-herts.gov.uk/documents/s11410/Covid-19%20Financial%20Impacts.pdf
- Principle E - In response to Covid-19, the council established a Recovery Board to oversee and monitor the delivery of the Recovery Plan; provide the necessary strategic guidance and direction; ensure effective project and risk management systems are in place; ensure collaboration and integration, where appropriate, with other public and private sector recovery plans. (Page 4)
- Principle F - The COVID-19 emergency, the most serious public health crisis in the UK for over a Century, has and will continue to present a challenge for the Council to ensure the health and safety of its staff, Members and customers. This has included closure of the District Council office and other buildings, cessation/limiting of services, as well as other measures as noted previously. Further work will be required to ensure that future Government guidance is reflected in the Council's working arrangements as the national and local position changes. (Page 5)
- Assurance from Risk Management - The top risks for the Council, as reported to FAR Committee in March 2020 (Risk Management report March 2020), are: Brexit, Local Plan, Managing the Council's Finances, Cyber Risks, Delivery of the Waste Collection and Street Cleansing Services Contract, Impact of Anti-Social Behaviour on Council Facilities, Income Generation, Sustainable Development, External Factors Affecting the Future Provision of Waste Services, Increased Homelessness and Workforce Planning.

- It was also agreed to retain Route Optimisation of Collection Rounds as a top risk, to add Novel Coronavirus (Covid-19) as a top risk with a matrix score of 9 and to archive the top risk relating to the completed North Hertfordshire Museum & Hitchin Town Hall Project. Three of the other risks also scored 9 on the risk matrix (Page 6)

The amended AGS is attached as Appendix A and therefore the final version following consultation.

6. FORWARD PLAN

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

7. BACKGROUND

7.1 Reference is made to the report of the 20 July 2020, which sets out the legal requirements for preparation, review and approval of the AGS, together with the matters included/ and parties involved in that process. As indicated, this must be considered by Members of the Committee and the AGS approved under Regulation 6(4)(a) AAR 2015 in advance of approving the Statement of Accounts (Regulation 9(2)(b)) at this Committee meeting. The AGS reviews the systems in place and identifies any actions to be undertaken in the forthcoming year.

7.2 The review was undertaken against the relevant CIPFA/ SOLACE Framework, which for this year onwards is the *Delivering good governance in Local Government Framework 2016 Edition* and any CIPFA/ SOLACE guidance[1]. The AGS was prepared following an in-depth review/ input and scoring of arrangements by SMT against the Framework 2016 Principles (in accordance with the guidance[2]). The detailed self-assessment document has not been appended. It has been loaded on the Council's Corporate Governance internet page and will remain on the site until the next review is undertaken [SMT AGS self-assessment document].[3]

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

8. RELEVANT CONSIDERATIONS

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

8.2. The AGS for 2019/20 is attached as Appendix A for approval.

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

8.3. The Council will publish the approved 2019/20 AGS alongside the Statement of Accounts as it has in previous years.

8.4. Updates to the Action Plan will be reported to this Committee again at future meetings (likely to be in December 2020 and March 2021).

9. LEGAL IMPLICATIONS

9.1 Under the LAAA 2014/ AAR 2015 Regulations the 2019/20 AGS must be approved by this Committee by 31 July. An amendment to the regulation (The Accounts and Audit (Coronavirus) (amendment) Regulations 2020, due the impact of Covid-19, has extended that deadline. Otherwise the legal implications are set out under section 7 above.

9.2 The Terms of Reference of this Committee under 10.1.5(i) are: "*To ensure that an annual review of the effectiveness of internal controls (accounting records, supporting records and financial) systems is undertaken and this review considered before approving the Annual Governance Statement."* This approval of the AGS therefore falls within the Committee's remit.

10. FINANCIAL IMPLICATIONS

10.1 The final AGS is to be approved and accompany the Statement of Accounts. Other than this there are no financial implications arising from this report.

11. RISK IMPLICATIONS

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

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.

12.1 There are no direct equality implications of this report or the AGS. Where relevant the Council's arrangements have been assessed against the 2016 Framework Principles. In respect of those arrangements, the SMT AGS self-assessment identifies the procedures in place and any outcomes. Council reports include any equality implications and are assessed by the Corporate Policy Team. Where appropriate an impact assessment will be undertaken, and mitigation measures identified. The Corporate Policy Team undertake an Annual Cumulative Equality Impact Assessment and publishes them on the internet.

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 this report.

15. HUMAN RESOURCE IMPLICATIONS

15.1 For the employees of the Council the Organisational Values and Behaviours and Employee Handbook provide further advice on the standards we expect from our staff. Human resources will support the relevant actions within the Action Plan for 2020-21.

16. APPENDICES

16.1 Appendix A –Annual Governance Statement for 2019/20 and Action Plan for 2020/21.

17. CONTACT OFFICERS

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

Contributors

17.2 Ian Couper, 01462 474243 Service Director - Resources:
Ian.couper@north-herts.gov.uk

17.3 Kerry Shorrocks, 01462 474224 Corporate Human Resources Manager:
Kerry.shorrocks@north-herts.gov.uk

17.4 Jeanette Thompson, 01462 474370. Service Director – Legal and Community Monitoring Officer: Jeanette.thompson@north-herts.gov.uk

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

17.6 Georgina Chapman, Policy Officer
georgina.chapman@north-herts.gov.uk; ext. 4121

18. BACKGROUND PAPERS

18.1 The SMT AGS self-assessment is on the on the Corporate Governance Page: https://www.north-herts.gov.uk/home/council-performance-and-data/corporate-governance. This will also contain links to relevant background documents, reports, Policies and Guidance. The AGS also contains links to relevant documents and or documents.

NHDC ANNUAL GOVERNANCE STATEMENT 2019-2020

Introduction

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

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

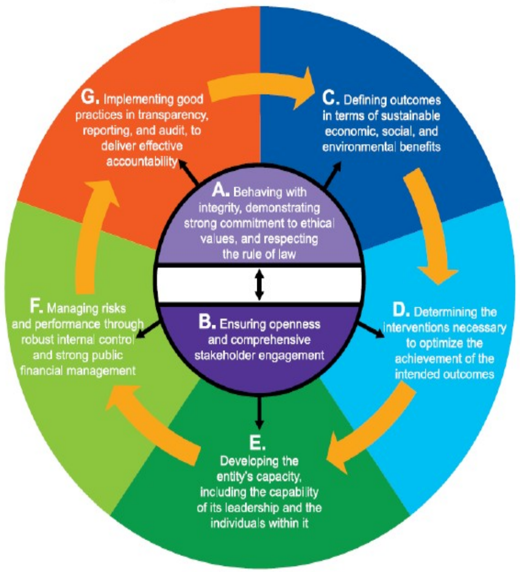
In discharging this overall responsibility, NHDC should have proper arrangements for the governance of its affairs in place. It is legally required[1] to review arrangements and prepare an Annual Governance Statement ('AGS'). It should prepare this Statement in accordance with proper practices set out in the Chartered Institute of Public Finance and Accountancy (CIPFA)/the Society of Local Authority Chief Executives and Senior Managers (SOLACE) Delivering Good Governance in Local Government: Framework 2016. This AGS explains how NHDC has complied with these requirements. The Finance, Audit & Risk (FAR) Committee Members have been informed of progress on producing this AGS and will review it and evaluate the robustness of the underlying assurance statements and evidence. FAR Committee approves the final AGS and monitors the actions identified.

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

Delivering good governance in Local Government:

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

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



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

Key Elements of the Governance Framework:

- Council, Cabinet and Stronger Leader model that provides leadership, develops and sets policy.
- A decision-making process that is open to the public and decisions are recorded / available on the NHDC website.
- An established Shared Internal Audit Service (SIAS) that undertakes detailed reviews.
- Risk Management and performance procedures that enable risks to be identified and these to be monitored by Senior Management Team (SMT) and Members on a quarterly basis.
- Overview & Scrutiny (O&S) Committee reviewing performance and policies.
- An effective FAR Committee as the Council's Audit Committee that reviews governance and financial arrangements.
- A SMT, which includes the statutory officers and provides effective corporate management.
- Following the approval of the redundancy of the Chief Executive in February 2020, a strategic officer leadership team has been established. This includes the Head of Paid Service (Managing Director) and Directors (which again includes all statutory officers).

How NHDC complies with the 2016 Governance Framework

NHDC has approved and adopted:

- a [Local Code of Corporate Governance](#) in March 2020 which incorporate the Framework 2016 Principles.
- a number of specific strategies and processes for strengthening corporate governance

Set out below is a summary of *some of the central ways* that NHDC complies with the 2016 Framework Principles. The detailed arrangements, and examples are described / links provided in the SMT AGS self-assessment document on the Corporate Governance page: https://www.north-herts.gov.uk/home/council-performance-and-data/corporate-governance.

NHDC ANNUAL GOVERNANCE STATEMENT 2019-2020

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

What NHDC has or does:

❖ Operates Codes of Conduct for Members and Employees, maintaining arrangements for sign off of those, awareness of key policies and reporting / investigating any allegations of breaching those Codes.

❖ Complaints concerning employees are dealt with according to the Managing Misconduct Policy, and/ or Employment Procedure rules for officer (for relevant officers will also potentially involve the Independent Person Panel, Employment Committee and Full Council).

❖ A Standards Committee which oversees and promotes high standards of Member conduct. It is composed 12 Councillors and 2 non-voting co-opted Parish Councillors. The IPs are invited to attend the meetings of the Standards Committee. The Committee oversees the Complaints Handling Procedure and Final Determination Hearings through a Sub-Committee. The Chairman of Standards Committee provides an annual report to Full Council in May. This is designed to promote shared values with Members, employees, the community and partners.

❖ The Council's Constitution includes a scheme of delegation and terms of reference for each of the Council's Committees and decision making practices are outlined. The Council's Constitution is reviewed annually.

❖ The Council's Fraud Prevention Policy, which includes the Anti-Money Laundering, Anti-Bribery, Anti-Fraud and Tax Evasion. In addition, the Whistleblowing Policies, have been reviewed and are available on the internet.[2] Contract Procedure Rules in Section 20 of the Constitution underpin the Council's approach to Procurement. Standard Contracts include an obligation to adhere to the requirements of the Bribery Act 2010 and the Councils' requirements as set out in the Councils' Anti-Bribery Policy.

[2] https://www.north-herts.gov.uk/home/council-data-and-performance/policies/fraud-prevention-policy

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

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

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

❖ All Committee reports and delegated decision templates have required areas for legal advice (as well as Finance, Social Value Act 2012 and equality and environmental requirement); part 1 reports are published and available for inspection as per the statutory requirements. Committee and Member Services provide support to the Council, Councillors and the democratic processes of the Council. The team organise the civic calendar of Committee meetings dates, the Forward Plan of Executive Decisions, prepare and despatch agendas and reports in advance of the meetings and take and despatch minutes and decision sheets after the meetings. Delegated decisions are retained by them and they provide support for Councillor Surgeries.

Principle B: Ensuring openness and comprehensive stakeholder engagement.

What NHDC has or does:

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

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

❖ An Annual Monitoring Report is produced containing indicators and targets across the District to aid with future planning decisions and identification of local priorities [Annual Monitoring Report 2018-2019].

❖ NHDC have a duty to review air quality in the district to provide comprehensive information on the quality of air within the region Air Quality Annual Status Report (Air Quality Annual Status report 2019)

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

❖ There is a presumption of openness and transparency, with reports (or confidential parts of reports) only being exempt so long as statutory exemption requirements[3] apply. Report authors consider such matters with the designated

[3] Under the Local Government Act 1972 Schedule 12A, and/ or Local Government Act 2000/ The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012/2089

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

❖ There is a Council and Democracy page on the NHDC website. This links to information about the Council, Councillors, MPs, Council meetings, Council departments, Forward Plan of Key Decisions, Petitions, Notices of Part 2 (exempt) decisions that the Council intends to take in the near future, delegated decisions, recordings/ the right to record Council meetings and Notices of Urgent Decisions [Council and Democracy]. Public Registers and Delegated Decisions are available on the NHDC website for Environmental Health Licensing, [Public Registers and Delegated Decisions] and Planning applications/ decisions [View Planning Applications]. Delegated Executive and Non-Executive decisions[4] are on the Council’s website [Delegated Decisions].

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

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

❖ The Council conducts a District Wide Survey every two years [2019 District Wide Survey - Key Findings Report]. Residents who take part in the District Wide Survey are invited to join the Council’s Citizens Panel, which is used for consultation.

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

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

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

❖ In response to the COVID-19 pandemic, North Hertfordshire District actively supported the most impacted/vulnerable by the outbreak of the virus. When the country went into full scale lockdown on the 24th March, the council quickly set out its support by signposting residents and businesses to the Council’s and central Government’s package of guidance and support measures including grant funding awards. The Council’s website established multiple pages with information and links and these have also been heavily publicised on various social media platforms.

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

What NHDC has or does:

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

❖ The Corporate Equality Strategy contains equality objectives and contributes towards the Council’s vision of equality and diversity [Corporate Equality page]. These issues are monitored through the report / decision making process and Annual Cumulative Equality Impact Assessment 2019-20

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

What NHDC has or does:

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

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

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

❖ The Council’s Financial Regulations [Constitution PART B Section 19 Financial Regulations] are an essential part of risk management / resource control for delivery of services (whether

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

internally, externally or in partnership). The Medium Term Financial Strategy (MTFS) is reviewed annually to set an indicative 5 year financial plan for the longer term strategic vision as well as a detailed one year budget. The MTFS and annual budget are prepared in line with the agreed Objectives and Council Plan/ business planning process. Budget workshops are provided to Political groups prior to budget setting/ budget approval and these help to optimise achievements.

❖ That Council have been alerted to a forecast impact of Covid-19 in comparison to available reserves and confirms that these reserves will be used to fund the impact.
.http://srvmodgov01.north-herts.gov.uk/documents/s11410/Covid-19%20Financial%20Impacts.pdf

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

What NHDC has or does:

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

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

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

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

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

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

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

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

❖ Following an LGA Corporate Peer Challenge assessment, an Action Plan has been developed to ensure the benefits of the CPS process are realised through thorough Organisational Development

❖ In response to the COVID-19 crisis, the government has recently brought in new arrangements for meetings to be held remotely. The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 ('the Regulations') came into force on 4 April 2020 and apply to local authority and police and crime panel meetings that are required to be held, or held before 7 May 2021. The Council has therefore put in place arrangements for meetings to be held remotely in line with these new regulations. A protocol has been written for the management and how to conduct for remote meetings. Meetings are available to view on YouTube.

❖ In response to Covid-19, the council established a Recovery Board to oversee and monitor the delivery of the Recovery Plan; provide the necessary strategic guidance and direction; ensure effective project and risk management systems are in place; ensure collaboration and integration, where appropriate, with other public and private sector recovery plans.

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

What NHDC has or does:

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

❖ SIAS' reviews of Risk Management and Financial systems during 2019/20 provided an overall Satisfactory assurance. SIAS concluded that the corporate governance and risk management frameworks substantially comply with the CIPFA/SOLACE best practice on corporate governance.

❖ The COVID-19 emergency, the most serious public health crisis in the UK for over a Century, has and will continue to present a challenge for the Council to ensure the health and safety of its staff, Members and customers. This has included closure of the District Council office and other buildings, cessation/limiting of services, as well as other measures as noted previously. Further work will be required to ensure that future Government guidance is reflected in the Council's working arrangements as the national and local position changes.

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

What NHDC has or does:

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

❖ SIAS undertake numerous planned audits/ (additional on request) and present progress reports against these, an Annual Assurance Statement Internal audit/ opinion report of the Head of Internal Audit on the work undertaken. On an annual basis SIAS is required to evidence its conformance with the requirements of the Public Sector Internal Audit Standards (PSIAS).Annual Assurance Statement and Internal Audit Report 2019/20 presented in June 2020. An external review is required at least once *every five years* and this was last carried out in January 2016. In that SIAS' Opinion report of 2016/17: 'The Head of Assurance has concluded, therefore, that SIAS 'generally conforms' to the PSIAS, including the Definitions of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. 'Generally conforms' is the highest rating and means that SIAS has a charter, policies and processes assessed as conformant to the Standards and is consequently effective and has the processes in place to deliver robust assurance work.

❖ The CFO follows: the CIPFA Code of practice on local authority accounting in the United Kingdom 2019/20 and the CIPFA Statement on the role of the Chief Financial Officer in Local Government 2016 by ensuring that the financial statements are prepared on a timely basis, meet legislative requirements, financial reporting standards and professional standards as reflected in CIPFA's Code of Practice.

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

Review of Effectiveness

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

Assurance from Internal and External Audit

One of the fundamental assurance statements the Council receives is the Head of Internal Audit's Annual Assurance Statement/Opinion on the work undertaken. During 2019/20 SIAS reported on 27 areas of which 4 received a Good assurance, 11 received a satisfactory assurance and 1 received limited assurance, 4 not assessed and 7 not finalised The limited assurance opinion related to the Time Recording System audit. A high priority recommendation was made and implemented. All key financial/ risk systems/ contract management were also reviewed and a satisfactory assurance opinion overall on financial systems was concluded. Recommendations are detailed in the June 2020 SIAS report to FAR Committee [2019/20 Annual Assurance Statement and Internal Audit Report.. SIAS concluded that the corporate governance and risk management frameworks substantially comply with the CIPFA/SOLACE best practice guidance on corporate governance. Some of the recommendations have been implemented and outstanding ones will be taken forward and monitored through the 2020/21 reports to FAR Committee. SIAS also reviewed the effectiveness of the FAR Committee. Their conclusions for 2018/19 were that overall the FAR committee was substantially compliant with guidance issued by CIPFA. SIAS intend to complete a more thorough review of the effectiveness of the Committee in future years

The Council's external auditors provide assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money. The last Annual Audit Letter presented to the FAR Committee in December 2019 was very positive, with unqualified opinions on both the Council's financial statements and the value for money in use of its resources, [NHDC Annual Audit Letter 2018-19]. The most recent External Audit Update report issued in June 2020 [External Audit plan for year ending 31/3/20] indicated the addition of new risks – all Covid-19 related and in line with other local authorities. The Audit Letter issued in December 2019 proposed to issue an unqualified opinion on its value for money conclusion. The (NHDC Annual Audit letter). The document set out the output of the Council's most recent financial statement; identified that there were no issues with the accounts. These arrangements are therefore deemed to be effective.

SIAS confirmed a substantial compliance level for corporate governance for the systems in place for 2019/20

Assurance from self-assessment

The review of effectiveness is informed by the work of the Senior Managers within the authority who have responsibility for the development and maintenance of the governance environment. Each Service Director was responsible for producing their own assurance statements and an improvement action plan to rectify any identified governance weaknesses, as part of the Service Planning process. This process was reviewed with an overall SMT assurance statement provided [see[5]].

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

SMT/Leadership Team is chaired by the Chief Executive and Managing Director respectively , includes the MO, CFO and key senior managers. It followed the CIPFA/ SOLACE recommended self-assessment process of reviewing the Council's arrangements against the 2016 Framework Principles/ sub-principles guidance examples. This was undertaken during March-June and SMT is satisfied that appropriate and overall Substantial 2016 Framework governance arrangements are in place. However, any improvement actions have been identified for 2019-20 in the Action Plan. The detailed AGS self-assessment is available on the Corporate Governance page[6].

Assurance from Risk Management

- The top risks for the Council, as reported to FAR Committee in March 2020 (Risk Management report March 2020), are: Brexit, Local Plan, Managing the Council's Finances, Cyber Risks, Delivery of the Waste Collection and Street Cleansing Services Contract, Impact of Anti-Social Behaviour on Council Facilities, Income Generation, Sustainable Development, External Factors Affecting the Future Provision of Waste Services, Increased Homelessness and Workforce Planning. It was also agreed to retain Route Optimisation of Collection Rounds as a top risk, to add Novel Coronavirus (Covid-19) as a top risk with a matrix score of 9 and to archive the top risk relating to the completed North Hertfordshire Museum & Hitchin Town Hall Project. Three of the other risks also scored 9 on the risk matrix
- Delivery of the ***Local Plan*** has been and remains a top risk. The Planning Inspector published the Main Modifications arising from the Local Plan examination process in November 2018. These were reported to Cabinet in December 2018, when approval was granted for consultation on the proposals. The Council concluded consultation on the Main Modifications in April 2019. Following the consultation on the Main modifications in January 2020, the Inspector arranged for further hearing sessions for March 2020.
- ***Managing the Council's Finances*** is an ongoing top risk which is reported through the FAR Committee and Cabinet process. The MTFS, budgets and capital programme are, however, noted as soundly based and designed to deliver the Council's strategic objectives.
- ***Brexit*** has been a top risk since March 2019, with the risk score reflecting the continued high level of uncertainty. The Council continues to analyse and assess the potential implications and to take proportionate actions based on the likelihood and potential impact.
- In 2019/20, a new top risk relating to ***Delivery of the Waste Collection and Street Cleansing Services Contract*** was introduced, which replaced the previously reported Waste Management, Recycling and Street Cleansing risk. The new risk focuses on the operational effectiveness of the contractor and the potential high-profile impacts on residents, businesses and the Council's reputation. The reduced overall risk score of 8 reflects improvements in service provision and the positive direction of travel of performance since the new contract commenced.

Assurance from Complaints outcomes

Local Government Ombudsman (LGO): The Council reports complaints to SMT and O&S. The summary for the period 2018/19 (April to September) indicated that NHDC received 1947 complaints of which 1,006 were complaints regarding contractors. This was presented at the July 2019 Overview and Scrutiny meeting.

10 complaints were made to the LGO during 2019/20, of which 4 were upheld (3 upheld: maladministration and injustice and 1 upheld: maladministration and no injustice).

Standards complaints involving Councillors
During the 2019/20 year there have been eleven formal complaints made to the Monitoring officer (one relating to a Town Councillor, one relating to a Parish Councillor, three relating to Community Councillors, five relating to District Councillors, and one relating jointly to a Parish Councillor and a District Councillor). These complaints were reported to the Standards Committee in a report delivered by the Service Director for Legal and Community on the 22nd October 2019. The report can be found here: https://democracy.north-herts.gov.uk/documents/s8736/Standards%20Matters.pdf

Information Commissioner's office (ICO)
During 2019/20 the Council received 837 requests for information with 96% of these handled within the statutory deadline. One complaint was made to the ICO during this period. This was put on hold by the ICO awaiting the result of the First Tier Tribunal Hearing and subsequent Decision Notice - this was then closed due to the complainant not indicating that they wish to pursue the case further In terms of other reports/ issues there have been no formal Statutory reports issued by the MO or s151 (CFO). The Council is therefore assured that effective complaint handling and response measures are in place.

Conclusion

No significant governance issues have arisen as a result of the review of effectiveness for the 2019/20 financial year. The Council is satisfied that it has appropriate arrangements in place. The Council proposes over the coming year to take actions set out in the Action Plan below to address/enhance its governance arrangements. Implementation will be monitored through the Finance Audit and Risk Committee.

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

NHDC ANNUAL GOVERNANCE STATEMENT 2019-2020

Cllr Martin Stears-Hanscomb, Leader of the Council
Anthony Roche Managing Director

Action Plan 2020/2021

1. Ethical awareness training – increased staff/member uptake of the Anti-bribery e-learning module (Learning & Development)
2. Revised Grant Policy to be reviewed after a complete cycle of area committee meeting to assess awards across the voluntary sector (Community Engagement Manager)
3. Implement recommendations of Gender Pay Gap Report action plan for 2020/21 (HR Manager and Learning and Development)
4. Implementation of LGA Peer Challenges recommendations; development of action plan; links to Organisational Development with reference to demonstration of NHDC compliance with relevant 2016 Framework Principles. [Leadership Management Team; HR Manager].
5. Implementation of Recovery Project Board – oversee and monitor delivery of the Recovery Plan; provide the necessary strategic guidance and direction; ensure effective project and risk management systems are in place; ensure collaboration and integration, where appropriate, with other public and private sector recovery plans. (Leadership Management Team)

FINANCE, AUDIT AND RISK COMMITTEE
7 SEPTEMBER 2020

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: MEDIUM TERM FINANCIAL STRATEGY

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND IT

COUNCIL PRIORITY: BE A MORE WELCOMING AND INCLUSIVE COUNCIL / BUILD THRIVING AND RESILIENT COMMUNITIES / RESPOND TO CHALLENGES TO THE ENVIRONMENT / ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY / SUPPORT THE DELIVERY OF GOOD QUALITY AND AFFORDABLE HOMES

1. EXECUTIVE SUMMARY

This report recommends the Medium Term Financial Strategy (MTFS) for 2021/22 to 2025/26 to guide and inform the Corporate Business Planning Process. The focus is primarily on setting a budget for 2021/22 and determining the actions that will be necessary in setting a longer term budget following on from that. This reflects the fundamental uncertainties that the Council faces. Whilst it recommends a budget strategy, there may be a need to amend the strategy over time as further information becomes available.

2. RECOMMENDATIONS

2.1. That Cabinet recommends to Full Council the adoption of the Medium Term Financial Strategy 2021-26 as attached at Appendix A.

3. REASONS FOR RECOMMENDATIONS

3.1 Adoption of a MTFS and communication of its contents will assist in the process of forward planning the use of Council resources and in budget setting for 2021/2022 to 2025/2026, culminating in the setting of the Council Tax precept for 2020/21 in February 2021.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 The Council needs to have a strategy for setting its budget to ensure that it meets its statutory duty to set a balanced budget over the medium term, and ensure that spend is prioritised towards delivering statutory services and its strategic aims (as set out in the Council Plan).

4.2 At the end of last year, the Chartered Institute of Public Finance and Accountancy published a Financial Management Code. One of the recommendations of that Code was that Councils should have a longer term financial strategy (e.g. up to 10 years). In a report to Finance, Audit and Risk Committee in January it was stated that it was intended to adopt this approach. Whilst that will still be the intention, this MTFS deliberately focuses on a shorter-term budget to deal with the recovery phase from Covid-19.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 The Executive Member for Finance and IT and the Leader of the Council have been consulted in developing this Strategy.

5.2 No external consultation has been undertaken in the preparation of this report.

5.3 Members will be aware that consultation is an integral part of the Corporate Business Planning process, and consultation on the individual actions and projects planned to support the Objectives will be carried out in accordance with the Corporate Business Planning Timetable and the Council's Consultation Strategy.

5.4 As in previous years, Member workshops will be held in regard to corporate business planning proposals.

6. FORWARD PLAN

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

7. BACKGROUND

7.1 The Council is required to set a balanced budget each year. This can include using reserves if this is affordable over the medium term. The Council therefore sets a 5 year Medium Term Financial Strategy each year to help determine the approach that it will take to setting the detailed budget for the following year.

7.2 The Council needs to align its objectives and its budget. The Council set a Council Plan for the period 2020-25 in November 2019. The detailed budget that was set in February 2020 then included the cost implications for the actions that were planned to take place to deliver the Plan. This MTFS uses the planned expenditure for 2021/22 onwards as its starting point. The Council Plan for 2021-26 will be considered at the same Cabinet and Council meetings as this MTFS.

7.3 The financial impacts of Covid-19 are detailed in a separate report (presented to Cabinet in July and alongside this report to Council). The MTFS draws on that report in determining the starting point for planning (e.g. levels of reserves). The MTFS also tries to forecast the potential ongoing impacts and how this will affect budget planning.

8. RELEVANT CONSIDERATIONS

8.1 The Medium Term Financial Strategy attached as Appendix A details the forecast impact of reducing resources, and quantifies what the Council will need to do to balance its budget in the medium term. It also reflects the significant uncertainty over funding, expenditure and income and therefore highlights the need to be able to react to any changes.

9. LEGAL IMPLICATIONS

9.1 Cabinet's terms of reference include at 5.6.38 the power, by recommendation "to advise the Council in the formulation of those policies within the Council's terms of reference". Council's terms of reference include at 4.4.1(b) "approving or adopting the budget". The MTFS is part of the budget setting process.

9.2 Councillors are reminded of the requirement, under section 30 of the Local Government Finance Act 1992, to set a balanced budget prior to the commencement of the financial year in question; and also that the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of estimates and the adequacy of reserves allowed for in the budget.

10. FINANCIAL IMPLICATIONS

10.1 Revenue financial implications are covered in Appendix A.

10.2 The main purpose of the Medium Term Financial Strategy is to consider the revenue funding, income and expenditure for the Council. This includes considering the revenue implications of capital expenditure which are linked to the reduced income from treasury investments (as capital reserves are spent) and the costs of borrowing (which may be required when reserves are used up. The Strategy does also consider discretionary capital spend (i.e. not directly linked to continuing service delivery) and the need to deliver value for money. This would include using capital expenditure to reduce revenue costs or generate income.

11. RISK IMPLICATIONS

11.1 The key risks within the budget assumptions are referred to in Appendix A.

11.2 There are financial and reputational risks involved in arriving at a balanced budget against the uncertainty surrounding levels of government funding. We seek to mitigate the risks by scenario planning, use of the established corporate business planning process and early involvement of members and key stakeholders. The Council has a Corporate Risk of "Managing the Council's Finances". This is monitored by the Finance Audit and Risk Committee. Having an MTFS is a key mitigation to this risk.

12. EQUALITIES IMPLICATIONS

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

12.2 The MTFS attempts to align resources to the delivery of the Council Plan, which sets the corporate objectives. Through its corporate objectives the Council is seeking to address equality implications in the services it provides and through the remainder of the Corporate Business Planning Process will carry out Equalities Impact Assessments for relevant Efficiency or Investment options.

13. SOCIAL VALUE IMPLICATIONS

13.1. The Social Value Act and “go local” requirements 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 The MTFS makes assumptions in relation to pay inflation. As the actual rate of inflation will be subject to national pay bargaining, the actual costs will depend on the results of those negotiations. For 2020/21 this has now been agreed at 2.75%, but will be subject to further negotiations for future years. The budget also makes assumptions around funding for increments. The budget does not make any allowance for pay increases above inflation. This means that there will be no improvement to the Council’s ability to attract staff in relation to pay, which will particularly impact on difficult to fill posts. The Human Resources Team and the Senior Management Team continually try to identify staff benefits that are not related to pay, and therefore more affordable.

14.2 The delivery of projects to deliver council objectives depends on having adequate people resources with the requisite skills.

14.3 The development of budget proposals will take up staff time. As they are developed these budget proposals will identify the ongoing impact on staff.

16. APPENDICES

16.1 Appendix A- Medium Term Financial Strategy

17. CONTACT OFFICERS

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

17.2 Kerry Shorrocks, Corporate HR Manager, Kerry.shorrocks@north-herts.gov.uk. ext: 4224

17.3 Tim Everitt, Performance and Risk Officer, tim.everitt@north-herts.gov.uk, ext: 4646

17.4 Isabelle Alajooz, Legal Commercial Team Manager and Deputy Monitoring Officer, Isabelle.alajooz@north-herts.gov.uk, ext: 4346

18. BACKGROUND PAPERS

18.1 *None*

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NORTH HERTFORDSHIRE DISTRICT COUNCIL

MEDIUM TERM FINANCIAL STRATEGY

2021-2026

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1.0 Introduction

1.1 The Medium Term Financial Strategy (MTFS), the Council's key financial planning document, is an integral part of the Council's Corporate Business Planning process. The Council operates a system of priority led budgeting, with those district priorities set out in the "Council Plan" policy document. The MTFS then sets out how the financial management process will contribute to delivering those priorities and sets out a clear framework for our financial decision making. The strategy is updated annually. We fully expect that it will change over time to reflect new opportunities and policy decisions.

1.2 The Covid-19 pandemic is forecast to have a fundamental impact on the Council's finances in the short and medium term. A forecast of the short-term impacts is detailed in a separate report. This recommends that there is not a need to set an emergency budget in 2020/21. Part of this Strategy is determining what actions the Council needs to take, and the level of risk in that approach. The Strategy therefore considers a number of scenarios.

1.3 The backdrop is that there is still uncertainty over the funding that the Council will receive in future years. The various funding changes (i.e. 75% Business Rate retention, Business Rates reset, replacement for New Homes Bonus and the Fair Funding Formula) have generally been delayed until 2021/22 for implementation in 2022/23.

1.4 Over the last few years, the Council has taken the opportunity to increase the level of its general fund reserves. The intention of this was that they could be used to soften the impact of expected (although currently unknown) future funding reductions. These reserves are now expected to be used to avoid having to make drastic service changes in response to Covid-19. It is possible, depending on the level of financial support from Government for Covid-19, that some of the remaining reserves may be available for this intended purpose.

1.5 The MTFS is based on significant uncertainty and therefore it will be kept under review until the budget for 2020/21 is agreed at Council in February. Even once the MTFS is agreed by Council, it is still just a plan, and therefore it will be monitored throughout the year and amended to reflect updated information. The budget monitoring reports (revenue and capital) that are provided to Finance, Audit and Risk Committee and Cabinet are a key component of this.

1. The current picture

1.1 The budget agreed by Full Council in February 2020, set the 2020/21 budget and indicative budgets for the years up to 2023/24 as follows:

£000	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Net revenue expenditure	15,136	14,985	14,968	14,701
Estimated Funding	15,465	14,092	14,282	14,567
Use of General Fund reserves	(329)	893	686	134
General Fund brought forward	8,387	8,387	7,892	7,206
Funding Equalisation Reserve	+329	-398	0	0
General Fund carried forward	8,387	7,892	7,206	7,072
Assumed savings and income efficiencies still to be identified and delivered (cumulative)	**0**	**400**	**800**	**1,350**

1.2 Whilst the MTFS is for a five year period, detailed forecasts were only provided for a four year period. This reflected the substantial uncertainty over future funding levels and that the Council planned to balance its funding within the four year period.

1.3 The final position at the end of 2019/20 (subject to audit) was a brought forward General Fund Balance of £9.378 million, which was higher than estimated above. This was due to underspends against budgets and the gain from the Business Rate Pilot. Some of the underspends have been carried forward, which increases the forecast spend in 2020/21 by £449k compared to budget. This means that the net position is an improved General Fund position by £542k. Budget monitoring since the budget was set (as at the end of Quarter 3 and end of year) has identified additional net ongoing spend of £182k. This is also reflected in the MTFS forecasts.

1.4 As at the end of 2019/20 the balance on the Special Reserve was £1,175k. This reserve could be released for general expenditure as it does not have any significant specific commitments against it. As at the end of 2019/20 the balance on the MHCLG (Ministry of Housing, Communities and Local Government) Grants Reserve was £3,741k. This reserve includes allowances for the timing differences between the receipt of Business Rate section 31 grants and when they need to be applied to the Collection Fund. It also includes the accumulation of Business Rate surpluses and pooling gains. Whilst it is useful to have a buffer against potential drops in Business Rate receipts, the amount in the reserve could now be considered to be too high. The budget for 2020/21 already assumes that the Pooling Gain from 2018/19 of £368k would be released. In addition, as a business rates surplus was recorded for 2019/20, the section 31 grant receivable for 2019/20 of £1,998k is not required to fund a deficit repayment. It is therefore considered that this amount can be released from the reserve in 2021/22.

1.5 To refresh the MTFS for the period 2020-25 it is necessary to consider any changes that need to be made to funding expectations, income forecasts and expenditure forecasts. Annex 1 provides some general details of these assumptions. The following paragraphs detail the more significant changes and areas of uncertainty.

Covid-19

2.6 As detailed in the separate report the financial impact of Covid-19 on income and expenditure in 2020/21 is forecast to be around £4,708k against estimated Government funding of £3,550k. That leaves a shortfall of £1,358k (£1,550k of known grant and estimated £2,000k of income guarantee support). It is considered unlikely that there would be any further commitment from Government to provide funding for 2020/21, although there could be some longer term support. Based on current reserve levels the proposal is that there is not a need to set an emergency budget and the shortfall will be met from General Fund reserves and the Special Reserve.

2.7 There is also expected to be a shortfall on the Council Tax Collection Fund from the increased entitlement for Council Tax Reduction Scheme (CTRS). The current forecast is that this would be about £200k, and this will be an additional cost to be funded in 2021/22.

2.8 The MTFS has previously assumed net growth of 1% per year in the Council Tax base. This is based on housing growth and a stable CTRS eligibility. The actual assumption is that growth will be a bit higher than 1% but that some of this is needed to fund the additional costs associated with a new house (e.g. waste collection). Experience over the last two years was that growth was just about 1%, but the expectation was that this could pick up with an adopted Local Plan. Further delays to the Local Plan hearings and a general economic downturn mean that housing growth is likely to be suppressed. On top of this, whilst CTRS eligibility may start to decrease over time it would probably still be higher than previous levels. Therefore the revised modelling assumption is that the Council Tax base will remain stable (i.e. not increase) over the next 5 years. This reduces the funding available from Council Tax by around £660k by 2025/26.

2.9 The areas of Council income and expenditure where there is most likely be an ongoing impact (beyond 2020/21) are:

- Car parking income- behaviour change might lead to an ongoing reduction in car/ town centre use. A 10% reduction in car parking income would equate to £310k per year.
- Leisure contract- behaviour change might mean a slow recovery or an ongoing reduction in use. A 50% reduction in the contract fee that the Council receives would equate to £360k per year.

- Income from recyclable materials- over the last two months the Council has seen a £37k per month reduction in the amount it receives for recyclable waste. It is assumed that this will return back to previous levels, but this may not be the case. If this was to continue through next year as well the impact would be £444k.

2.10 The above amounts are estimates that will be used in carrying out sensitivity analysis, but are not included in the core MTFS numbers.

Other areas of Expenditure

2.11 The current budget includes an allowance for pay inflation of 2% each year. The pay award offered to the Unions by the employers under national pay bargaining for 2020/21 was for 2.75%. This has been agreed, but is only for one year. An equivalent increase each year would be consistent with Government aspirations (pre Covid-19) in relation to the target level for the National Living Wage (£10.50 by 2024). The forecasts have therefore been updated to be based on 2.75% per year. The annual additional cost of this (above the 2% previous assumption) is over £500k by 2024/25.

2.12 A separate allowance is budgeted for the payment of increments, which is based on the grade profile of current staff. As the allowances above reflect national pay bargaining, they do not affect the differentials between what North Herts pays compared with other Councils. This means that where the Council has posts that are difficult to recruit to, this position is unlikely to improve in terms of pure pay rewards. However the Council does implement and promote the other advantages of working for us. A more fundamental review of our pay scales could be carried out, but is likely to be a very significant cost pressure and the impact on being able to recruit is very uncertain. This will need to be kept under review in the context of our ability to recruit to vacant posts.

2.13 Employees of the Council are eligible to join the Local Government Pension (LGPS), indeed new employees are now auto-enrolled in to the pension scheme. The LGPS provides a pension that is based on average career earnings. For service up to the year 2014, the pension is based on final salary. The Council pays employer contributions in to the fund. Due to various factors, including pensioners living longer, the contributions that the Council has made in the past have not been sufficient to cover future liabilities. As a result the Council now pays a lump sum towards past service costs and a percentage of payroll costs to cover the estimated cost of the pensions being accrued by current employees. Every 3 years, an actuary undertakes a valuation of the pension fund to determine future contribution rates. This valuation was out during last year. The contribution rates are broadly in line with what they were before, with the only change being an inflationary increase in the lump sum payment each year. The budget set by Council in February included this change but it was not incorporated in to the last. The increased cost (compared with no inflationary increase) is £84k by 2023/24, and could rise further beyond that depending on the results of the next valuation.

2.14 Hertfordshire County Council (HCC) as Waste Disposal Authority have the power to direct where the Council sends its residual and green waste. At the moment, the Council delivers this waste to transfer locations in Hitchin and Cumberlow Greeen. Whilst this is not expected to change over the medium term period, there could be significant impacts over the long term. It is hoped that the County Council will build a Northern Transfer Station. This is expected to be broadly cost neutral for NHDC and provide long-term certainty.

2.15 Since the budget was set, Council have agreed two redundancies relating to the Chief Executive and the Corporate HR Manager. These will provide ongoing full-year savings from 2021/22 of £174k per year.

2.16 There has been discussion with the Council's waste contractor about the treatment of property growth and whether an offer by Urbaser that the first 5,000 properties (across East Herts and North Herts) could be absorbed within existing collection rounds. It is now looking like this can not be absorbed and this could result in additional costs of around £200k per year. Given the likelihood and costs involved this has been build in to the MTFS estimates.

2.17 In February 2019, Central Government released a consultation on their emerging Waste Strategy Various elements of this could have cost implications for the Council if they were introduced. The most significant of these proposed changes are:

- Introduce consistent waste collection across all areas of the Country (e.g. same materials in the same types of bins) and being stopped from charging for garden waste collections. The Council would expect significant 'new burdens' funding if this was introduced, particularly in relation to garden waste charging.
- Introduction of a Deposit Return Scheme, which would have an impact on what the Council would collect at the kerbside. It is likely to mean that the higher value recycling materials would be taken to deposit return locations, leaving the Council to collect the remainder. This would affect the net costs of disposal for recycling materials.
- Extended Producer Responsibility- places the financial burden for waste on those that are producing it at source. This in turn would affect how waste collection and disposal are funded. It would need to be determined how this affects the funding that the Council receives. It is likely to have an impact on the future of the AFM.

2.18 The current budget includes a number of items of time-limited expenditure. These need to remain time-limited and the MTFS makes no provision for these being extended on an ongoing basis. The only exceptions to this are items of cyclical expenditure i.e. 4 yearly housing stock review, biannual housing analysis, biannual district-wide survey and elections.

2.19 It is assumed that any other revenue growth will be fully funded by additional off-setting savings.

Other areas of Income

2.20 The Council currently receives payments from HCC under an arrangement known as the Alternative Financial Model (AFM). These payments are intended to provide an incentive for the Council to introduce measures that reduce residual waste. The MTFS includes adjustments for known changes to the AFM. But as this is a discretionary payment, it is likely that HCC will review it again in the future. As the majority of this funding is used to support core service delivery, this would create a cost pressure for the Council.

2.21 The take-up of the chargeable garden waste service has exceeded the original forecasts of 26%. The budget for 2020/21 is based on an estimated take-up of 52% and an annual charge of £40. In 2021/22 (with a full year of income) the Council would be estimated to generate an overall net surplus (after accounting for capital charges and overheads) at this level of take-up. Given that the £40 was set based on benchmarking against other Authorities to assess its reasonableness and was also subject to feedback through a consultation process, it is proposed to retain it at this level. But to take reasonable measures to reduce the surplus, no inflationary increases will be added. Any surplus will initially provide protection against the risks associated with providing the service, if required, and where appropriate be used against wider waste and environmental service costs. The extension to the subscription period due to Covid-19 means that the renewal point is now in Autumn. This may create a risk that take-up will be lower, at least initially.

Funding

2.22 Due to Covid-19 the introduction of a new Fairer Funding Formula and 75% Business Rates Retention have been delayed. They details of these will now be confirmed in 2021/22 for implementation from 2022/23. The timing of any Central Government spending review is also uncertain. This means that there is no certainty over the amount of funding that Local Government will receive in total, how this will be distributed across Authorities, and how risks and rewards for changes in Business Rates will work. It is therefore assumed that this will result in the same outcome as last year, in that the Business Rates baseline will increase with inflation and there will not be a negative Revenue Support Grant applied in 2021/22. The assumption is still that the equivalent of a negative RSG (i.e. reducing our funding by around £1m) will be applied as part of the fair funding formula and applied from 2022/23. As the Council is prudent and budgets for Business Rate income at the baseline level, at this stage there is not considered to be any significant risk from moving to 75% retention or the planned Business Rate reset.

2.23 It is possible that negative RSG could be applied in 2021/22 and therefore this will be considered when carrying out a sensitivity analysis.

2.24 Central Government also determine the extent to which Local Authorities can raise Council Tax, without the need for a Local Referendum. Last year this has allowed increases of up to 2% (or £5 for a band D if that is greater). For the Council the £5 increase is slightly greater. It is expected that the amount of Business Rate funding that Local Authorities can retain when the new system comes in will be based on an assumption that Councils have increased Council Tax by as much as they are able. The MTFS therefore makes this assumption that the Council will increase Council Tax by the maximum amount allowed without a referendum. In the forecasts this is assumed to be a £5 (band D equivalent) increase each year. It is possible that Central Government will provide more funding to Councils (particularly in response to Covid-19 ongoing pressures) by increasing the limit. This would then generate more funding for the Council, although some of this might be off-set by a further increased eligibility for CTRS.

2.25 New Homes Bonus is now being phased out and this is reflected in the MTFS forecasts. It was intended that the current system will be replaced with something else that better incentivise the building of new homes. There has been no information on what this might be, and therefore there is no assumption of any funding in relation to it.

Reserves and Resilience

2.26 The Council is required to retain a certain level of reserves. This is to provide protection against both known and unknown risks. This includes being able to react to changes in demand and any emergencies that may arise. The allowance of known risks is based on estimating the monetary impact of an event happening and applying a percentage to this based on the likelihood of it happening (high, medium or low). The allowance for unknown risks is based on 5% of net expenditure and 3% of budgeted income (excluding Housing Benefit). For 2020/21 this gave a minimum balance of £2.45m. In the light of Covid-19 and that support to date from Government has been limited, when a full review takes place, it will probably be necessary to increase the minimum balance. For the purpose of the MTFS an increase of £1m is assumed.

2.27 In response to the issues faced by Northamptonshire County Council, and concerns over the financial health of other Local Authorities, the Chartered Institute of Public Finance and Accountancy (CIPFA) have developed a financial resilience tool. This uses historic publicly available data to compare indicators of financial stress across similar Local Authorities. A full commentary on this was provided as part of the 2020/21 budget (agreed by Council in February). The overall message is that having reserves at the minimum level would mean that the Council was not resilient. Therefore in setting a medium term budget, the Council should plan to have breathing space above the minimum level.

2.28 As detailed in the Covid-19 report (presented to Cabinet in July), the revised forecast combined balance on the General Fund and Special Reserve at the end of 2020/21 is £8,867k. As detailed in 2.4, this can be added to by releasing £1,998k from the MHCLG Reserve. This takes the opening generally available balances up to £10,865k in total.

2.29 The forecasts over a five year period are shown in the table below.

£000	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**Cumulative**
Net expenditure brought forward	14,902	15,662	15,649	15,435	15,227	14,902
Ongoing base budget adjustments, including previously identified savings	467	57	-29	10	(167)	337
Net additional savings, service changes or income generation to be identified	(200)	(500)	(600)	(650)	(700)	(2,650)
Pay inflation and increments	483	400	400	400	400	2,083
Contractual inflation	169	300	300	325	325	1,419
Income inflation	(157)	(270)	(285)	(293)	(301)	(1,306)
Net Expenditure- to be funded from taxation and general grants	**15,662**	**15,649**	**15,435**	**15,227**	**14,784**	**14,784**
Council Tax	(12,002)	(12,252)	(12,501)	(12,751)	(13,001)	
Collection Fund deficit	200	0	0	0	0	
Revenue Support Grant	0	0	0	0	0	
Business Rates- including tariff adjustment	(2,780)	(1,677)	(1,711)	(1,745)	(1,780)	
New Homes Bonus	(350)	(131)	0	0	0	
Other	39	24	24	24	24	
Net funding position (use of reserves)	**769**	**1,613**	**1,247**	**755**	**27**	
Reserve balance b/f (General Fund and Special Rserve, including released MHCLG reserve)	10,865	10,096	8,482	7,235	6,480	
Reserve balance c/f	10,096	8,482	7,235	6,480	6,453	

2.30 The table above shows that balancing the budget by the end of 2025/26 would require the delivery of £2.65m of savings. Whilst the phasing of the savings shown would use up a lot of the available reserves (using £4.41m), they would still leave the Council above the recommended minimum. This phasing allows the Council to focus on recovery from Covid-19 during 2020/21(with a low value of additional savings) and then focus on longer-term budget planning in 2021/22. It is hoped and expected that during 2021/22 there will be more certainty over future funding, both in terms of Central Government funding and the actual impact on the Council Tax base.

2.31 Factoring in the sensitivities described in paragraph 2.23 and 2.9 in 2021/22, the position would be around £2.2m worse, and take the reserve balance at the end of the 2021/22 down to around £7.9m. If the expenditure pressures (described in 2.9) continued on a longer-term basis then the year end reserve balances would become; £5.2m at the end of 2022/23 and £2.9m at the end of 2023/24. This would then be below the recommended minimum. If it was evident that this was likely to happen then there might be a need for further cost reductions or income generation to be achieved to avoid the reserve balances falling below the recommended minimum.

2.32 Whilst not certain enough to be incorporated in the MTFS at this stage, the following positive outcomes are considered possible:

- Economic recovery and the adoption of a Local Plan could result in housing growth in later years, which could include some degree of catch-up.
- Government could provide additional short-term (which would improve reserve balances) and medium-term support for Covid-19
- Due to the support provided by Local Government to the pandemic, Government might allocate more ongoing funding so that the support could still be in place in future
- The new Business Rates system may provide the Council with sufficient certainty to factor growth in to its budget.
- The replacement for New Homes Bonus may provide some funding.

2.33 In taking the approach described above (and not focusing on achieving savings immediately), the following are necessary actions:

- Officers and Councillors will initially focus on identifying the relatively low value of savings required to be achieved in 2021/22.
- There is no provision for ongoing discretionary budget growth. Any new budget growth must be a reprioritisation of existing discretionary spend.
- A commitment to some form of full budget review during 2021/22. For example, this could take the form of a discretionary services review or be based more around the customer experience and journey. It is very likely that this will involve difficult decisions about the services that the Council continues to provide, and how it delivers them.
- A continued focus on income generation, but with the appreciation that in the current economic climate that this might provide limited returns. Also with the appreciation that the Council is forecasting to have a significantly lower level of reserves so may not be able to absorb short-term losses from more speculative opportunities.
- Officers will undertake regular monitoring and will notify if a change of approach is required. This could include the need for an emergency budget.
- That Council Tax will be increased by the maximum amount allowed without the need for a local referendum.

2.34 The Council currently has some capital reserves that it can use to fund its capital programme. This means that the revenue impact of capital investment is minimal as it is just the lost interest from treasury investments. Over the life of the MTFS the available capital resources will be diminished, particularly with spend on property investments. After this the cost of capital investment will be substantially higher as it will incorporate borrowing charges and Minimum Revenue Provision. Therefore all discretionary spend will be assessed on the assumption that capital funding costs will be incurred.

ANNEX 1 Budget Assumptions and Policies

Key Budget Assumptions

Inflation indices are reviewed on an annual basis and the forward budget projections amended accordingly. At this stage in the budget planning process, it is prudent to take a cautious approach and, in identifying the likely Council Tax requirement, the strategy focuses on the pressures on expenditure and assumes that income will rise in accordance with the determined policy. The figures presented in the MTFS financial projections appendices include the following assumptions in line with the current financial strategy

- Investment income is based on cashflow projections and a 1% return. This is significantly affected by the timing of expenditure in the capital programme.
- New Homes Bonus (NHB) funding is based on the remaining draft allocations that we have been notified of.
- Contract inflation in accordance with the individual contract terms.
- Pay inflation at an average of 2.75% per year.
- No allowance is made for general inflation on remaining expenditure. Although after allowing for salary and contractual inflation, the remaining amount is insignificant.
- Discretionary fees and charges income will be increased by CPI (Consumer Price Index) at November, plus 2%. This will be where it is legally possible and subject to a market impact assessment. This excludes parking (which is assumed to increase at 2%) and garden waste (no increase).
- The overall Council tax base figure will not increase.
- Council tax precept will be increased by the maximum amount allowed without the need for a local referendum.
- An assumed 99% collection rate for the purposes of calculating the Council tax base.
- An assumed 97% collection rate for Business Rates
- Any future changes to the local Council Tax Reduction Scheme will aim to have a cost neutral impact.
- A vacancy factor set at approximately 2.5% of salary budget to yield in the region of £300k is included in the base budget in each year.
- The Council will not subsidise areas which are the responsibility of another precepting body other than through a one-off match-funding arrangement where this is in the interests of the local Council tax payers.
- The potential impacts of Brexit are not reflected. The impacts of Covid-19 are only reflected to the extent mentioned.
- All assumptions are subject to further refinement during the budget process as more certain information becomes available.

Reviewing service provision

As part of further developing the Medium Term Financial Strategy, we continue to investigate the appropriateness of service subsidies and also the funding of functions which are the responsibility of other bodies. We recognise that we should give careful consideration to each individual case before reaching a decision and should apply the test: "should the Council Tax payer pay for all or part of a service or should it be the service user?" Many of the services we provide are subsidised and during the budget setting process, service managers are now asked to review the extent of the subsidies and are asked the following questions:

- Does the service support the Council's high level objectives and priorities?
- Is the service statutory or discretionary and, in either case, do we have discretion over the level at which it is provided?
- What proportion or sections of the population use the service?
- What is the level of subsidy?
- What is the reason for the service subsidy?
- Is there a strategy in place which determines the level of subsidy going forward?
- Is there the opportunity to make greater use of or secure external grants to reduce the subsidy?
- What impact would a reduction in the level of subsidy have on the service?
- How much income could be generated by a removal of the subsidy?
- Should any removal be subject to a phasing in process and if so over how many years?

Changes made to service delivery are required to include an equality analysis.

The Council will seek to manage all its assets cost-effectively, including opportunities to optimise income from the use of these assets, offering concessions (as appropriate and affordable) to encourage use by all members of our community in pursuit of our priorities. We will also continue to explore opportunities in regard to our assets, including long term leases which effectively constitute a transfer, whereby community groups take on responsibility for the operation and overall facility management.

The Local Government Act 2003 permits local authorities to trade with both public and private sector bodies. In broad terms authorities may not trade for profit unless that activity is performed through a company. The Localism Act 2012, while vesting a general power of competence, retains this requirement. Section 4 of the Localism Act restricts the ability of a local authority to carry out activities for a commercial purpose using the general power. Section 4 (2) provides that if a local authority undertakes a commercial activity in exercise of its general power it must only do so through a company (for this purpose this covers limited or "registered society" i.e. formerly co-operative, community benefit society or industrial provident society). Consequently, these provisions will be considered when exploring alternative service delivery models.

Risks and General Fund Level

Best Practice guidance issued by CIPFA states that the general fund balance may be between 5% and 100% of net expenditure. With an original estimate of net revenue expenditure of around £15 million, the minimum 5% balance is in the region of £750k.

The Bellwin scheme may be activated where an emergency or disaster involving destruction of or danger to life or property occurs and, as a result, a local authority incurs expenditure on, or in connection with, the taking of immediate action to safeguard life or property, or to prevent suffering or severe inconvenience, in their area or among its inhabitants. The scheme makes provision to reimburse the cost of local authority actions taken in the immediate phase of an emergency, not those taken as part of the recovery phase. Any claim is subject to a threshold (i.e. costs have to exceed this amount before a claim can be made) and for North Hertfordshire this is around £27k. So the need to potentially fund £27k should be borne in mind when setting a General Fund balance.

As the Council becomes more dependent on income, its net budget does not fully reflect the financial risks that it faces. So an additional 3% of budgeted income (excluding Housing Benefit) is also included as a component in determining the minimum General Fund level. This would provide an additional allocation of around 400k (based on income of around £13m).

In addition to the allowances above for non-specific unknown risks, an additional allowance is made for specific known risks. Specific risks are identified and classified as high, medium or low risk and allowance is made for a proportion of the risk value. For high risk items, 50% of the risk value, for medium risk, 25% of the risk value and for low risk items, 0%. This is regarded as an appropriate risk management approach to risk likelihood and value. When assessing these risks for 2021/22 there will be a need to reflect on the situation that is being faced during this year.

ANNEX 2 Roles and Responsibilities

The role of Councillors in this process is to:

- set vision and strategic direction
- agree the Council's high level objectives and priorities
- agree the specific projects to achieve the priorities
- agree the rolling MTFS including decisions on the time-frame to be covered, external influences to be considered and included, strategy for use of balances, assumptions regarding government support and the implications of doing so, income policy, capital strategy and setting indicative council tax levels for future years
- scrutinise proposals for funding prioritisation and de-prioritisation as set out by managers
- decide between options presented
- decide on options for increasing fees & charges where a proposed approach varies from that outlined in the income policy
- give due consideration to both the risks and opportunities of options as the council necessarily explores new avenues
- discuss savings suggestions and income generation proposals with relevant Officers.
- take a corporate overview of the budget position once decisions on individual prioritisation have been taken.
- set the level of Council Tax each year
- scrutinise and monitor the budget throughout the year

The role of all Officers is to:

- put forward suggestions for actions to deliver the objectives and new opportunities
- ensure that existing spend and new projects link to and deliver one (or more) of the Council's objectives
- manage services to deliver the actions in the plan within budget allocations
- explore alternative ways of delivering services, including assessment of risks and opportunities
- propose income generation and service transformation opportunities
- report on value for money and continuous improvement
- monitor the budget throughout the year and ensure spending is in line with policy requirements

The Senior Management Team and Leadership Team have the following roles:

- facilitates a critical review of existing expenditure. This involves reviewing the base position, challenging existing budget allocations and creating the ability to reallocate money to strategic priorities.
- reviews service areas in comparison to other authorities to determine opportunities for improvements and cost reductions, or to explain reasons for any differences.

- reviews bids for additional resources/ investments. All bids will be subject to detailed scrutiny before inclusion in the draft budget. The strategic priorities fund can be allocated by Leadership Team for short-term investments.

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Agenda Item 9

FINANCE AUDIT AND RISK COMMITTEE
7 September 2020

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: RISK MANAGEMENT UPDATE

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND IT

COUNCIL PRIORITY: BE A MORE WELCOMING AND INCLUSIVE COUNCIL / BUILD THRIVING AND RESILIENT COMMUNITIES / RESPOND TO CHALLENGES TO THE ENVIRONMENT / ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY / SUPPORT THE DELIVERY OF GOOD QUALITY AND AFFORDABLE HOMES

1. EXECUTIVE SUMMARY

To provide the Committee with an update on the Corporate risks and the proposed changes to these risks

2. RECOMMENDATIONS

2.1. That the Committee notes the reviews of the Corporate Risks for the quarter, namely

- The review of the Impact of Anti- Social Behaviour on Council Facilities Corporate risk with a reduction in the risk score from a 7 to a 5 and proposed Target score of 3.
- The review of the Novel Coronavirus (covid19) Corporate risk with a reduced score of 8.
- The New Corporate Risk, Covid19 – Leisure Management Contract with a proposed score of 8.

2.2 That the Committee recommend to Cabinet that the Route Optimisation of Collection Rounds Risk is archived.

3. REASONS FOR RECOMMENDATIONS

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

3.2. This Committee has responsibility to monitor the effective development and operation of Risk Management.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1. There are no alternative options that are applicable.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

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

6. FORWARD PLAN

6.1 This report contains a recommendation on a key Executive decision first notified on the Forward Plan on the 5 May 2020.

7. BACKGROUND

7.1. At the July meeting, the Committee noted the review of the Novel Coronavirus Covid19 Risk with an unchanged score of 9, the review of the Cyber Risks and Data Protection risk with an unchanged score of 8 and the Annual Report on Risk Management. The report was approved and referred on to Cabinet. The report was subsequently approved by Cabinet. The Annual Report was referred to Full Council in September.

7.2. At its meeting on 16 March 2020, the Committee deferred a recommendation to archive the Route Optimisation of Collection Rounds Risk. This was because the Committee wanted more information as to how the risk was being managed.

8. RELEVANT CONSIDERATIONS

8.1. The Corporate risks summarised in Table 1 have been reviewed and agreed by SMT. Members are able to view the current risk descriptions on Pentana, the Council's performance and risk management software.

Table 1: Draft Risk and Opportunities Matrix

The dates specified relate to the date that officers last reviewed the risk.
Risks that officers have reviewed since the last meeting have been given a direction of travel arrow.
Note that the previously displayed risk of "Sustainable Development", which combined two sub risks into one risk score, is now displayed as two separate risks relating to "National and Regional Planning Issues" and "Neighbouring Authorities". This is to reflect the corporate shift away from structuring the Risk Register into parent and sub risk entries.

Likelihood

3 High	**4**	**7** • Income Generation (02.06.20) ←→ • Sustainable Development - National and Regional Planning Issues (17.01.20)	**9** • Brexit (30.07.20) ←→ • Local Plan (17.01.20) • Managing the Council's Finances (17.02.20)
2 Medi um	**2**	**5** • Impact of Anti-Social Behaviour on Council Facilities (08.06.20) ↓ • Increased Homelessness (01.05.20) • Workforce Planning (15.05.20)	**8** • Cyber Risks (21.04.20) • Delivery of the Waste Collection and Street Cleansing Contract (28.01.20) • Sustainable Development - Neighbouring Authorities (17.01.20) • Novel Coronavirus - Covid-19 (06.07.20) ↓ • Covid19 – Leisure MT Contract (04.08.20) New
1 Low	**1** • Route Optimisation of Collection Rounds (17.02.20) - archiving postponed pending the provision of further information	**3**	**6** • External Factors Affecting the Future Provision of Waste Services (28.01.20)
	1 Low	**2 Medium**	**3 High**

Impact

8.2. At the Risk Management Group (RMG) on the 3 August, the Impact of Anti-Social Behaviour on Council Facilities Corporate risk was discussed. (Appendix A) The Group agreed to the reduction in the risk score from a 7 to a 5. Additional actions to target the hotspots have been planned, which once implemented will enable the Target risk score of 3. Progress is already being made and the situation will be kept under review, although the group agreed it was likely that we would soon be in a position where we couldn't do much more. Further feedback on their successful implementation will be required prior to archiving the risk entry.

8.3 The RMG received an overview of the recently reviewed Novel Coronavirus Covid19. (Appendix B) which now includes arrangements relating to the Recovery Phase. In view of the Director of Public Health Herts reports stating that we are heading down the curve both locally and nationally, it was agreed that the risk score should be reduced from a 9 to an 8. The NHDC Recovery Group has been established and the first meeting has taken place. Options for managing a potential second wave will be informed by relevant Central Government Guidance.

8.4 The RMG discussed the Service Risk for the Leisure Management Contract, which had been updated to reflect the Part 1 and Part 2 reports taken to Cabinet in July 2020 and a subsequent report to be presented to Council in September 2020 seeking approval to support Stevenage Leisure Ltd. Following a further discussion on promoting the risk entry to a Corporate Risk, the group agreed that it should be split into two separate risk entries, one relating to the significant risks associated with Covid-19 and the other relating to the previously recorded ongoing operational risks. (see Appendix C) The Covid-19 related risk entry is proposed as a new Corporate Risk, to sit alongside the existing "Novel Coronavirus (Covid-19)" Corporate Risk, in order to clearly highlight the significant risks to the contracts caused by the pandemic. The proposed Risk Score is 8.

8.5 The Service Manager for Waste and Recycling has provided further information in relation to the Route Optimisation of Collection Rounds Risk. She has confirmed that the route optimisation of rounds is complete and collection services are operating within normal expected parameters. Rounds complete each day and missed collections are at acceptable levels. The Performance Management Regime monitors missed collections, and this is reported to the Executive member monthly. Records of missed collection performance are also maintained on Pentana. The waste team is working with IT to develop mapping of collection routes and this data will soon be available on the intranet. Therefore, it seems that the work has been completed and appropriate risk mitigation measures are in place, therefore it is recommended that the risk is now archived.

9. LEGAL IMPLICATIONS

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

10. FINANCIAL IMPLICATIONS

10.1 There are no direct financial implications arising from this report. However, it should be noted that there is a separate Corporate risk relating to Managing the Councils Finances.

11. RISK IMPLICATIONS

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

12. EQUALITIES IMPLICATIONS

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

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

13. SOCIAL VALUE IMPLICATIONS

13.1. The Social Value Act and "go local" requirements 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

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

16. APPENDICES

16.1. Appendix A – The Impact of Anti-Social Behaviour on Council Facilities
Appendix B – Novel Coronavirus Covid19
Appendix C – Covid 19 – Leisure Management Contracts

17. CONTACT OFFICERS

17.1. Rachel Cooper, Controls, Risk & Performance Manager
rachel.cooper@north-herts.gov.uk; ext. 4606

Ian Couper, Service Director – Resources
Ian.couper@north-herts.gov.uk ext. 4243

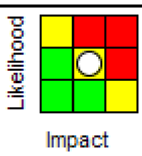
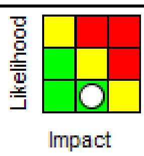
18. BACKGROUND PAPERS

18.1. The risks held on Pentana, the Councils Performance and Risk Management software.

Impact of Anti-Social Behaviour on Council Facilities

Generated on: 29 July 2020

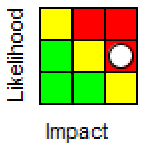
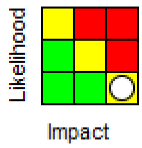
Risk Code	CR65	**Risk Title**	Impact of Anti-Social Behaviour on Council Facilities
Risk Owner	Ian Couper	**Updated By**	Ian Couper
Year Identified	2019	**Council Objective**	Build thriving and resilient communities
Risk Description	As a result of anti-social behaviour in or around Council facilities, there is a risk that: - Council facilities suffer from criminal damage - Customer use of facilities reduces, e.g. multi-storey car parks, toilets at Howard Park - Users of facilities experience verbal abuse and intimidation - Members of the public suffer personal injury - Staff, service users and local residents suffer distress This could lead to: - Loss of income - Additional expense to rectify resulting damage - An increase in the number of insurance claims - An increased number of complaints - Damage to the Council's reputation		
Opportunities	- The Council optimises the use of its facilities - Council facilities provide an attractive and safe environment for service users - Achievement of relevant budgeted income		
Consequences	- Loss of income - Additional costs - Poor publicity - Detrimental effect on staff, service users and local residents		
Work Completed	- Multi-storey car parks and Howard Park added to Police patrol plans. - Community Protection Manager sent a letter to all head teachers of secondary schools in Baldock, Hitchin and Letchworth regarding anti-social behaviour in multi-storey car parks (February 2019). - Decided to implement a temporary measure to close both multi-storey car parks early each day, with effect from 25 March 2019. - Updated plan for Careline staff who need to park out of hours. - Introduced additional patrols by Arena Security at multi-storey car parks. - 2019 North Hertfordshire Community Safety Partnership Survey highlighted that in general, people were satisfied that the district was a safe place to live. - NHDC officers (Grounds Maintenance and Community Safety) attended Howard Park key stakeholders meetings, which included the Police, to discuss issues and links with other incidents in Letchworth and to agree related actions. - Ensured that all current lighting at Howard Park is operating effectively. - Use of mobile camera at Howard Park to ensure effective coverage of area. - On 17 September 2019, the Service Director- Resources sent a global email providing guidance on dealing with incidents at the Letchworth Multi-Storey Car Park. - Police operation (as part of a multi-agency approach) resulted in 8 youths being charged with 28 offences in Letchworth. Dispersal orders and other initiatives are being used to ensure that this also avoids issues on an ongoing basis. - Arranged for the Park Ranger to be linked into the Letchworth town centre radio system to enable communication with shop owners and the Police if there are issues in the town (the system is also linked to the CCTV control room). - Pupils from Hitchin Boy's School observed being involved in ASB at Lairage. Visit to Hitchin Boy's School by the Community Safety Team to talk to the Assistant Head with responsibility for		

	Safeguarding. Said that they will take action, including staff patrols of the car parks (when possible). - Community Safety Team visit to Hitchin Police Station. Requested that Lairage Case kept open and PCSO has been assigned. - To deter anti-social behaviour around the BMX track, replaced wooden fencing with metal bow top fencing and reduced the height of shrubs and crown raised trees to improve visibility through the adjacent area. Damaged bins replaced/repaired, in view of the need for these for dog walkers. - CCTV cameras on the DCO covering the top floors of the multi-storey car park are now live and signs in place - Central logging of incidents to track the scale of any issues. - Encouraging any criminal incidents to be reported to the Police. - Community Safety Team: A meeting with Police ASB Officer, Crime Prevention and other officers took place to look into how to tackle the rough sleeping/drug using issues. - Considered use of CCTV at Lairage. Looked at cost, effectiveness and the behaviour that it might prevent. Considered that should implement other measures first.		
Ongoing Work	- Officer working group investigating longer term options for both multi-storey car parks. - Officer working group implementing agreed actions to help address identified issues. - Monitoring the impact of the temporary measure to close both multi-storey car parks early. - Review permanent cameras (with Heritage Foundation) and lighting at Howard Park to balance effectiveness and cost. - Will be installing an exit only door on the fire escape exits at Lairage. Relatively low cost solution that may deter the stair wells being used for rough sleeping and drug use. - To investigate use of speed bumps at both multi-storey car parks. To make the car parks less enticing for skateboarding. Will also reduce the speed of cars. Solutions found to date are not practical. - Police and the Community Safety Team are aware of issues with ASB and vandalism in the Burns Road area of Royston (BMX Track, Coombes Community Centre and Serby Avenue Play Area). This is leading to damage to the Community Centre (leased), BMX track (leased), bins and benches. The positive impact of recently implemented changes (replaced wooden fencing, reduced the height of shrubs and crown raised trees) will be monitored. If required, further replacement and repair of bins and benches will be carefully considered, in view of the likelihood of them being damaged again.		
Current Overall Risk Score	5		
Current Impact Score	2	**Current Likelihood Score**	2
Current Risk Matrix		**Target Risk Matrix**	
Date Reviewed	08-Jun-2020	**Next Review Date**	08-Oct-2020
Latest Note	19-Jun-2020 Risk reviewed by Ian Couper. The current Covid situation means that the current number of incidents has effectively been eliminated, but there is still a risk of incidents as lock-down is eased. In the areas identified for focus, the work that had been carried out was already having an effect in reducing incidents. Whilst the short-term risk is low likelihood and medium impact, the medium-term risk (as lock-down eases) is probably medium likelihood and medium impact. The target risk score is low likelihood and medium impact. There is unfortunately going to be a high likelihood of ongoing anti-social behaviours with a low impact, but reducing the risk of the behaviour that has a medium impact is considered to be more important. There will be a need to maintain a cross-District view to manage incidents in new locations or incidents that increase in impact in a certain location.		

Novel Coronavirus (Covid-19)

Generated on: 30 July 2020

Risk Code	CR68	Risk Title	Novel Coronavirus (Covid-19)
Risk Owner	Vaughan Watson	Updated By	Brian Simmonds
Year Identified	2020	Council Objective	Build thriving and resilient communities
Risk Description	On 11 March 2020, the World Health Organisation characterised Covid-19 as a pandemic and the UK has now seen its ‘first wave’ pass through. As a response, NHDC has since been running on a Business Continuity footing and not ‘business as usual’. Nationally, the Covid Alert Level has been reduced. The Hertfordshire Response State is 2 on a scale of 1-5 (5 being the worst case). East & North Herts Trust report that Covid-19 numbers have reduced considerably. As at 6 July 2020, only 5 positive patients and 19 queries. No deaths in the last 24 hours and mortuary at 50 per cent of business as usual capacity. Emergency Department attendance is now at 97 per cent of pre-Covid-19 level. The next peak may be regional rather than national. Data modelling will be used to detect any upsurge in cases across Hertfordshire and weekly monitoring should give an early indication. This virus creates the following risks for NHDC: - Significant numbers of Members, officers and contractor staff could become unavailable due to illness or quarantine guidelines; - Subsequent inability to deliver services and make decisions; - There could be a local outbreak requiring significant response leading to a localised lockdown in Hertfordshire; - Pressure on the Council's financial position, both in terms of income and impact upon reserves; - A detrimental effect on the Council's ability to deliver ‘normal’ services; - Contractors' inability to stay active or to continue service delivery; - Increasing work levels (Environmental Health inspections/contact tracing, ASB, Domestic Violence, Homelessness etc.).		
Opportunities	- Review and enhancement of current general resilience arrangements. - Improved home working capability. - Streamlined service delivery. - Changes implemented leading to ongoing efficiencies. - Use EU “Reopening High Streets Safely Fund” to support the recovery of town centres and other shopping areas.		
Consequences	- Negative impact on the general well-being of employees and Members. - Loss of informal staff contact, i.e. water cooler conversations that often ‘lubricate’ service delivery. - Increased pressure on employees not infected with the virus. - Potential inability to deliver statutory (and discretionary) services. - Decrease in service income compared with relevant budgets.		
Work Completed	- Localised outbreak plan created (awaits testing and exercising). - NHDC Resilience Plan and NHDC Pandemic Guidance Resilience Response Plan in place. - NHDC critical functions continually reviewed. - Hertfordshire NHS Pandemic Influenza Framework and the Pandemic Flu Checklist for Businesses in place. - Command structure in place led by Strategic Coordinating Group, with supporting cells. - Corporate communications increased; regular staff intranet / internet key guidance and information updates. - Booking system in place for small number of staff who need to access the DCO. - Staff Survey carried out on home working capability and those with childcare/caring responsibilities.		

	- Daily situation reports (SITREPs) to monitor the number of staff self-isolating and effect upon service provision; now moved to exception reporting. - Lockdown tool kit available to staff and intranet resources signposting to health welfare and debt support. - Government guidance and Public Health England campaigns implemented. - Business Continuity Incident Management Team established. - NHDC representatives on relevant LRF cells. - NHDC representation (officer and Member) on the countywide Covid-19 Recovery Coordinating Group. - In Hertfordshire, 104,698 food parcels delivered, 2,110 prescriptions delivered to shielding persons; this work has now been handed over to Community First. - Play areas have reopened. - Phased reopening of Leisure Centres has started. - Splash parks in Letchworth, Hitchin and Royston have reopened (with extra safety measures in place). Due to the nature of the water supply at Baldock, a decision has been taken that it is not safe to reopen. - Decision taken to not reopen outdoor pools due to mobilisation time. - Creation of a Project Board to manage the recovery process, including opportunities to build back better. - Regular monitoring of the financial impact, including providing information to lobby for additional funding from Government.		
Ongoing Work	- Working with partners in the Strategic Coordinating and Recovery groups to coordinate response and recovery. Situation reports to SCG weekly. - Business Continuity Incident Management Team reviewing service delivery and capability. - Ongoing updates on status of service delivery. - Emergency Planning officers keeping a watching brief. - Client officers working closely with our main contractors: -- Leisure – Officers from three councils working together for unified response and support. - Communications messages, as required. - Coronavirus intranet / internet pages updated as appropriate. - Ongoing support to staff, the majority of whom (an average of 270 per day) are continuing to work from home. - Demand on local domestic abuse support services has increased. - Continuing to find homeless provision for increased numbers due to requirements to provide accommodation (approximately 20 single placements in hotels compared with the usual 2/3). - Ongoing work of the Project Board for recovery. - Planning for second wave. - Testing and exercising of new Local outbreak plan being arranged. - Continuing to monitor the financial impact, including assessing medium term impacts and how it affects the Medium Term Financial Strategy. - Review of service Business Continuity Plans to reflect any Covid-19 limitations/ restrictions. - Managing the spend and application process for EU funding to try and ensure that it can all be recovered through the grant, but accepting some risk that this might not be possible.		
Current Overall Risk Score	8		
Current Impact Score	3	**Current Likelihood Score**	2
Current Risk Matrix		**Target Risk Matrix**	
Date Reviewed	06-Jul-2020	**Next Review Date**	06-Aug-2020

Latest Notes	08-Jul-2020 Risk reviewed and updated by Brian Simmonds on 6 July 2020. Risk Description updated to reflect the changing nature of the pandemic. Work Completed and Ongoing Work fields updated to reflect the revised Risk Description and recently completed/current risk management activities. Brian revisited the risk scores and the risk matrix, which he did not change for the following reasons: . The pandemic may be seen as reducing, but there is still no cure, no efficient treatment and no vaccine; . The risk of a second wave is very likely; . There is a chance that a second wave would have a greater impact than the first; . Official advice is that the next wave is likely to manifest itself as pockets or hotspots of infection across the country; . Although North Hertfordshire is in the lowest quartile (350 cases), Hertfordshire as a county is ranked as having the 8th highest case rate nationally (4,089); . There are signs that members of the public do not always adhere to social distancing guidance; . Lockdown rules are being relaxed.
	09-Jun-2020 The risk will continue to be monitored and updated to strip out risks which have already materialised and replace with detail of the current risks and arrangements relating to the recovery phase.
	29-May-2020 Risk reviewed by Brian Simmonds on 26 May 2020. Brian reduced the overall risk score from 9 to 8, by reducing the Likelihood score to Medium. The rationale for the change was: The Director of Public Health Herts reports we are definitely heading down the curve, locally and nationally, and case rates in the community and hospitals are slowing. In connection with care homes, we have reached a substantial peak and cases are now coming down, but at a different rate. It is too early to say if infection rates are ramping up, owing to the “liberal interpretation of lockdown release”. This will show over the next few days. Regionally, the R (Reinfection) rate is considered to be 0.71, and similar locally. Previous pandemics have been characterized by waves of activity spread over months. As the level of disease activity drops, a critical communications task will be to balance this information with the possibility of another wave. Pandemic waves can be separated by months and an immediate “at-ease” signal may be premature. Our NHDC Pandemic Plan deals with ‘Recovery’ whilst cautioning to prepare for another wave of infection. At present, we are planning the Recovery of NHDC services and maintaining awareness for the possibility of another pandemic wave.

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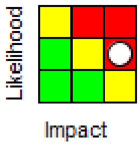
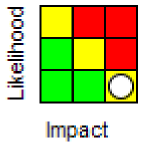
Covid-19 - Leisure Management Contracts

Generated on: 5 August 2020

Risk Code	CR68.1	**Risk Title**	Covid-19 - Leisure Management Contracts
Risk Owner	Vaughan Watson	**Updated By**	Louise Randall
Year Identified	2020	**Corporate Priority**	Respond to challenges to the environment
Risk Description	As a result of the Covid-19 pandemic and associated restrictions regarding service provision, there is a risk that: - There is further enforced temporary closure of all facilities, e.g. due to a second wave of the virus; - Customers may not return or have a negative reaction to the changes required to reopen, which could mean targets set out in recovery plans are not achieved; - The contractor becomes insolvent, potentially as a result of the above risks materialising or the withdrawal of another large client; - Alternative options for operating leisure facilities in the district will be required, e.g. delivered in-house or arms-length, or alternatively, leisure facilities could be closed permanently.		
Opportunities	- To ensure the current provision of leisure facilities is maintained and continues to meet the demands of local communities. - To investigate alternative options regarding service provision, to ensure that it remains cost effective.		
Consequences	- Decline in performance indicator. - May not obtain any 'profit share'. - Contractor might be unable to meet management fee obligations, as a result of enforced temporary closures. - Decision on future provision of leisure services and facilities.		
Work Completed	- Leisure contracts with SLL for RLC, HSC and Letchworth Leisure Management extended to 2023/24. - In March 2020, agreed suspension of all contractor payments to the Council for three months, in view of the temporary closure of all facilities (Covid-19 restrictions). - SLL maintained facilities during temporary closures. - In June 2020, Cabinet agreed to delegate to senior officers/Executive Members decision making regarding Leisure service provision, to protect the Council’s financial position and to ensure it prepared effectively for possible issues. - Decision made to not open the outdoor pools in 2020. - Cabinet agreed on 21 July 2020 the SLL Recovery Plan (the phased approach to reopening, which allows flexibility through delegation, aims to ensure business continuity for the leisure contracts and survival beyond the Covid-19 pandemic) and to support SLL using the Open Book approach, as recommended in the Procurement Policy Note PPN 02/20, including further financial support (affordability of financial support provided to SLL assessed on the basis of the cost of alternative outcomes and available short and medium-term resources).		
Ongoing Work	- Regular monitoring of contractor's credit score rating by Accounts. - Regular meetings held at director level to continually re-assess position, in light of further developments relating to the Covid-19 restrictions. - Regular meetings between SLL’s three largest clients (NHDC, SBC and CBC) and the Chief Executive and Operational Director of SLL to ensure a consistent approach, in particular around recovery. - Regular updates to Executive Members. - Open book accounting arrangements in place with the contractor, ensuring full financial transparency.		

	- Ongoing assessment of the options available to respond to the various scenarios. - Phased approach to reopening NHLC, HSC, Archers and RLC from 25 July 2020; Fearnhill Sports Centre to remain closed until September 2020. - Officers to continue working with SLL, as delivery of the recovery plan is very challenging and will require regular monitoring/review, and where necessary action will be taken to safeguard the financial position of operating our leisure facilities, whilst ensuring that operations continue to meet Covid-19 and other safety requirements. - Report to Council due to be presented in September 2020.		
Current Overall Risk Score	8		
Current Impact Score	3	**Current Likelihood Score**	2
Current Risk Matrix		**Target Risk Matrix**	
Date Reviewed	22-Jul-2020	**Next Review Date**	22-Oct-2020
Latest Notes	04-Aug-2020 On 3 August 2020, the Risk Management Group proposed that the “Covid-19 - Leisure Management Contracts” risk entry should be promoted to a new Corporate Risk, sitting alongside the existing Corporate Risk of “Novel Coronavirus (Covid-19)”.		
	23-Jul-2020 Risk reviewed and updated by Louise Randall on 22 July 2020. Although a phased approach to reopening facilities (apart from the outdoor pools) from 25 July 2020 has been agreed, there remains a risk that SLL may not be able to continue trading. However, the July 2020 Cabinet decision to provide financial support, which provides the best value response to the issues currently faced, aims to reduce the likelihood of this happening whilst enabling service provision to re-commence. The decision doesn't remove the associated risks entirely and implementation of the recovery plan will be challenging and will be subject to continual monitoring and review. However, if customer confidence and usage is high and there are no further lockdown restrictions imposed, the current assessment is that the recovery plan is likely to be delivered successfully. No change made to the risk score, as we are still in the very early stages of recovery. However, the current risk score is assessed on the proviso that Council approves the relevant recommendations at the September 2020 meeting. If the recommendations are not approved, the risk would be re-assessed as being high for both impact and likelihood.		

FINANCE, AUDIT AND RISK COMMITTEE
7 SEPTEMBER 2020

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: FIRST QUARTER REVENUE MONITORING 2020/21

REPORT OF THE SERVICE DIRECTOR - RESOURCES

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 forecasts for the financial year 2020/21, as at the end of the first quarter. The forecast variance is a £1.468million increase on the net working budget of £15.826million, with an ongoing impact in future years of a £58k increase and requests to carry forward budget totalling £128k to fund specific projects in 2021/22. Within these summary totals there are a number of budget areas with more significant variances, which are detailed and explained in table 3.

1.2. The report also provides an update on;
- the delivery of planned efficiencies (paragraph 8.5)
- the use of budget approved to be carried forward from 2019/20 (paragraph 8.6)
- performance against the four key corporate 'financial health' indicators (paras 8.7-8.8)
- the overall forecast funding position for the Council and factors that may affect this (paras 8.9 – 8.16)

2. RECOMMENDATIONS

2.1. That Cabinet note this report.

2.2. That Cabinet approves the changes to the 2020/21 General Fund budget, as identified in table 3 and paragraph 8.2, a £1.468million increase in net expenditure.

2.3. That Cabinet notes the changes to the 2021/22 General Fund budget, as identified in table 3 and paragraph 8.2, a total £186k increase in net expenditure. These will be incorporated in the draft revenue budget for 2021/22.

2.4. That Cabinet approves the write-off of debtor invoices totalling £17,442.64 raised to Hitchin Markets Limited, as explained in paragraphs 8.3 and 8.4.

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.

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 5th May 2020.

7. BACKGROUND

7.1. Council approved the revenue budget for 2020/21 of £15.136million in February 2020. As at quarter 1 the working budget has increased to £15.826million. 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 2020/21	15,136
Quarter 3 2019/20 Revenue Monitoring report – 2020/21 budget changes 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)	287
2019/20 Revenue Outturn Report – 2020/21 budget changes approved by Cabinet (June 2020)	403
Current Working Budget	**15,826**

7.2. The Council is managed under Service Directorates. Table 2 below confirms the current net direct resource allocation of each Service Directorate in 2020/21 and how this has changed from the original budget allocations approved by Council in February 2020.

Table 2 – Service Directorate Budget Allocations

Service Directorate	**Original Budget 2020/21**	**Changes approved at Q3 2019/20**	**Changes approved at Outturn 2019/20**	**Other Budget Transfers**	**Current Net Direct Working Budget**
	£k	**£k**	**£k**	**£k**	**£k**
Chief Executive	1,908	41	133	(178)	1,904
Commercialisation	(457)	(2)	0	30	(429)
Customers	3,419	14	137	96	3,666
Legal & Community	2,255	58	(1)	58	2,370
Place	4,416	0	35	14	4,465

Regulatory Services	1,089	175	99	(19)	1,344
Resources	2,506	1	0	(1)	2,506
TOTAL	**15,136**	**287**	**403**	**0**	**15,826**

7.3 In July, Cabinet received a report detailing the forecast financial implications of the Covid-19 pandemic. That report will also be considered by Full Council in September, as some of the decisions are constitutionally required to be made by Full Council. In a number of areas this report reflects what was included in that report, however there are some areas of difference. There is no forecast included in this report for the impact on the Council's leisure contract, as that is an element that requires a decision by Full Council and the values involved are commercially confidential. In some cases the forecast has been adjusted in light of more recent data, while there are some areas where the assumed duration of impact contained within this report is shorter than that detailed within the Covid-19 report. This is in areas where the impact is highly uncertain and is to avoid significant variations in individual budgets throughout the year. The commentary in table 3 highlights these differences.

8. RELEVANT CONSIDERATIONS

8.1. Service Managers are responsible for monitoring their expenditure and income against their working budget. Table 3 below highlights those areas where there are forecast to be differences. An explanation is provided for each of the most significant variances, which are generally more than £25k. The final column details if there is expected to be an impact on next year's (2021/22) budget:

Table 3 - Summary of significant variances

Budget Area	Working Budget £k	Forecast Outturn £k	Forecast Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2021/22 £k
Investment Interest Income	(300)	(185)	+115	Interest income returns on treasury investments have fallen significantly since the Bank of England Monetary Policy Committee decision to reduce the Bank Rate twice in March: initially from 0.75% to 0.25% on 11th March and then again to 0.1% on 19th March. This variance is a consequence of the Covid-19 pandemic and this forecast is in line with what was included in the Covid-19 impacts report.	0	0
Apprenticeship Scheme	114	103	(11)	Three 18-month apprentice posts are being funded in 2020/21 from the carry forward of unspent budget in 19/20. The £11k carry forward requested is to fund the period of the contracts falling in 2021/22.	11	0
Staff Payroll Costs – Pay Award 2020/21	0	95	+95	The assumption in the original budget estimates was a staff pay award for 20/21 of 2%. The final National Employer pay offer to Trade Unions in April was an increase to all salary points of 2.75%. The variance is therefore the additional resource required for the increase in pay	0	95

Budget Area	Working Budget £k	Forecast Outturn £k	Forecast Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2021/22 £k
				over and above the original 2% estimate.		
Senior Management Tier 1 Restructure	474	380	(94)	The estimated net saving from the restructure of senior management approved by Full Council in April and implemented from 18th July 2020.	0	(130)
Income from Hitchin Town Hall	(197)	(86)	+111	The closure of the Town Hall during the pandemic has resulted in no income generated in the first quarter of the year. The forecast outturn currently assumes that income levels will return to pre-pandemic levels in the second half of the year, as the confidence of the public increases and social distancing measures are further eased. The forecast in the Covid-19 impacts report assumed a longer recovery period and therefore an income shortfall of £154k.	0	0
Customers Directorate Staffing – Careline Service Overtime Costs	27	54	+27	Increase in expenditure is due to both a higher incidence of staff absence, in part due to COVID, and turnover in staff resulting in vacant posts, both of which have been covered through staff working overtime. The ongoing adjustment is to recognise the level of staff turnover apparent in recent years and the impact on overtime spend. The cost impact is particularly acute for Careline as a new member of staff requires training by an existing colleague, the hours of whom must then be backfilled either through overtime or the hiring of agency staff. The forecast in the Covid-19 impacts report assumed that £5k of this variance relates to Covid-19.	0	12
Outbound Mail	185	151	(34)	The renegotiation of the Outbound Mail contract, effective from 1st August 2020, has enabled the Council to realise further savings from the lower than originally estimated volumes of outbound post being processed by the contractor. The saving has been partially offset by an increase in Royal Mail charges. The ongoing saving is anticipated until the contract ends in November 2023.	0	(52)

Budget Area	Working Budget £k	Forecast Outturn £k	Forecast Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2021/22 £k
Land Charges Income	(164)	(122)	+42	Income in Quarter One was around half of that anticipated in the budget. While there has since been some increase in activity following the reopening of Estate Agents and the temporary reduction of stamp duty on residential properties from 8th July, the economic uncertainty caused by the pandemic is likely to mean that income levels will continue to fall short of the budget expectation. The forecast in the Covid-19 impacts report assumed a slightly longer recovery period and therefore an income shortfall of £60k.	0	0
Court Summons Income	(178)	(99)	+79	Statutory recovery action in relation to Council Tax & Business Rates has been suspended as part of the Council's response to the flu pandemic and therefore no court summons has been issued. Statutory recovery action is planned to recommence in September, but any court action will be dependent on court time being available. The 20/21 budget was reduced at Outturn 19/20 by £57k due to the closure of the court, hence the total impact on summons income from the pandemic is £136k. The forecast in the Covid-19 impacts report assumed a slightly shorter recovery period and therefore an income shortfall of £120k.	0	0
Benefit Overpayments Income	(488)	(325)	+163	Forecast income reduction is attributed to the ongoing transfer of working age benefit claimants to Universal Credit, which is administered by the DWP. Since October 2018 the Council has not accepted Housing Benefit claims from new working age claimants or from existing claimants whose circumstances have changed, as housing costs are now part of Universal Credit. The benefit caseload has since dropped by 28%, from 6,426 to 4,614, with the reduction in activity therefore helping to reduce the incidence and value of benefit overpayments. The apparent downturn in the economy and reduction in individual incomes, from associated job losses or furlough, has also contributed to reducing the occurrence of benefit overpayments and accelerated the migration to Universal Credit.	0	163

Budget Area	Working Budget £k	Forecast Outturn £k	Forecast Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2021/22 £k
District Elections Expenditure	117	0	(117)	The District Elections that were due to take place in May 2020 have been postponed until May 2021 due to COVID-19. There is no budget provision for District Elections in 2021/22 as no elections were due to take place in the next financial year. It is therefore requested that this budget is carried forward.	117	0
Comingled Recycling - Haulage and Processing Costs	381	501	+121	Higher than anticipated tonnages, possibly due to more people working from home, have increased the amount of haulage and processing required in quarter one. In April and May there was an additional charge per tonne for the processing of materials as the contractor faced additional costs to implement social distancing at the processing plant. Prices received for the sale of materials have also been lower than estimated in the budget, the income from which reduces the charge for haulage and processing. Such is the uncertainty as to the level of expenditure in the remaining three quarters, at this stage the forecast variance reflects the impact on costs from activity in the first quarter only. The forecast in the Covid-19 impacts report assumed a much longer recovery period and therefore a variance of between £325k and £575k.	0	0
Commingled Recycling – Recycling Credits Income	(459)	(503)	(44)	The higher volume of comingled material collected for recycling in quarter one, and hence diverted from landfill, has increased the corresponding estimated total of recycling credit income eligible from Hertfordshire County Council.	0	0
Trade Residual Waste Income	(985)	(895)	+90	Trade waste customers cancelled the service during the lockdown due to closure. The forecast currently assumes that income will return to the pre-pandemic level in the second half of the year as more businesses reopen as lockdown measures ease. The forecast in the Covid-19 impacts report assumed a quicker recovery period (i.e. impact in Q1 only) and therefore a variance of £43k.	0	0
Garden Waste Service Income	(1,007)	(821)	+186	Collection of Garden Waste was suspended from the end of March to the 11th of May. To compensate households for the pause in service, the current subscription period has been extended by two months until the end of September.	0	0

Budget Area	Working Budget £k	Forecast Outturn £k	Forecast Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2021/22 £k
				This reduces the proportion of income from renewals and new subscriptions for the next twelve-month subscription service period commencing in October chargeable to the General Fund in 20/21. The forecast in the Covid-19 impacts report assumed the same impact.		
Fearnhill Sports Hall – Contribution to operational costs	38	20	(18)	The school has undertaken significant work on the sports hall in recent years, which has reduced the annual contribution required from the Council to the cost of maintenance and repairs at the facility.	0	(18)
Housing Services – Temporary Accommodation	6	75	+69	At the beginning of the COVID-19 lockdown, the government instructed local housing authorities to accommodate all rough sleepers and those at threat of rough sleeping. It also confirmed that dormitory night shelter arrangements were unsafe. As a result, the Council's use of hotels has increased drastically, resulting in a large increase in the cost of temporary accommodation provision. There are still placements into hotels most days and although repeated efforts are made to resettle residents into their own accommodation, it has become apparent this will not be a quick process. The forecast in the Covid-19 impacts report assumed a much longer recovery period and therefore a variance of £200k.	0	0

Budget Area	Working Budget £k	Forecast Outturn £k	Forecast Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2021/22 £k
Car Parking Income Car Parking – Pay-As-You-Use Income	(1,936)	(1,527)	+409	The impact of the response to Covid-19 resulted in a major fall in parking income in the first quarter. The introduction of the lockdown, which forced most shops to shut and encouraged the public to stay at home, saw car parks and streets empty. During this time the Council also offered free parking to key workers.	0	0
Car Parking – Season Ticket Income	(310)	(236)	+74	The government furlough scheme and more businesses facilitating homeworking in response to the pandemic have contributed to the apparent reduction in the demand for car park season tickets.	0	0
Car Parking - PCN Income	(573)	(472)	+101	To protect staff and support residents during lock-down, during April and May PCNs were only issued in relation to unsafe parking and blue badge bay infringements. During early June reminders were put on vehicles that they should be paying for parking, and PCNs were issued as normal from 22nd June.	0	0
Total:	(2,819)	(2,235)	+584	The total of the significant parking impacts above is £584k. The forecast in the Covid-19 impacts report assumed a gradual recovery period and therefore a variance of up to £1.37m.	0	0
Resources Directorate Staffing Costs – Human Resources	339	314	(25)	Net saving anticipated from the reorganisation of the Human Resources Team following the deletion of the Corporate HR Manager post in September.	0	(50)
Insurance Premiums	175	188	+13	There have been increases across a number of policy renewals, indicative of both the general climate in the insurance market and the fact that there were a couple of substantial claims relating to Development Control submitted in the past year.	0	18
Covid-19 Community Grants Expenditure	0	150	150	The Council has developed a protocol for providing funding to community groups that are helping to mitigate the impact of Covid-19 on residents. The funding for this is coming from the Special Reserve. The overall focus is on provision of food and essentials, mental health support and domestic abuse support. This is an estimate of how much funding will be awarded and is in line with what was included within the Covid-19 impacts report.	0	0
Contribution from Special Reserve	0	(150)	(150)		0	0
Total of explained	**(4,741)**	**(3,390)**	**+1,351**		**128**	**38**

Budget Area	Working Budget £k	Forecast Outturn £k	Forecast Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2021/22 £k
variances						
Other minor balances	20,567	20,684	+117		0	20
Overall Total	**15,826**	**17,294**	**+1,468**		**128**	**58**

8.2. Cabinet are asked to approve the differences highlighted in the table above (a £1.468million increase in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to note the estimated impact on the 2021/22 budget (£186k increase in budget, which includes the request to carry forward £128k of budget from 2020/21 to 2021/22), which will be incorporated in to the 2021/22 budget setting process (recommendation 2.3).

8.3. The Council originally tendered the contract for Hitchin Market in 2008. Hitchin Markets Ltd (HML) were successful and have operated the contract since 1 August 2008. The contract has since been extended several times, with the current two-year extension expiring on 31 July 2020. Under the terms of the contract, HML are required to pay the Council a monthly management fee of £2,180. However, due to increasing financial difficulty attributed to a shift in shopping habits, a change in demand and a lack of new traders, HML have not paid the management fee since October 2019. The Council has since worked closely with the team at HML to overcome this period of financial difficulty, which was then exacerbated by the impact of Covid-19 and the closure of the market from 24th March to 2nd June 2020. While negotiations are ongoing with HML as to future management arrangements for Hitchin Market, it is requested that Cabinet approve the write-off of the invoiced debt accumulated to this point, a total of £17,442.64 for the period to May 2020 inclusive (recommendation 2.4), as it is considered that there is no prospect of collecting the amount owed.

8.4. While the write-off of debt raised is not charged directly to the General Fund, it does impact the calculation of the contribution required from the General Fund to the bad debt provision. In accordance with Council policy, a contribution to the bad debt provision was made from the General Fund in 2019/20 in respect of those HML invoices that remained unpaid after more than three months since being raised. At 31 March 2020 this applied to the monthly invoices for the period October to December 2019. This provision, of approximately £2k, therefore reduces the impact on the General Fund of the write-off requested in 2020/21 to around £15.5k. The forecast contribution to the bad debt provision has therefore been increased by the same amount accordingly, while the forecast income from the market has also been reduced by £4.4k for the period June-July 2020, as income invoices for the two months are not anticipated to be raised. Both adjustments are included in the ‘other minor variances’ total in table 3 above. The forecast for the remainder of the year and the ongoing income expectation from the market will be updated when management arrangements for the period beyond July 2020 are finalised and approved.

8.5. The original approved budget for 2020/21 (and therefore working budget) included efficiencies totalling £651k, which were agreed by Council in February 2020. Any under or over delivery of efficiencies will be picked up by any budget variances (table 3 above). However, there can be off-setting variances which mean that it is unclear whether the efficiency has been delivered. Where this is the case, this will be highlighted. The current forecast at the end of Quarter One is an underachievement of £115k. This relates to the additional investment interest income that is now forecast not to be achieved, as highlighted in table 3 above.

8.6. The working budget for 2020/21 includes budgets totalling £679k 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 2019/20 but was delayed into 2020/21. At quarter one, it is forecast that £11k of the total carried forward will not be spent in 2020/21. As highlighted in table 3 above, £11k of the amount carried forward in respect of the Apprenticeship Scheme will not be spent in 2020/21 and is requested to be carried forward again to fund the remaining costs in the next financial year of three 18-month apprentice posts that commenced around December 2019.

8.7. There are 4 key corporate 'financial health' indicators identified in relation to key sources of income for the Council. Table 4 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 they are forecast to match or exceed the budgeted level of income. An amber indicator means that there is a risk that they will not meet the budgeted level of income. A red indicator means that they will not meet the budgeted level of income. Currently one of the indicators is amber and three are red. Explanations for the three red indicators are included in table 3 above.

8.8. The amber indicator in relation to income from planning applications is to highlight that, while overall cash receipts have to date been in line with the budget expectation, the prevailing wider economic downturn may precipitate a reduction in planning activity in the remaining three quarters of the year. As such there is a risk that the income budget will not be achieved. This was highlighted in the Covid-19 financial impacts report where it was estimated that the shortfall would be around £230k.

Table 4 - Corporate financial health indicators

Indicator	Status	Original Budget £k	Actual to Date £k	Projected Outturn £k	Projected Variance £k
Planning Application Fees (including fees for pre-application advice)	Amber	(950)	(559)	(950)	0
Land Charges	Red	(164)	(19)	(122)	42
Car Parking Fees	Red	(1,936)	(63)	(1,527)	409
Parking Penalty Charge Notices	Red	(573)	(33)	(471)	102

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 2020 of the amount of New Homes Bonus it could expect to receive in 2020/21 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. At the end of 2019/20 there was a deficit on the NHDC share of the Council Tax Collection Fund of £82k and a surplus on the Business Rates Collection Fund of £365k.

8.11. Statute requires that Collection Fund income amounts chargeable to the General Fund in 2020/21 are those estimates prepared around the time of setting the budget for the year. The projected funding outturn in table 5 below has therefore been updated for the Council's estimate of Business Rates income in 20/21, as declared to central government in January. This has increased the funding total by £111k, as the budget expectation was based on the Council's business rates funding baseline need, as published annually by central government in the Local Government Finance Settlement, which is approximately the minimum that the Council can expect to retain.

8.12. Table 5 also includes the repayment in this financial year of both the estimated Business Rates Collection Fund deficit for 2019/20 of £293k and the £55k deficit anticipated on the Council Tax Collection Fund. As detailed and explained in the Revenue Outturn 2019/20 report, the difference between these estimated amounts and the final position at the end of 2019/20 (as noted in paragraph 8.8 above) will be incorporated in the calculation of the respective surplus/deficit position for 2020/21 and will therefore affect funding estimates for 2021/22.

8.13. In 2020/21 NHDC is a member of the Hertfordshire Business Rates Pool with five other Hertfordshire Local Authorities. The Pool was formed with the expectation that this should reduce the business rates levy amount otherwise payable at the end of the year, as has been the case in prior years. In 2018/19 the Council benefited from a pooling gain of £368k. Council approved in February the release of this pooling gain to the General Fund in 2020/21 and this is included in the funding total in table 5. Original estimates indicated a total pooling gain of £4.3m for the Hertfordshire Business Rates Pool in 2020/21, with NHDC calculated to benefit from a saving of around £700k, reducing the estimated levy from £1.1m (if outside the pool) to an estimated pool contribution required of £0.4m..

8.14. The amount of any levy payable is however dependent on the actual value of business rates collected in the year after adjusting for business rate reliefs, which are directly compensated for via grant from central government. The impact of the flu pandemic and the associated wider economic downturn means that there are a range of potential outcomes for pool member authorities in terms of the respective contribution required to the pool to meet the total levy payable, dependent on the incidence and severity of the reduction in rates income collected due to business closures. In the worst-case scenario, the reduction in rates collected means a 'pooling loss' is incurred, with the required contribution to the Pool meaning that the Council ultimately retains less business rates income than if it had remained outside of the pool.

In any case however, the Council's contribution to the pool in 2020/21 will be funded from grant held in reserve, and as such will have a net zero impact on the General Fund balance at the end of the year.

8.15. As mentioned above, the Council 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 March this year, NHDC received a grant allocation of £2.218m for reliefs in 2020/21. Further receipts of £8.418m are now anticipated following the additional reliefs introduced by government in response to the COVID-19 pandemic. We are holding the grant received in a reserve to fund the repayment of future deficits recorded. Some of the amount held in reserve will be used in 20/21 to fund the repayment to the Collection Fund of the estimated deficit for 2019/20, as shown in table 5.

8.16. The Council has received non-ringfenced grant funding in 2020/21 from Government of £1.502m in relation to the Covid-19 pandemic. Government has also announced (but not yet provided details of) an income guarantee. Some further details of this were provided in the Covid-19 impacts report, and an assumption that (depending on forecasts) the Council could receive up to £2m of financial support from this guarantee. Due to the varying periods that the impacts of Covid-19 assumed in table 3 above, it would understate the potential overall impact to show all the grant being applied at this stage. The total net General Fund impact detailed in table 3 above relating to Covid-19 impacts is £1.565m. The forecast net General Fund impact in the Covid-19 impacts report was around £1.158m. It would therefore seem appropriate to show £407k (£1.565m less £1.158m) of the grant funding received being applied. This brings the total impact roughly in line with what was included in the Covid-19 impacts report. This is shown in table 5 below.

8.17. Table 5 below summarises the impact on the General Fund balance of the position at Quarter One detailed in this report.

Table 5 – General Fund impact

	Working Budget £k	**Projected Outturn £k**	**Difference £k**
Brought Forward balance (1st April 2020)	**(9,378)**	**(9,378)**	**-**
Net Expenditure	15,826	17,294	1,468
Funding (Council Tax, Business Rates, NHB)	(15,465)	(15,576)	(111)
Contribution to Funding Equalisation Reserve	329	329	0
Contribution to Collection Fund	294	294	0
Funding from Reserves (including Business Rate Relief Grant)	(294)	(294)	0
Application of Covid-19 un-ringfenced grant funding	0	(407)	(407)
Carried Forward balance (31st March 2020)	**(8,688)**	**(7,738)**	**950**

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 £1,351k, and by the end of quarter one a total of £189k has come to fruition. The identified risks realised in the first quarter relate to;

- Recycling services. Increase in net cost due to the increased cost of haulage and processing of commingled recycling collected (as highlighted in table 3 above) - £120k.

- Usage of bed and breakfast accommodation for homeless households (as highlighted in table 3 above) - £69k.

Table 7 – Known financial risks

	£'000
Original allowance for known financial risks	**1,351**
Known financial risks realised in Quarter 1	(189)
Remaining allowance for known financial risks	**1,162**

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.

10. FINANCIAL IMPLICATIONS

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

11. RISK IMPLICATIONS

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

12. EQUALITIES IMPLICATIONS

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

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

13. SOCIAL VALUE IMPLICATIONS

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

14. 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

17.1. Antonio Ciampa, Accountancy Manager
antonio.ciampa@north-herts.gov.uk; ext 4566

17.2. Jodie Penfold, Group Accountant
jodie.penfold@north-herts.gov.uk; ext 4332

17.3. Ian Couper, Service Director – Resources
ian.couper@north-herts.gov.uk; ext 4243

17.4. Kerry Shorrocks, Corporate Human Resources Manager
kerry.shorrocks@north-herts.gov.uk; ext 4224

17.5. Isabelle Alajooz, Acting Legal Commercial Team Manager and Deputy Monitoring Officer
isabelle.alajooz@north-herts.gov.uk; ext 4346

17.6. Reuben Ayavoo, Policy and Community Engagement Manager
reuben.ayavoo@north-herts.gov.uk; ext 4212

18. BACKGROUND PAPERS

18.1. None.

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FINANCE, AUDIT AND RISK COMMITTEE
7 SEPTEMBER 2020

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: FIRST QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2020/21

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 To update Cabinet on progress with delivering the capital and treasury strategy for 2020/21, as at the end of June 2020.

1.2 To update Cabinet on the impact upon the approved capital programme for 2020/21 – 2029/30. The current estimate is a decrease in spend in 2020/21 of £0.107million and an increase in spend in future years of £0.296million. The most significant individual changes relate to £0.084M Replacement of access road off Bury Mead Road Hitchin, £0.067M additional IT Equipment incurred due to Covid-19 and reprofiling the budgets for Green Infrastructure Implementation £0.185M and structural repairs to the Lairage Multi-Storey Car Parks £0.111M.

1.3 To inform Cabinet of the Treasury Management activities in the first three months of 2020/21. The current forecast is that the amount of investment interest expected to be generated during the year is £0.185million. This is a decrease of £0.115M on the working budget.

2 RECOMMENDATIONS

2.1 That Cabinet notes the forecast expenditure of **£10.519million** in 2020/21 on the capital programme, paragraph 8.3 refers.

2.2 That Cabinet approves the adjustments to the capital programme for 2020/21 onwards as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2021/22 by **£0.296million.**

2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 3 paragraph 8.6 and the requirement to keep the capital programme under review for affordability.

2.4 Cabinet is asked to note the position of Treasury Management activity as at the end of June 2020.

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 5th May 2020.

7. BACKGROUND

7.1 In February 2020, Council approved the Integrated Capital and Treasury Strategy for 2020/21 to 2029/30. To be consistent with the strategy, the monitoring reports for Capital and Treasury are also integrated.

7.2 The Medium Term Financial Strategy for 2020 to 2025 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. 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 2020/21

8.2 The full capital programme is detailed in Appendix A and shows the revised costs to date, together with the expected spend from 2020/21 to 2029/30 and the funding source for each capital scheme.

8.3 Capital expenditure for 2020/21 is estimated to be **£10.519million**. This is a reduction of **£2.916million** on the forecast in the 2020/21 Investment Strategy (Capital and Treasury) Outturn report (reported to Cabinet on 23rd June 2020). The decrease in spend is largely due to re-profiling spend into future years. Table 1 below details the changes to the capital programme.

Table 1- Current Capital Estimates

	2020/21 £M	2021/22 £M	2022/23 to 2029/30 £M
Original Estimates approved by Full Council February 2020	**9.357**	**5.405**	**26.650**
Changes approved by Cabinet in 3rd Qrt 2019/20	3.801	0	**0**
Changes approved by Cabinet in 2019/20 Capital Outturn report	0.277	0	**0**
Revised Capital estimates at start of (2020/21)	**13.435**	**5.405**	**26.650**
Changes approved by Cabinet in Covid-19 Financial Impacts report 21/07/20	-2.809	1.713	1.096
Executive Member – Finance and I.T. approved additional Expenditure on 4 schemes	0.180	0	0
Changes at Q1	-0.287	0.296	0
Current Capital Estimates	**10.519**	**7.414**	**27.746**

8.4 Table 2 lists the schemes in the 2020/21 Capital Programme that will start or continue in 2021/22:

Table 2: Scheme Timetable Revision:
(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

Scheme	2020/21 Working Budget £'000	2020/21 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2021/22 onwards £'000
Green Infrastructure Implementation	185	0	-185	Given the delays to the Local Plan and officer workload in responding to Covid-19, it is envisaged spend will be delayed to 21/22.	185
Lairage Multi-Storey Structural Repairs	121	10	-111	Remedial works will be delayed due to ongoing monitoring and investigations	111

Scheme	2020/21 Working Budget £'000	2020/21 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2021/22 onwards £'000
				to ascertain the cause of movement cracks.	
Total Revision to Budget Profile			**-296**		**296**

8.5 There is also one minor change to the overall forecast cost of schemes in 2020/21 with the revised estimate being an increase of £0.009million.

8.6 Table 3 below shows how the Council will fund the 2020/21 capital programme.

Table 3: Funding the Capital Programme:

	2020/21 Balance at start of year £M	2020/21 Forecast Additions £M	2020/21 Forecast Funding Used £M	2020/21 Balance at end of year £M
Useable Capital Receipts and Set-aside Receipts	7.455	1.264	(7.153)	1.566
S106 receipts	[redacted]	[redacted]	(0.148)	[redacted]
Other third party grants and contributions	[redacted]	[redacted]	(0.048)	[redacted]
Planned Borrowing			(3.170)	
Total			**(10.519)**	

8.7 The availability of third party contributions and grants to fund capital investment is continuously sought in order to reduce pressure on the Council's available capital receipts and allow for further investment. Additional capital receipts are dependent on selling surplus land and buildings. Ensuring that the Council gets best value from the disposal of land and buildings can take a long time and therefore the amounts that might be received could be subject to change. This will be kept under review throughout the year. No substantial funds from land sales are forecast until 2021/22.

8.8 The Council's Capital Financing Requirement (CFR) at 31st March 2020 was negative £5.60 million. Should the Capital programme be fully spent in 20/21 there will be a potential need to borrow £3.2M, which will have an impact on the General Fund by way of a Minimum Revenue Provision (MRP) and interest costs (unless internal borrowing i.e. borrowing against revenue reserves / provisions). 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 2020/21

8.9 The Council invests its surplus cash in accordance with the Investment Strategy (see paragraph 4.2). This surplus cash is made up of capital funding balances, revenue general fund balance, revenue reserve balances and variations in cash due to the timing of receipts and payments. During the first quarter, the Council had an average investment balance of £41.2 million and invested this in accordance with the treasury and prudential indicators as set out in the Integrated Capital and Treasury Management Strategy and in compliance with the Treasury Management Practices. Officers can confirm that the approved investment limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2020. The £5 million limit on the Council's current account was exceeded during the quarter to ensure the Council had sufficient funds to pay Business Support Grants and to ensure that cash was available to respond more generally to the implications of Covid-19. The Chief Executive made an urgent decision on the 9th April to temporarily remove the limit on amounts held in the Council's current account to facilitate the grant payments. The current account limit of £5m has since been reinstated.

8.10 The Council generated £0.070M of interest during the first quarter of 2020/21. The average interest rate on all outstanding investments at the 30th June was 1.06%. Since a number of these investments were made, the Bank of England base rate has dropped to 0.1% and general market rates have followed. Therefore any new investments are yielding significantly less than this. The table in 8.12 shows one investment that was at 0.2% and rates have continued to decline since then with some banks offering 0% on deposits of up to 6 months. Based on current investments and forecasts of interest rates and cash balances for the remainder of the year, it is forecast that the Council will generate £0.185 million of interest over the whole of 2020/21.This is £0.115 million less than budgeted.

8.11 As at 30 June 2020 the split of investments was as shown in the table below. There were no investments with non-UK banks during the quarter:

Banks	5%
Building Societies	13%
Local Authorities	47%
Government	35%

8.12 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 30 June 2020. 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. As stated in paragraph 8.9, all investments have been made in accordance with the Investment Strategy.

Borrower	**Principal Invested £M**	**Interest Rate %**	**Credit Rating**	**Days to Maturity at 30 June**	**Historic Risk of Default %**
DMO	15.0	0.01	AA-	10	0.001
London Borough of Barking & Dagenham	2.0	0.75	AA-	19	0.002
Liverpool City Council	2.0	0.83	AA-	20	0.002
Lloyds Bank	1.0	1.25	A+	33	0.005
Surrey Heath Borough Council	3.0	0.9	AA-	41	0.004
London Borough of Sutton	2.0	0.3	AA-	60	0.005
North Lanarkshire Council	3.0	0.9	AA-	61	0.005
Nationwide Bldg Soc	1.0	0.2	A	75	0.011
Cherwell District Council	2.0	0.87	AA-	78	0.005
Medway Council	2.0	1.25	AA-	119	0.009
Lloyds Bank	1.0	1.1	A+	126	0.018
Newcastle Bldg Soc	1.0	1.17	*	132	0.058
Slough Borough Council	1.0	0.4	AA-	141	0.010
Darlington Bldg Soc	1.0	1.2	*	177	0.078
Marsden Bldg Society	1.5	1.6	*	190	0.083
Fife Council	1.0	0.4	AA-	207	0.014
Monmouthshire Bldg Soc	1.0	1.5	*	315	0.380
Slough Borough Council	2.0	1	AA-	320	0.022
	42.5	1.06			

* Unrated Building Societies Historic Risk of Default is based on a Fitch (a credit rating agency) rating of BBB.

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.

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 £4.058million higher than the originally budgeted £45.679million.

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 £1.0k 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. This may turn positive during this year if the capital programme is fully spent.

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 dependent 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 2020/21 onwards. For any individual new capital investment proposal of £50k or more, or affecting more than two wards, an equality analysis is required to be carried out. This will take place following agreement of the investment proposal.

13. SOCIAL VALUE IMPLICATIONS

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

14. 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 2020/21 onwards.
Appendix B - Treasury Management Update.

17. CONTACT OFFICERS

17.1 Report Writer – Dean Fury, Corporate Support Accountant, Tel 474509, Dean.fury@north-herts.gov.uk

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

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

Reuben Ayavoo, Policy and Community Engagement Manager, Tel 474212, email, Reuben.ayavoo@north-herts.gov.uk

18. BACKGROUND PAPERS

18.1 Investment Strategy (Integrated Capital and Treasury Strategy) https://democracy.north-herts.gov.uk/documents/s9835/Appendix%20A%20-%20Investment%20Strategy.pdf

								Funding					
Project	Service Directorate	2020/21 Funding £	2021/22 Funding £	2022/23 Funding £	2023/24 Funding £	2024/25 Funding £	2025/26 - 2029/20 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
40 KVA UPS Device or Battery Replacement	Customers	7,000	11,000	0	12,000			0	0	0	0	0	30,000
Access Burymean Road	Commercial	84,000	0	0	0			0	0	0	0	0	84,000
Additional PC's - Support Home Working/OAP	Customers	11,000	13,000	11,000	13,000	15,000	76,000	0	0	0	0	91,000	48,000
Additional Storage	Customers	40,000	0	28,000	0	18,000	86,000	0	0	0	0	104,000	68,000
Alternative to safeword tokens for staff/members working remotely	Customers	16,000	0	12,000	0	18,000	33,000	0	0	0	0	51,000	28,000
Avenue Park Splash Park	Place	0	0	0	70,000								70,000
Acquisition of Property Investments	Commercial	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	0	0	0	0	0	8,249,700	11,750,300
Back-up Diesel 40 KVA Generator (DCO)	Customers	0	0	0	25,000	0	30,000					30,000	25,000
Baldock Town Hall project	Legal and Community	48,800	0	0	0			0	0	0	0	0	48,800
Bancroft Lighting	Place	0	0	0	45,000			0	0	0	0	0	45,000
Bancroft & Priory Splash Pads	Place	0	0	0	0	35,000	0	0	0	0	0	35,000	0
Bancroft Recreation Ground, Hitchin, Multi Use Games Area (MUGA)	Place	19,400	0	0	0			0	0	0	0	0	19,400
Cabinet Switches - 4 Floors	Customers	0	18,000	0	0	18,000	18,000	0	0	0	0	54,000	0
Cadcorp Local Knowledge & Notice Board Software	Customers	5,400	0	0	0			0	0	0	200	0	5,200
CCTV at DCO & Hitchin Town Hall	Customers	15,000	0	0	15,000			0	0	0	0	0	30,000
Core Backbone Switch	Customers	17,200	0	0	0	35,000	40,000	0	0	0	0	75,000	17,200
Council property improvements following condition surveys	Resources	472,200	255,000	0	0			0	0	0	0	0	727,200
Cyber Attacks - Events Monitoring Software Solution	Customers	30,000	0	0	0			0	0	0	0	0	30,000
Cycle Strategy implementation (GAF)	Regulatory	0	278,000	0	0			0	278,000	0	0	0	0
Data Switch Upgrade	Customers	0	0	15,000	0	18,000	41,000	0	0	0	0	59,000	15,000
Decommissioning of Play Areas	Place	5,000	0	0	0			0	0	0	0	0	5,000
Dell Servers	Customers	65,000	0	0	0	70,000	75,000	0	0	0	0	145,000	65,000
DR Set-up	Customers	20,400	0	0	55,000	0	60,000	0	0	0	0	60,000	75,400
Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract	Customers	39,000	0	0	0			0	0	0	0	0	39,000
Email Encryption Software Solution	Customers	45,000	0	0	0			0	0	0	0	0	45,000
Energy efficiency measures	Resources	8,500	0	0	0			0	0	0	0	0	8,500
Football Goal Replacement Programme	Place	0	0	15,000	0			0	0	0	0	0	15,000
Green Infrastructure implementation (GAF)	Regulatory	0	185,000	0	0			0	185,000	0	0	0	0
Hitchin Swim Centre Boiler Replacement	Place	0	0	0	0	200,000	0	0	0	0	0	200,000	0
Hitchin Swim Centre Future Refurbishment	Place	0	0	0	0	0	905,000	0	0	0	0	905,000	0
Hitchin Swim Centre Indoor Pool Cover	Place	0	20,000	0	0			0	0	0	0	0	20,000
Hitchin Swim Centre Outdoor Pool Boiler Replacement	Place	40,000	0	0	40,000			0	0	0	0	0	80,000
Hitchin Swim Centre Reception Toilet Refurbishment	Place	0	0	30,000	0			0	0	0	0	0	30,000
Hitchin Town Hall Additional Bar & Glassware Infrastructure	Commercial	25,000	0	0	0			0	0	0	0	0	25,000
Hitchin Town Hall Sprung Floor Replacement	Commercial	75,000	0	0	0			0	0	0	0	0	75,000
Howard Gardens Splashpad	Place	0	0	33,000	0			0	0	0	0	0	33,000
Ickneild Way Cemetery Footpaths	Place	0	50,000	0	0			0	0	0	0	0	50,000
Installation of trial on-street charging (GAF)	Regulatory	0	50,000	0	0			0	50,000	0	0	0	0

								Funding					
Project	Service Directorate	2020/21 Funding £	2021/22 Funding £	2022/23 Funding £	2023/24 Funding £	2024/25 Funding £	2025/26 - 2029/20 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
Ivel Springs Footpaths	Place	0	0	10,000	0			0	0	0	0	0	10,000
John Barker Place, Hitchin	Regulatory	0	0	1,096,000	0			0	0	270,400	0	0	825,600
Lairage Multi-Storey Car Par - Structural wall repairs	Resources	10,000	110,700	0	0			0	0	0	0	0	120,700
Laptops - Refresh Programme	Customers	59,600	6,000	0	5,000	0	10,000	0	0	0	0	10,000	70,600
Leisure Condition Survey Enhancements	Place	87,000	0	39,000	140,000			0	0	0	0	0	266,000
Letchworth Multi-storey Car Park - parapet walls, soffit & decoration	Resources	133,800	0	0	0			0	0	0	0	0	133,800
Letchworth multi-storey car park - lighting	Resources	18,000	0	0	0			0	0	0	0	0	18,000
Letchworth Outdoor Pool Boiler Replacement	Place	40,000	0	0	40,000			0	0	0	0	0	80,000
Microsoft Enterprise Software Assurance	Customers	0	0	390,000	0	0	888,000	0	0	0	0	888,000	390,000
Mrs Howard Hall Replacement Boiler & Windows	Resources	63,000	0	0	0			0	0	0	0	0	63,000
Mobile Device Management Software	Customers	18,000	0	0	0	18,000	0	0	0	0	0	18,000	18,000
Museum Storage Solution	Commercial	100,000	1,100,000	0	0			0	0	0	0	630,000	570,000
New Blade Enclosure	Customers	32,000	0	0	0	40,000	52,000	0	0	0	0	92,000	32,000
Newmarket Road Royston Skatepark & Access	Place	0	0	0	60,000			0	0	0	0	0	60,000
NH Museum & Community Facility	Commercial	48,300	0	0	0			48,300	0	0	0	0	0
NH Museum Platform Lift Solutions	Commercial	40,000	0	0	0			0	0	0	0	0	40,000
NHLC Boiler Replacement	Place	0	200,000	0	0			0	0	0	0	0	200,000
NHLC Dryside Changing Area	Place	0	0	100,000	0			0	0	0	0	0	100,000
NHLC Interactive Water Feature	Place	0	0	0	0	0	120,000	0	0	0	0	120,000	0
NHLC Pool Flume Replacement	Place	0	0	0	0	0	150,000	0	0	0	0	150,000	0
NHLC Reception Toilet Refurbishment	Place	0	0	30,000	0			0	0	0	0	0	30,000
NHLC Refurbish Gym Floor	Place	0	50,000	0	0			0	0	0	0	0	50,000
NHLC Refurbishment of Gym Members Changing Rooms	Place	200,000	0	0	0			0	0	0	0	0	200,000
NHLC Replace Circulation Pipework	Place	58,700	0	0	0			0	0	0	0	0	58,700
NHLC Sauna Steam Refurbishment	Place	0	0	0	250,000			0	0	0	0	0	250,000
Northern Transfer Station	Place	0	0	0	0	1,600,000	0	0	0	0	0	1,600,000	0
Norton Common Footpaths	Place	0	0	0	10,000			0	0	0	0	0	10,000
Norton Common Wheeled Sports improvements	Place	7,100	0	0	0			0	0	7,100	0	0	0
Off Street Car Parks resurfacing and enhancement	Resources	30,000	0	47,100	0			0	0	0	0	0	77,100
Oughtonhead Common Footpaths	Place	0	0	0	20,000			0	0	0	0	0	20,000
Parking Charging, Payments & Management	Regulatory	0	235,000	0	0			0	0	0	0	0	235,000
PC's - Refresh Programme	Customers	30,500	17,000	17,000	17,000	23,000	108,000	0	0	0	0	131,000	81,500
Playground Renovation District Wide	Place	0	180,000	180,000	180,000	180,000	900,000	0	0	0	0	1,080,000	540,000
Private Sector Grants	Regulatory	60,000	60,000	60,000	60,000	60,000	300,000	0	0	0	0	0	600,000
Provide housing at market rents.	Commercial	2,976,700	0	0	0			0	0	0	0	0	2,976,700
Ransoms Rec Footpaths, Gates and Railing	Place	0	0	10,000	20,000			0	0	0	0	0	30,000
Refurbishment and improvement of community facilities	Legal and Community	522,900	0	0	0			0	0	0	0	0	522,900
Refurbishment of lifts at Lairage Car Park	Resources	359,300	0	0	0			0	0	0	0	0	359,300
Renovate play area Howard Park, Letchworth	Place	75,000	0	0	0			0	0	0	0	0	75,000
Renovate play area King George V Recreation Ground, Hitchin	Place	800	0	0	0			0	0	0	0	0	800

Project	Service Directorate	2020/21 Funding £	2021/22 Funding £	2022/23 Funding £	2023/24 Funding £	2024/25 Funding £	2025/26 - 2029/20 Funding £	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
Renovate play area, District Park, Gt. Ashby	Place	800	0	0	0			0	0	0	0	0	800
Replace and enhance lighting at St Mary's Car Park	Resources	60,000	0	0	0			0	0	0	0	0	60,000
Replace items of play equipment Holroyd Cres, Baldock	Place	10,000	0	0	0			0	0	0	0	0	10,000
Replace items of play equipment Wilbury Recreation Ground, Letchworth	Place	10,000	0	0	0			0	0	0	0	0	10,000
Replacement SAN	Customers	110,000	0	0	0	115,000	120,000	0	0	0	0	235,000	110,000
Royston Leisure Centre extension	Place	0	0	1,000,000	0			0	0	0	0	0	1,000,000
Royston Leisure Centre Changing Village Refurbishment	Place	0	0	225,000	0			0	0	0	0	0	225,000
Royston Leisure Centre Dry Side Toilet Refurbishment	Place	0	0	30,000	0			0	0	0	0	0	30,000
Royston Leisure Centre Future Refurbishment	Place	0	0	0	0	0	380,000	0	0	0	0	380,000	0
Royston Leisure Centre Members Changing Refurbishment	Place	0	0	0	0	150,000	0	0	0	0	0	150,000	0
S106 Projects	Various	128,800	0	0	0			0	0	128,800	0	0	0
Security - Firewalls	Customers	14,000	0	14,000	0	16,000	36,000	0	0	0	0	52,000	28,000
St Johns Cemetery Footpath	Place	10,000	0	0	0	30,000	0	0	0	0	0	40,000	0
Tablets - Android Devices	Customers	12,900	15,000	18,000	12,000	17,000	73,000	0	0	0	0	90,000	57,900
Telephony system	Customers	10,600	0	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
Voice Recorders Careline	Customers	28,500	0	0	0			0	0	0	0	0	28,500
Walsworth Common Pavilion - contribution to scheme	Place	0	300,000	0	0			250,000	0	37,000	0	0	13,000
Walsworth Common Pitch Improvements	Place	18,900	0	0	0			0	0	11,700	0	0	7,200
Waste and Street Cleansing Vehicles	Place	0	0	0	0	0	4,000,000	0	0	0	0	4,000,000	0
Weston Hills LNR Footpath Renovation	Place	0	0	20,000	0			0	0	0	0	0	20,000
Wilbury Hills Cemetery Footpaths	Place	10,000	10,000	0	10,000	10,000	30,000	0	0	0	0	70,000	0
WiFi Upgrades for DCO & Hitchin Town Hall	Customers	35,000	0	0	0		0	0	0	0	0	0	35,000
		10,519,100	**7,413,700**	**7,430,100**	**5,099,000**	**6,686,000**	**8,531,000**	**298,300**	**763,000**	**455,000**	**200**	**19,794,700**	**24,367,700**

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Treasury Management Update

Quarter Ended 30 June 2020

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Treasury Management Update

Quarter Ended 30 June 2020

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

1. Economic Background

UK. Economic growth 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus outbreak. The overall growth rate in quarter 1 was -2.2%, -1.7% y/y. However, the main fall in growth did not occur until April when it came in at -24.5% y/y after the closedown of whole sections of the economy. What is uncertain, however, is the extent of the damage that will have been done to businesses by the end of the lockdown period, how consumer confidence and behaviour may be impacted afterwards, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover to what was formerly regarded as normality. However, some changes during lockdown are likely to be long lasting e.g. a shift to online purchasing, working from home, etc. The lockdown has also had a sharp effect in depressing expenditure by consumers which means their level of savings have increased and debt has fallen. This could provide fuel for a potential surge in consumer expenditure once some degree of normality returns.

Although the UK left the EU on 31 January 2020, we still have much uncertainty as to whether there will be a reasonable trade deal achieved by the end of 2020. At the end of June, the UK government rejected extending the transition period beyond 31 December 2020. This has increased the chances of a no-deal **Brexit.** However, the most likely outcome is expected to be a slim deal on trade in order to minimise as much disruption as possible. However, uncertainty is likely to prevail until the deadline date which will act as a drag on recovery.

After the Monetary Policy Committee left **Bank Rate** unchanged at 0.75% in January 2020, the onset of the coronavirus epidemic in March forced it into making two emergency cuts in Bank Rate first to 0.25% and then to 0.10%. These cuts were accompanied by an increase **in quantitative easing (QE),** essentially the purchases of gilts (mainly) by the Bank of England of £200bn. In June, the MPC decided to add a further £100bn of QE purchases of gilts, but to be implemented over an extended period to the end of the year. The total stock of QE purchases will then amount to £745bn. It is not currently thought likely that the MPC would go as far as to cut Bank Rate into negative territory, although the Governor of the Bank of England has said all policy measures will be considered. The Governor also recently commented about an eventual tightening in monetary policy – namely that he favours unwinding QE before raising interest rates. Some forecasters think this could be as far away as five years.

The Government and the Bank were also very concerned to **stop people losing their jobs** during this lockdown period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months to the end of June while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lockdown period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. The furlough scheme was subsequently extended for another three months to October, but with employers having to take on graduated increases in paying for employees during that period. The Bank of England expects the unemployment rate to double to 8%.

The Government measures to support jobs and businesses will result in a huge increase in the annual budget deficit for the current year, from about 2% to nearly 17%. **The ratio of debt to GDP is also likely to increase from 80% to around 105%.** In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lockdown is ended. Economic statistics during June were giving a preliminary indication that the economy was recovering faster than previously expected. However, it may be a considerable time before economic activity recovers fully to its previous level.

Inflation. The annual inflation rate dropped to 0.5% in May from 0.8% in April and could reach zero by the end of the year. Inflation rising over 2% is unlikely to be an issue for the MPC over the next two years as the world economy will be heading into a recession; this has caused a glut in the supply of oil which initially fell sharply in price, although the price has recovered somewhat more recently. Other UK domestic prices will also be under downward pressure; wage inflation was already on a downward path over the last half year and is likely to continue that trend in the current environment where unemployment will be rising significantly. In May's Monetary Policy Report, the Bank of England predicted that inflation would hit their 2% target by 2022. This was in the context of its forecast that GDP would rise by 3% in 2022 after a recovery during 2021. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

USA. Growth in quarter 1 of 2020 fell by an annualised 5.0% and will fall sharply in quarter 2. Once coronavirus started to impact the US in a big way, the Fed took decisive action by cutting rates twice by 0.50%, and then 1.00%, in March, all the way down to 0.00 – 0.25%. Near the end of March, Congress agreed a $2trn stimulus package (worth about 10% of GDP) and new lending facilities announced by the Fed which could channel up to $6trn in temporary financing to consumers and firms over the coming months. Nearly half of the first figure is made up of permanent fiscal transfers to households and firms, including cash payments of $1,200 to individuals.

The loans for small businesses, which convert into grants if firms use them to maintain their payroll, will cost $367bn and 100% of the cost of lost wages for four months will also be covered. In addition there was $500bn of funding from the Treasury's Exchange Stabilization Fund which will provide loans for hard-hit industries, including $50bn for airlines.

Non-farm payrolls unexpectedly increased by 2.5 million jobs in May, beating market expectations of an 8 million fall, and after declining by a record 20.7 million in April. The figures suggest that the economic recovery in the US may happen much faster than initially expected. Some states started reopening in mid-May after a two-month shutdown but a few have had to reimpose localised lockdowns since then.

EUROZONE. The Eurozone economy shrank by 3.6% on quarter in the first three months of 2020. So far, the ECB has been by far the most important institution in helping to contain the impact of coronavirus and the crisis on financial markets. Since 12th March, it has implemented a range of new policies including providing additional cheap loans for commercial banks and easing capital requirements for the banking sector. But most importantly, the ECB has stepped up and reformed its asset purchase programmes. So far, it has increased its planned asset purchases for this year by €1,470bn on top of the €20bn per month which it was already committed to. The new purchases consist of an additional €120bn within the existing Public Sector Purchase Programme (PSPP), and €1,350bn in the Pandemic Emergency Purchase Programme (PEPP). At its 4 June monetary policy meeting, the ECB Governing Council also committed to continue net asset purchases under the PEPP until at least the end of June 2021 and to continue to reinvest maturing principal payments under the PEPP until at least end-2022. It has also made clear that it would not hesitate to top up PEPP as much as needed to contain the risk of a crisis.

Just as important as the size of the PEPP is its flexibility. Whereas previous asset purchase programmes adhered to strict issuer limits, the PEPP was designed to be flexible across "time, asset classes and jurisdictions". This means that the ECB can act in the interests of the euro-zone as a whole rather than having to treat each national bond market equally. However, while this overall programme will provide protection over the next year or so, some vulnerable countries, particularly Italy, already started the crisis with a high level of debt to GDP and the crisis will make that level even worse at the same time as GDP growth prospects will have worsened. This leaves a big question over 'what happens after then when financial markets will be concerned that those debt levels are unsustainable?'

What is currently missing is a major coordinated EU response of fiscal action by all national governments to protect jobs, support businesses directly and promote economic growth by expanding government expenditure on e.g. infrastructure. The EU's recently-proposed rescue fund, (officially designated "Next Generation EU"), is a major first step towards financial integration in the EU. However, it is striking just how small this package is as the proposed €500 billion of grants amount to about 0.6% of average annual euro-zone GDP (over the seven-year budget period). It will therefore supply relatively little support to the weaker and more vulnerable countries within the EU. This has therefore left individual national governments to implement a patchwork of support measures within each country. This shows up how far away the EU is from being an effective fiscal union.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium-term risks have also been increasing. The major feature of 2019 was the trade war with the US. However, this has been eclipsed by being the first country to be hit by the coronavirus outbreak; this resulted in a lockdown of the country and a major contraction of economic activity in February-March 2020. The Chinese economy shrank 6.8% y/y in Q1 2020, following 6% y/y growth in Q4 of 2019. Ongoing economic issues remain, in needing to make major progress to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems. The post Covid government measures to stimulate more infrastructure investment are likely to result in an increase in inefficient low reward investment.

JAPAN has been struggling to stimulate consistent significant GDP growth for years and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. Japan appears to have escaped the worst effects of the virus - as yet.

WORLD GROWTH. The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019. This year, coronavirus is the inevitable big issue which is going to sweep around most countries in the world and have a major impact in causing a world recession in growth in 2020.

2. Interest Rate Forecast

The Council's treasury advisor, Link Group, provided the following forecast on 31 March 2020.

Link Asset Services Interest Rate View	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

The above table is based on PWLB certainty rates – gilt yields plus 180bps.

Uncertainty over Brexit caused the MPC to leave Bank Rate unchanged during 2019 and at its January 2020 meeting. However, since then the coronavirus outbreak has transformed the economic landscape: in March, the MPC took emergency action twice to cut Bank Rate first to 0.25%, and then to 0.10%. It is now unlikely to rise for the next two years pending a protracted recovery of the economy from this huge set back.

Our central assumption is that there will be some form of muddle through agreement on a reasonable form of Brexit trade deal but the coronavirus outbreak could affect the timing of reaching a deal. As there is so much uncertainty around the impact of, and pace of recovery from this outbreak, the above forecasts currently only cover two years, not three as provided in the past.

GILT YIELDS / PWLB RATES. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have therefore seen, over the last year, many bond yields up to 10 years in the Eurozone turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a falling trend during the last year up until the coronavirus crisis hit western economies. Since then, we have seen gilt yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies and moved cash into safehaven assets i.e. government bonds. However, major western central banks started massive quantitative easing purchases of government bonds which has acted to maintain downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds; in normal times this would have caused bond yields to rise sharply. At the close of the day on 30 June, all gilt yields from 1 to 5 years were slightly negative while even 25-year yields were at only 0.71 and 50 year at 0.54%. Equity markets have enjoyed a rebound since the lows of March as confidence has started to return among investors that the worst is over and recovery is now on the way.

However, HM Treasury imposed two changes of **margins over gilt yields for PWLB rates** in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then at least partially reversed for some forms of borrowing on 11 March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4 June but the date has since been put back to 31 July. It is clear that the Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)

- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

As the interest forecast table for PWLB certainty rates (gilts plus 180bps) above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020-21.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2020/21, which includes the Annual Investment Strategy, was approved by the Council on 6th February 2020. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 24 months.

Creditworthiness.

Although the credit rating agencies changed their outlook on many UK banks from stable to negative outlook during this quarter, due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of UK banks.

Although CDS prices, (these are market indicators of credit risk), for UK banks spiked upwards at the end of March due to the liquidity crisis throughout financial markets, those CDS prices have returned to more average levels since then.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2020. The £5 million limit on the Council's current account was exceeded during the quarter to ensure the Council had sufficient funds to pay the Business Rate Support Grants.

The average level of funds available for investment purposes during the quarter was **£41.2m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds **£20.5m** core cash balances for investment purposes (i.e. funds available for more than one year). The investment portfolio yield for the first three months of the year was 0.68%. This is the weighted average rate of interest earned on investments held by the Council between 1 April and 30 June. The 1.06% average interest rate shown in the table below is the weighted average rate of interest on outstanding investments on 30 June.

Investments at 30 June 2020

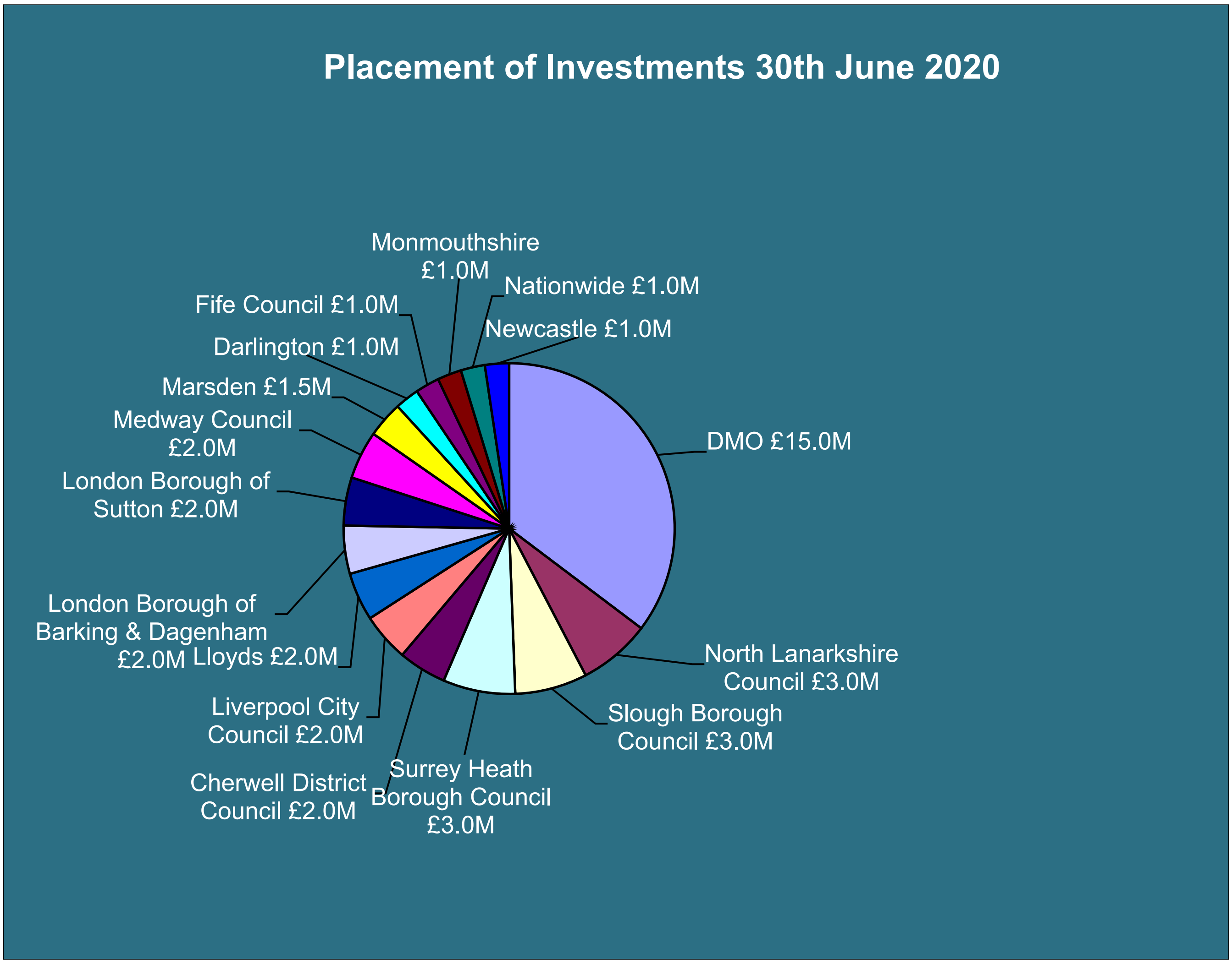
	Amount £	Average Interest Rate %
Managed By NHDC		
Banks	2,000,000	1.12
Building Societies	1,000,000	0.20
Local Authorities	20,000,000	0.90
Government	15,000,000	0.01
NHDC Total	**38,000,000**	**0.88**
Managed by Tradition		
Building Societies	4,500,000	1.45
Tradition Total	**4,500,000**	**1.45**
TOTAL	**42,500,000**	**1.06**

In percentage terms, this equates to:

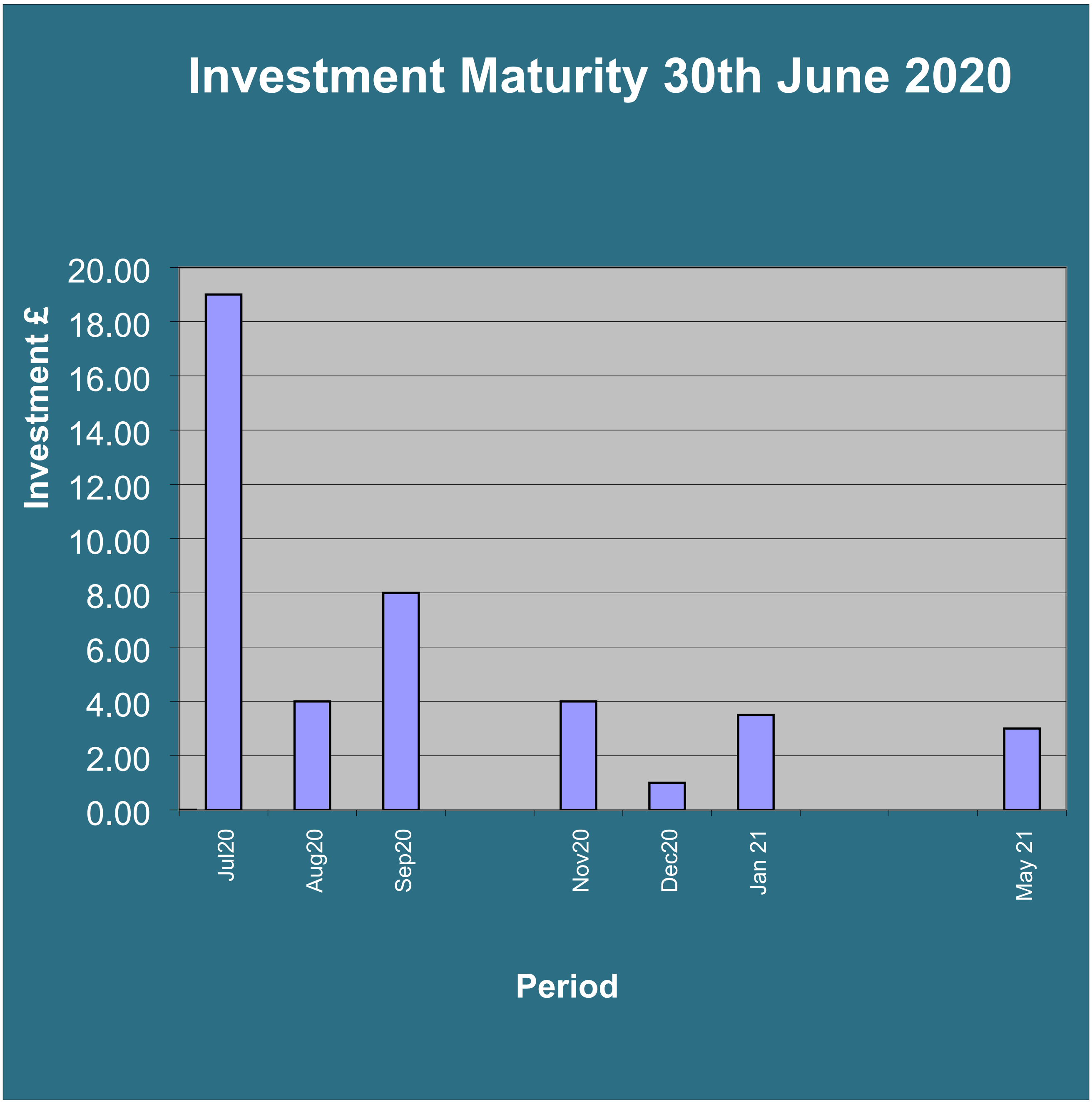
	Percentage
Government	35
Local Authorities	47
Banks	5
Building Societies	13

The approved 20/21 strategy is that no more than 60% of investments should be placed with Building Societies with a maximum value of £16M. The value at 30 June was £5.5M.

The pie chart below shows the spread of investment balances as at 30 June 2020. This is a snapshot in time that demonstrates the diversification of investments.

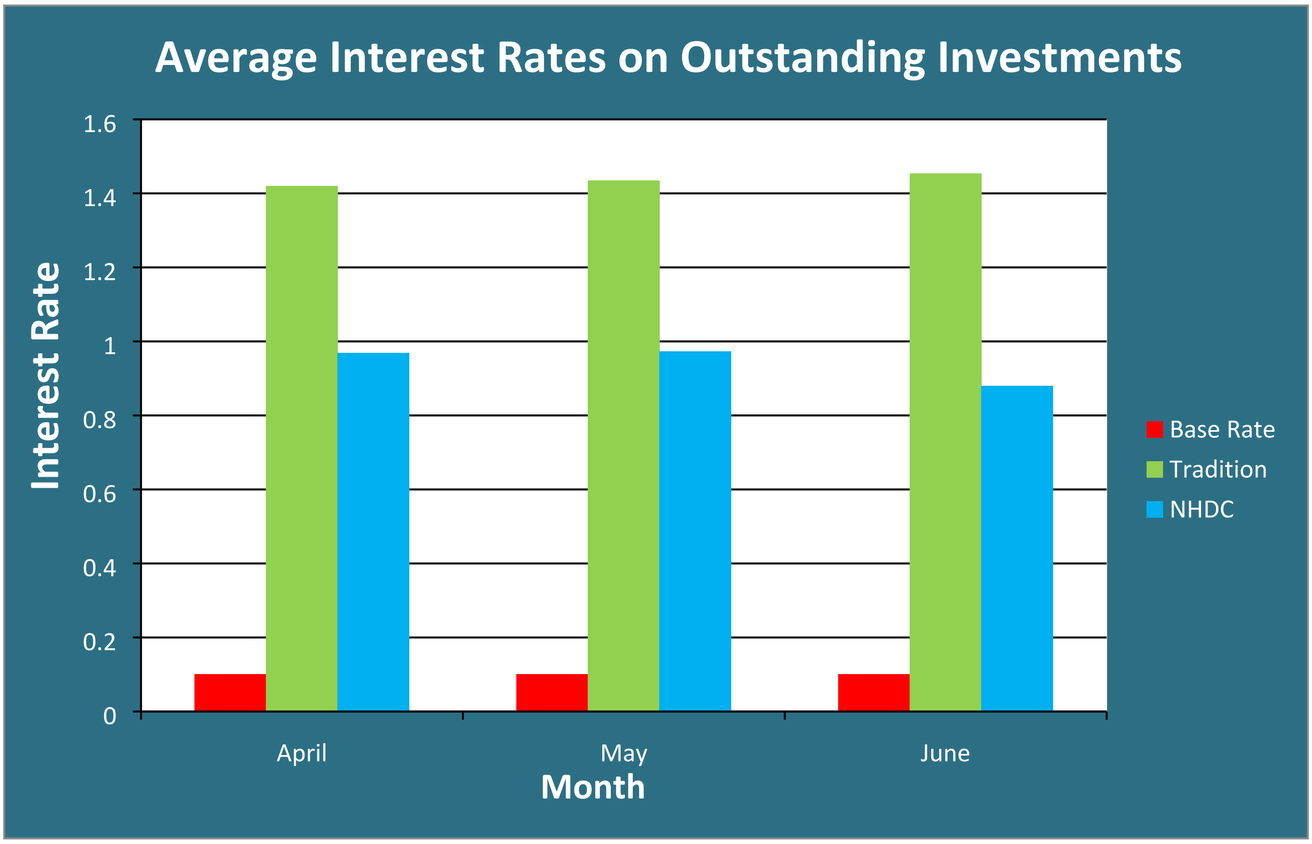


The chart below shows the Council's investment maturity profile.



The Council's Original budgeted investment return for 2020/21 was £0.300M. The projection at the 1st quarter is a reduction of £0.115M and based on current investments and cashflow forecasts it is expected that the Council will generate £0.185M of interest. The large decrease in investment income from the Original budget is mainly due to a significant reduction in interest rates. Base Rate was reduced from 0.75% to 0.1% in March which had a huge impact on Interest rates. This is coupled with a reduction in cashflow due to Covid-19 and a need to keep investments fluid in order to pay the Small Business Grants on demand.

The graph below shows the average rate of interest on outstanding investments at 30 June.



The higher rates achieved through Tradition reflect that these are longer-term investments. In general, the Council can currently achieve similar rates for the same length of investment. The Council only undertakes new investments through Tradition where the rate achieved (after fees) are greater than what the Council could achieve for a similar investment.

The treasury indicator below shows the capital value and expected income from Capital Investment assets, alongside any borrowing that is attached to those assets and the expected cost of that borrowing.

Year	Capital value of investment assets £m	Original Expected annual income from investment assets £m	Revised Expected annual income from investment assets £m	Loans linked to investment assets £m	Expected annual borrowing costs for loans linked to investment assets £m
2020/21	25.820	1.173	1.173	3.78	0.208
2021/22	29.820	1.173	1.173	3.78	0.208
2022/23	33.820	1.223	1.223	3.78	0.208
2023/24	37.820	1.273	1.273	4.891	0.269
2024/25	41.820	1.273	1.273	11.516	0.633

New borrowing costs are based on a 25 year Annuity loan from PWLB and an MRP life of 40 years.

4. New Borrowing

No long term borrowing was undertaken during the quarter ended 30 June 2020

Based on 1st quarter estimate for capital expenditure, the Council's capital financing requirement (CFR) for 2020/21 is expected to be £2.262M (-£5.595M at the end of 19/20). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances (internal borrowing). If the CFR is negative, the Council has more cash investments than borrowing. The balance of external and internal borrowing is generally driven by market conditions.

It is anticipated that long term borrowing will be undertaken during this financial year if the Capital Programme is fully spent.

Loans Outstanding at 30 June 2020:

	Amount	Average Interest Rate
	£	%
Public Works Loans Board	£428k	9.82

Estimated outstanding debt:

Year	Forecast Borrowing £m	Forecast other long-term liabilities £m	Forecast Total External Debt £m	Operational Boundary £m	Authorised Limit £m
31st March 2020	0.423	2.125	2.548	4.0	10
31st March 2021 (Forecast)	4.185	1.622	5.807	6.9	12
31st March 2022 (Forecast)	3.978	1.119	5.097	6.9	12
31st March 2023 (Forecast)	3.769	0.616	4.385	5.5	12
31st March 2024 (Forecast)	4.670	0.113	4.783	6.0	12
31st March 2025 (Forecast)	11.030	0	11.030	12.1	18

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

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

To manage refinancing risk, the Council sets limits on the maturity structure of its borrowing. However, these indicators are set relatively high to provide sufficient flexibility to respond to opportunities to repay or take out new debt (if it was required), while remaining within the parameters set by the indicators. Due to the low level of existing borrowing, the under 12 months limits have a broad range to allow for cash-flow borrowing (if it was required).

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

The Council may have a need to borrow in this financial year if the Capital Programme is fully spent so may need to apply a Minimum Revenue Provision (MRP).

There is a prudential indicator that compares the net cost of financing (i.e. borrowing costs less income generated from investments) with the net revenue budget of the Council. However, the indicator below considers the cost of borrowing as a % of the net revenue budget of the Council.

Year	Estimated cost of borrowing £m	Forecast net revenue budget £m	Estimated cost of borrowing as a % of net revenue budget
2020/21	0.249	17.274	1.44
2021/22	0.248	14.842	1.67
2022/23	0.247	14.797	1.67
2023/24	0.306	14.675	2.09
2024/25	0.668	14.675	4.55

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

Year	Estimated cost of borrowing £m	Less: Forecast of interest earned £m	Net Financing Costs £m	Forecast net revenue budget £m	Estimated cost of borrowing as a % of net revenue budget
2020/21	0.249	0.185	0.064	17.274	0.370
2021/22	0.248	0.344	-0.096	14.842	-0.647
2022/23	0.247	0.353	-0.106	14.797	-0.716
2023/24	0.306	0.380	-0.074	14.675	-0.504
2024/25	0.668	0.334	0.334	14.675	2.276

Due to the overall financial position and the underlying need to borrow for capital purposes (the Capital Financing Requirement - CFR), new external borrowing will be required if the Capital Programme is fully spent during the year.

PWLB rates have fallen a little between the start and end of the quarter with not a great deal of volatility between those dates. The 50 year PWLB target rate for new long term borrowing was at 2.30% during the quarter.

5. Debt Rescheduling

No debt rescheduling was undertaken during the quarter.

6. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators, (affordability limits), are included in the approved TMSS.

During the quarter ended 30 June 2020, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The £5 million limit on the Council's current account was exceeded during the quarter to ensure the Council had sufficient funds to pay the Business Rate Support Grants. The prudential and treasury Indicators are shown in Appendix 1.

Appendix 1: Prudential and Treasury Indicators for 2020-21 as at 30 June 2020

Treasury Indicators	2020/21 Budget £'000	31.3.20 Actual £'000
Authorised limit for external debt	12,000	423
Operational boundary for external debt	6,900	423
Gross external debt	5,807	423
Investments	26,000	42,500
Net borrowing	-20,193	-42,077

Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	18	18
12 months to 2 years	18	18
2 years to 5 years	61	61
5 years to 10 years	69	69
10 years to 20 years *1	7	7
20 years to 30 years *1	250	250

Upper limit for principal sums invested over 365 days	11,000 Max	0

Prudential Indicators	2020/21 Budget £'000	31.3.20 Actual £'000
Capital expenditure	10,519	83
Capital Financing Requirement (CFR)	3,800	-5,595
In year borrowing requirement	3,780	3,170
Ratio of financing costs to net revenue stream	-0.454%	0.370%