

NORTH HERTFORDSHIRE DISTRICT COUNCIL



26 February 2021

Our Ref FAR – 8.03.2021
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, 8TH MARCH, 2021 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.	WELCOME AND REMOTE/PARTLY REMOTE MEETINGS PROTOCOL SUMMARY Members are requested to ensure that they are familiar with the attached summary of the Remote/Partly Remote Meetings Protocol. The full Remote/Partly Remote Meetings Protocol has been published and is available here: https://www.north-herts.gov.uk/home/council-and-democracy/council-and-committee-meetings .	(Pages 5 - 6)
2.	APOLOGIES FOR ABSENCE Members are required to notify any substitutions by midday on the day of the meeting. Late substitutions will not be accepted and Members attending as a substitute without having given the due notice will not be able to take part in the meeting.	
3.	MINUTES - 18 JANUARY 2021 To take as read and approve as a true record the minutes of the meeting of the Committee held on the 18 January 2021.	(Pages 7 - 12)
4.	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.	
5.	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.	
6.	PUBLIC PARTICIPATION To receive petitions, comments and questions from the public.	

- | | | |
|-----|---|-------------------------|
| 7. | ERNST AND YOUNG OUTLINE AUDIT PLAN 2021
REPORT OF ERNST AND YOUNG | (Pages
13 - 54) |
| | To receive the Outline Audit Plan 2021. | |
| 8. | SIAS INTERNAL AUDIT PROGRESS REPORT
REPORT OF THE SHARED INTERNAL AUDIT SERVICE | (Pages
55 - 72) |
| | To receive the SIAS Internal Audit Progress Report. | |
| 9. | SIAS INTERNAL AUDIT PLAN 2021/2022
REPORT OF THE SHARED INTERNAL AUDIT SERVICE | (Pages
73 - 92) |
| | To receive the SIAS Internal Audit Plan 2021/2022. | |
| 10. | SAFS ANTI-FRAUD PLAN 2021/2022
REPORT OF THE SHARED ANTI-FRAUD SERVICE | (Pages
93 - 110) |
| | To receive the SAFS Anti-Fraud Plan 2021/2022. | |
| 11. | LOCAL CODE OF CORPORATE GOVERNANCE 2021 AND ANNUAL GOVERNANCE STATEMENT 2019/20 (ACTION PLAN FOR 2020/21) UPDATE
REPORT OF THE POLICY AND COMMUNITY ENGAGEMENT MANAGER | (Pages
111 -
128) |
| | For the Finance, Audit & Risk Committee to approve the Local Code of Corporate Governance for 2021; and review the progress of the Annual Governance Statement ('AGS') Action Plan for 2020/21. | |
| 12. | RISK MANAGEMENT UPDATE
REPORT OF THE SERVICE DIRECTOR – RESOURCES | (Pages
129 -
150) |
| | An update on Risk Management at North Hertfordshire District Council. | |
| 13. | THIRD QUARTER REVENUE MONITORING 2020/21
REPORT OF THE SERVICE DIRECTOR -RESOURCES | (Pages
151 -
166) |
| | To consider the Third Quarter Revenue Budget Monitoring report for 2020/21 | |
| 14. | THIRD QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2020/21
REPORT OF THE SERVICE DIRECTOR – RESOURCES | (Pages
167 -
202) |
| | To update the Committee on progress with delivering the Capital and Treasury Strategy as at the end of December 2020. | |
| 15. | POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS
The Chair to lead a discussion regarding possible agenda items for future meetings. | |

This page is intentionally left blank

REMOTE/PARTLY REMOTE MEETINGS PROTOCOL SUMMARY

A protocol regarding remote meetings has been devised as a result of The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority Police and Crime Panel Meetings) (England and Wales) Regulations 2020 No.392 ('the Regulations') to provide guidance for the conduct of any remote meeting of the Council, and its various Committees and Sub-Committees, held under the provisions of the Regulations and subsequent changes to the Constitution.

The full Remote / Partly Remote Meetings Protocol has been published and is available to view on the Council's website via the following link: <https://www.north-herts.gov.uk/home/council-and-democracy/council-and-committee-meetings>

The Council's adopted Constitution will continue to apply to meetings of the Council and its various Committees and Sub-Committees. Where there is a conflict between the protocol and Constitution the Constitution takes precedence.

The protocol applies to this meeting. It outlines processes for conducting remote meetings. Some key points are highlighted here for guidance:

- Prior to the start of a meeting the Committee, Member and Scrutiny Officer/Manager ('The Officer') will confirm the meeting is being streamed live. They will confirm that they can see and hear all participating Members, Officers and/or members of the public at the start or upon reconvening a meeting.
- Any person attending the meeting remotely should join no later than 15 minutes prior to allow for technical checks. They should ensure that their name on screen appears in the agreed format, as indicated in the Protocol. They should mute their microphone when not speaking. Their background should be nondescript or virtual/blurred if possible. Headsets are recommended to reduce audio feedback.
- Remember to stay in view of the camera. While on camera everything you do is visible; please observe as far as possible the etiquette you would as if attending a meeting in person.
- Be careful to prevent exempt or confidential papers being seen within the video-feed. When a meeting is in private session there should be only those entitled to be present in the room. The live stream will continue with a holding card displayed.
- If a Member wishes to speak, they should use the raise hand function. Please wait to be invited by the Chair to address the meeting. The normal procedure rules with respect to debate and speaking times will apply as per the Constitution.
- If a Member has declared a Disclosable Pecuniary Interest and is required to leave the meeting during the consideration of an item, they will be placed in the waiting room. It is the responsibility of the Member in question to remind the Chair at the start of such item. The Officer will remind the Chair to return the Member as appropriate.
- Members will need to use the tools in the "Participants" function to vote: using a green tick to indicate 'for', a red cross to indicate 'against', or the "raise hand" tool to indicate an abstention. Where a Member has had to dial into the meeting by telephone, the Chair will ask for verbal confirmation as to how they wish to vote. Leave the vote in situ until told otherwise by either the Chair or Officer.
- The Officer will clearly state the result of the vote and the Chair will then move on.
- Details of how Members voted will not be kept or minuted unless a Recorded Vote is requested or an individual requests that their vote be recorded, although voting may be seen and/or heard on the video recording.
- If there are Part 2 (confidential) items Members will be invited to join a breakout room for these items. You must accept this invitation.
- Once Part 2 (confidential) discussions have concluded Members will need to leave the breakout room. Please do not leave the meeting.

This page is intentionally left blank

NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

**MEETING HELD AS A VIRTUAL MEETING
ON MONDAY, 18TH JANUARY, 2021 AT 7.30 PM**

MINUTES

Present: *Councillors: Kate Aspinwall (Chair), Sam North (Vice-Chair), Sam Collins, Morgan Derbyshire, Adem Ruggiero-Cakir and Michael Weeks*

In Attendance: *Ian Couper (Service Director - Resources) and Matthew Hepburn (Committee, Member and Scrutiny Officer)*

Also Present: *Councillor Ian Albert as Executive Member for Finance and IT and Louis Franklin as IT Support.*

54 WELCOME AND REMOTE/PARTLY REMOTE MEETINGS PROTOCOL SUMMARY

Audio Recording – 26 Seconds

The Chair welcomed everyone to the Finance, Audit and Risk Committee.

The Committee, Member and Scrutiny Officer undertook a roll call to ensure all those present could hear and be heard and drew attention to the Remote/Partly Remote Meetings Protocol which was noted.

55 APOLOGIES FOR ABSENCE

Audio Recording – 2 Minutes 35 Seconds

There were no apologies for absence received.

56 MINUTES - 16 MARCH 2020 - 3 DECEMBER 2020

Audio Recording – 2 Minutes 45 Seconds

It was proposed by Councillor Kate Aspinwall and seconded by Councillor Sam North and it was:

RESOLVED:

- (1) That the Minutes of the Meetings of the Finance, Audit and Risk Committee held on 16 March 2020, 15 June 2020, 20 July 2020, 7 September 2020 and 3 December 2020 be approved as a true record of the proceedings; and
- (2) That, with the authorisation of the Chair, her electronic signature and initials be attached to the Minutes approved in (1) above.

57 NOTIFICATION OF OTHER BUSINESS

Audio Recording – 5 Minutes 11 Seconds

There was no other business notified.

58 CHAIR'S ANNOUNCEMENTS

Audio Recording – 5 Minutes 19 Seconds

- (1) The Chair welcomed those present at the meeting;
- (2) The Chair announced that, in accordance with Council policy, this meeting was being audio recorded as well as filmed. The audio recordings would be available to view on Mod.gov and the film recording via the NHDC Youtube channel; and
- (3) Members were reminded to make declarations of interest before an item, the detailed reminder about this and speaking rights was set out under Chair's Announcements on the agenda.

59 PUBLIC PARTICIPATION

Audio Recording – 5 Minutes 45 Seconds

There was no public participation.

60 ANNUAL AUDIT LETTER 2019/2020

Audio Recording – 5 Minutes 55 Seconds

The Associate Partner – Ernst and Young presented the report entitled Annual Audit Letter 2019/2020.

The Associate Partner directed Members' attention to the Audit Fees as detailed on page 76 within the report and advised that in the Final Audit Results Report, it was reported that additional work had been carried out as a result of Covid-19 that had required an additional audit fee. The Associate Partner informed the Committee that the proposed fee had been quantified and agreement was needed to be reached with the Service Director – Resources and then approval sought from the Public Sector Audits Appointments.

It was:

RESOLVED: That the Annual Audit Letter 2019/2020 be noted.

REASON FOR DECISION: To communicate to Members the key issues arising from Ernst and Young's audit work for 2019/2020.

61 REVENUE BUDGET 2021/22

Audio Recording – 9 Minutes 17 Seconds

The Service Director – Resources presented the Addendum report entitled Revenue Budget 2021/2022 and explained that the main update to the report was in relation to Recommendation 2.6.

The Service Director – Resources directed Members to various sections of the report including:

- Paragraphs 8.4 – 8.5 on page 6 within the report and advised that the Council Tax base calculation for 2021/22 had been calculated at 49.396.9, which represented a 1.17% decrease on the Council Tax Base for 2020/21 and was equivalent to a £140k reduction in Council Tax income. The cause of this was a potential consequence of the Covid-19 pandemic on resident's finances and an increase in the eligibility of Council Tax Reduction support;
- Paragraph 8.8 on page 7 within the report, namely Council Tax support grant;
- Paragraph 8.9 on page 7 within the report and advised that the Government had announced a 'Local Tax Income Guarantee' for 2020/21, with the government compensating local authorities for 75% of irrecoverable losses in Council Tax and business rates income in respect of 2020-21; and
- Paragraph 8.10 on page 7 within the report and advised that the Government had legislated that the repayment of the Business Rates and Council Tax Collection Fund deficits for 2020/21 be spread over three years from 2021/22, rather than full repayment in 2021/22.

The Service Director – Resources pointed Members towards Table 3 – Specific Reserves on page 11 within the report and provided some additional information relating to its contents, including:

- MHCLG Grants Reserve – it was considered that £2.5m could be released from the reserve and used to cushion the impact on the General Fund of the anticipated funding shortfall from 2022/23;
- Special Reserves – The reserve was maintained for special financial pressures. As detailed in the Covid-19 Financial Impacts report, the Special Reserve would be released in to General Fund balances. The balance of £716k would be transferred in 2022/23.

The Service Director – Resources then directed Members to Table 5 - Summary of forecast variances and provided further detail on the Budget Area - Support for Leisure Facilities including that there would be an update on the financial position of the Leisure Facilities presented to Council on 21 January 2021.

The following Members asked questions:

- Councillor Sam North; and
- Councillor Morgan Derbyshire.

In response to the Member's question regarding the Syrian Refugee Project, the Service Director – Resources advised that he would find out how many Syrian refugees had been accommodated thus far and he would update the Committee with the figure in due course.

In response to the Member's question regarding Council Tax Support for Parishes, the Service Director – Resources advised that it started a long time ago when CTS stopped being funded by central Government and was localised.

It was:

RECOMMENDED TO CABINET:

- (1) That the decrease in the 2020/21 working budget of £129k, as detailed in table 5, be approved.

That Cabinet recommend to Council:

- (2) That the position on the Collection Fund and how it will be funded be noted;
- (3) That the position relating to the General Fund balance and that due to the risks identified a minimum balance of £3.7 million is recommended, be noted;
- (4) That the savings and investments as detailed in Appendix B be approved;
- (5) That a net expenditure budget of £16.390m, as detailed in Appendix C, be approved. In the event of a £10 band D increase being allowed, then Appendix D would apply.
- (6) That a Council Tax increase by the maximum allowed without the need for a local referendum in 2021/22 (as per the Medium Term Financial Strategy), be approved. This is likely to be an amount of £5 for a band D property, with other increases pro-rata to this. However in response to the consultation on the Local Government settlement, a £10 increase for a band D property (other bands pro-rate) may be allowed.

REASONS FOR DECISIONS:

- (1) To ensure that all relevant factors are considered in arriving at a proposed budget and Council Tax level for 2021/22, to be considered by Full Council on 11 February 2021.
- (2) To ensure that Cabinet recommends a balanced budget to Full Council on 11 February 2021.

62 INVESTMENT STRATEGY (INTEGRATED CAPITAL AND TREASURY)

Audio Recording – 23 Minutes

The Service Director – Resources presented the report entitled Investment Strategy (Integrated Capital and Treasury) and advised that new capital investments were outlined in the appendices.

The Service Director – Resources highlighted the following key sections within the report:

- Paragraph 8.4 - Tables 6 and 7 on pages 13 and 14 detailed what had been presented to the budget workshops. However, the two exceptions to this were the proposed changes to the IT budgets for purchase of laptops and the addition of a £27k budget for the purchase of 76 election polling booths as a number of the booths were coming to the end of their useful life. The purchase was for a new type of more portable booth;
- Paragraph 8.9 on page 116 related to proposed changes to treasury investments and advised that there was a slightly higher forecast for the end of the year;
- The investment limit for Local Authorities would be increased from £3m per Authority to £5m;
- The amount that can be invested in Property Funds would be reduced to £2m;
- In a meeting with the Council's Treasury Advisors, they suggested that investing in UK multi-asset funds would be a good long-term investment. This is proposed to be added to the Strategy with a limit of £2m.

RECOMMENDED TO CABINET:

That Cabinet recommend to Council:

- (1) That it adopts the Investment Strategy (as attached at Appendix A), including the capital programme and prudential indicators; and
- (2) That it adopts the four clauses in relation to the Code of Practice on Treasury Management (as detailed in paragraphs 8.12 to 8.17).

REASONS FOR DECISIONS:

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

63 POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS

Audio Recording – 30 Minutes 30 Seconds

The Chair asked Members if they had in mind any possible agenda items for future meetings.

The following items were raised:

- Grant Schemes in relation to Covid-19 and how much funding has been distributed; and
- An update on Grants and how they are being awarded.

The Service Director – Resources responded that:

- Grant Schemes in relation to Covid-19 and how much funding had been distributed could be added to the Third Quarter Revenue Budget Monitoring Report;
- An update on Grants and how they are being awarded would be added to all future Quarterly Revenue Budget Monitoring Reports until no longer considered necessary.

The meeting closed at 8.06 pm

Chair

This page is intentionally left blank

North Hertfordshire District Council

Outline audit planning report

Year ending 31 March 2021

23 February 2021

23 February 2021



Dear Committee Members

North Hertfordshire District Council, 2020/21 Outline Audit planning report

We are pleased to attach our outline audit planning report for the forthcoming meeting of the Finance, Audit and Risk Committee. The purpose of this report is to provide the with a basis to review our proposed audit approach and scope for the 2020/21 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 Code of Audit Practice, the auditing standards and other professional requirements. It also aims to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our initial assessment of the key issues which drive the development of an effective audit for the North Hertfordshire District Council. We have aligned our audit approach and scope with these. We have yet to complete our detailed audit planning and will report any changes to risks and areas of focus to the next Committee meeting.

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

We welcome the opportunity to discuss this report with you on 8 March 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S. Patel'.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young

Contents



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

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



01

Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	New risk and focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Page 17 Inappropriate capitalisation of revenue expenditure	Fraud risk	New risk and focus	Linking to our fraud risk identified above, we have determined that the way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements. the Authority has a material capital programme of £2.4m for 2020/21 and the increased pressure on the Authority's overall finances increases the fraud risk compared to prior years.
Valuation of investment properties	Significant risk	No change in risk but change in focus	The Authority is planning to engage an external valuation expert to support the valuation of its investment properties. This compares to prior years where the Authority has relied on the work on its in-house valuation expert. The use of a new valuation expert represents a significant risk of material misstatement in the valuations. In the prior year, this was a significant audit risk because of the impact of Covid-19 on the valuations.
Valuation of property, plant and equipment	Inherent risk	Reduction in risk and change in focus	In the prior year, this was a significant audit risk because of the impact of Covid-19 on the valuations. However, this year we have determined we can treat it as an inherent risk due to its materiality and use of an expert to derive the accounting estimate.
Going concern disclosure	Inherent Risk	No change in risk or focus.	The financial landscape for the Authority remains challenging and it will need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation. It will also need to make an appropriate disclosure in the financial statements. In addition, the revised auditing standard on going concern requires additional challenge from auditors on the assertions being made by management.

Overview of our 2020/21 audit strategy

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Pension liability valuation	Inherent risk	No change in risk or focus	The pension fund deficit is a material estimate that is disclosed on the balance sheet. It involves significant estimation and judgement which management engages an actuary to undertake.
National Non-Domestic Rates (NNDR) Appeals Provision	Inherent Risk	New inherent risk	In common with other billing authorities, the Authority is proposing a significant increase in its appeals provision due to more businesses seeking rates reductions as a result of Covid-19 and a decrease in rental prices on which rateable values are based. In light of this we consider there to be a higher inherent risk of misstatement of the Authority's NNDR appeals provision.
Accounting for Covid-19 related government grants	Inherent risk	New area of focus	the Authority has received a significant level of government funding in relation to Covid-19. There is a need for the Authority to ensure that it accounts for these grants appropriately, taking into account any associated restrictions and conditions.

Auditing accounting estimates

In addition to the above risks and areas of focus, a revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required.

Overview of our 2020/21 audit strategy

Materiality

Planning
materiality

£1.29m

We have set materiality at £1.29 million for the financial statements which represents 2% of the prior years gross revenue expenditure of the Authority. The use of 2% of gross revenue expenditure is in line with the prior year and is our maximum threshold for local authorities reflecting the higher profile of local government financial resilience and financial reporting.

Performance
materiality

£0.966m

We have set performance materiality at £0.966 million for the financial statements. This represents 75% of materiality reflecting the lower level of errors we detected in the 2019/20 financial statements.

Audit
differences

£64k

We will report all uncorrected misstatements relating to the group financial statements over £64,000. We will communicate other misstatements identified to the extent that they merit the attention of the Finance, Audit and Risk Committee.

Audit scope

This Outline Audit Plan covers the work that we plan to perform to provide you with our audit opinion on the Authority and Group financial statements for 2020/21. We are also required to report a commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03, highlighting the changes included in the NAO's Code of Audit Practice 2020.

We will also review and report to the NAO, to the extent and in the form required by them, on the Whole of Government Accounts submission. We intend to take a substantive audit approach. When planning the audit we take into account key inputs:

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

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Authority. Taking the above into account, and as articulated in this Outline Audit Plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response. The fees we have included in Section 08 reflect the work we need to undertake to address the risks we have currently identified. We will continuously review and update as necessary our understanding of your risks and discuss with management and the Finance, Audit and Risk Committee any significant changes.

Overview of our 2021 audit strategy

Value for money conclusion

One of the main changes in the NAO's 2020 Code is in relation to the value for money conclusion. We include details in Section 03 but in summary:

- ▶ We are still required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- ▶ Planning on VFM and the associated risk assessment is now focused on gathering sufficient evidence to enable us to document our evaluation of the Authority's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- ▶ We will be required to provide a commentary on the Authority's arrangements against three reporting criteria:
 - Financial sustainability - How the Authority plans and manages its resources to ensure it can continue to deliver its services;
 - Governance - How the Authority ensures that it makes informed decisions and properly manages its risks; and
 - Improving economy, efficiency and effectiveness - How the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

Within the audit opinion we will still only report by exception where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

- ▶ The commentary on arrangements will be included in a new Auditor's Annual Report which we will be required to issue at a date to be determined by the NAO.

Timeline

At the time of drafting this Outline Audit Plan, MHCLG were consulting on changing the date for the Authority to publish its draft accounts to 1 August 2021. However, MHCLG has not yet outlined how that change impacts the target date for the Authority to publish its approved and audited accounts. In their response to the Redmond Review, MHCLG indicated that for 2020/21 that target date would be 30 September 2021.

In Section 07 we therefore include a provisional timeline for the audit but this will be subject to change depending on MHCLG's communications on target dates for publishing the accounts.

Fees

We remain in discussion with PSAA about our proposed increase to the scale fee which we consider to be appropriate to deliver a Code compliant audit. We include in Section 08, our current view of the fees required to carry out the 2020/21 audit. We will update the Committee on any determinations by PSAA on fees.



02

Audit risks





Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error *

Page 22

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

What will we do?

- ▶ Inquire of management about risks of fraud and the controls put in place to address those risks.
 - ▶ Understand the oversight given by those charged with governance of management's processes over fraud.
 - ▶ Consider of the effectiveness of management's controls designed to address the risk of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including:
- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
 - ▶ Assessing accounting estimates for evidence of management bias, and
 - ▶ Evaluating the business rationale for significant unusual transactions.

We will utilise our data analytics capabilities to assist with our work.

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.



Audit risks

Our response to significant risks

Inappropriate capitalisation of revenue expenditure*

Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

➤ Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.

➤ Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating property, plant and equipment (PPE) additions and/or Revenue Expenditure Financed as Capital Under Statute (REFCUS) in the financial statements.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of its annual capital programme which is many times out materiality level.

This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

What will we do?

We will:

- ▶ Test PPE additions, and REFCUS if material, to ensure that the expenditure incurred and capitalised is clearly capital in nature or appropriate to be treated as REFCUS.
- ▶ Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

We will utilise our data analytics capabilities to assist with our work, including journal entry testing. We will assess journal entries more generally for evidence of management bias and evaluate for business rationale.



Audit risks

Our response to significant risks

Valuation of investment properties

Financial statement impact

The net book value of Investment Properties at 31 March 2020 was £18 million.

What is the risk?

The fair value investment properties represent a significant balance in the Authority's accounts and is subject to valuation changes, market volatility, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. For 2020/21 the Authority is engaging an external valuation expert to support the valuation of its investment properties. As this is a material accounting estimates and one dependent on a high degree of subjectivity, with a change in the valuation approach we associate a significant risk to the valuation of investment properties in the 2020/21 audit.

What will we do?

We will engage our own expert, EY Real Estates (EYRE) to audit a sample of the Investment Property valuations. They will provide challenge to the assumptions and judgements made by the Authority.

Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
<p>Property, plant and equipment valuations</p> <p>At 31 March 2020 the value of the Authority's property, plant and equipment was £95 million and represents the largest balance in the Authority's accounts. It is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>For 2020/21 the Authority will continue to use its internal valuation expert to support the valuation of these assets. As this is one of the largest accounting estimates on the balance sheet and one dependent on a high degree of subjectivity we deem the valuation of property, plant and equipment to represent an inherent risk of material misstatement.</p>	<p>We will disaggregate the Authority's property, plant and equipment and adopt different testing strategies.</p> <p>For specialist assets such as leisure facilities which typically are valued on the basis of depreciated replacement cost (DRC) we will test a sample of valuations, challenging the Authority on key assumptions and base data such as agreeing floor areas back to original documentation.</p> <p>For non-specialist assets such as offices, which are typically valued on an Existing Use Valuation (EUV) basis, due to the extent of subjectivity and professional judgement that management's expert applies we will engage our own expert (EYRE) to enable us to audit a sample of valuations, challenging management on key assumptions and judgements.</p>

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<p>Going concern disclosure</p> <p>There is a presumption that the Authority will continue as a going concern for the foreseeable future. However, the Authority is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on the Authority's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Authority to ensure its going concern assessment is thorough and appropriately comprehensive.</p> <p>The Authority is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.</p> <p>In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.</p>	<p>We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Authority's going concern assessment and its disclosure in the accounts by:</p> <ul style="list-style-type: none"> • Challenging management's identification of events or conditions impacting going concern. • Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias). • Reviewing the Authority's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern. • Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern. • Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties. <p>We will discuss the detailed implications of the revised auditing standard with finance staff shortly and seek to agree with management to receive an early draft of the Authority's going concern assessment in advance of the 2020/21 year-end audit in order to provide management with feedback on the adequacy and sufficiency of the proposed disclosures in relation to going concern.</p>



Audit risks

Other areas of audit focus

What is the risk/area of focus?

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Authority.

the Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2020 this totalled £31 million.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What will we do?

We will:

- ▶ Liaise with the auditors of Hertfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the North Hertfordshire District Council.
- ▶ Assess the work of the pension fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

We will consider outturn information available at the time we undertake our work after production of the Authority's draft financial statements, for example the year-end actual valuation of pension fund assets. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<p>Accounting for Covid-19 related grant funding</p> <p>the Authority has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Authority will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.</p>	<p>We will consider the Authority's judgement on material grants received in relation to whether it is acting as:</p> <ul style="list-style-type: none">• An Agent, where it has determined that it is acting as an intermediary; or• A Principal, where the Authority has determined that it is acting on its own behalf. <p>We will encourage the finance team to provide its assessment of grant accounting well before it prepares the statements so that we can provide an early view on its proposed accounting treatment.</p>
<p>National Non-Domestic Rates (NNDR) Appeals Provision</p> <p>Statistics compiled by the Ministry for Housing, Communities and Local Government, reveal that councils are forecasting net additions to appeal provisions totalling £927m this financial year, and £1.2bn next year. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based.</p> <p>the Authority has already shared its initial consideration of the increase in the provision for 2020/21.</p> <p>In light of this we consider there to be a higher inherent risk of misstatement of the Authority's NNDR appeals provision.</p>	<p>We will consider the Authority's estimation of the NNDR appeals provision by performing the following:</p> <ul style="list-style-type: none">• Review the assumptions made by the Authority in determining the NNDR appeals provision.• Assess the reasonableness of any local adjustments made by the Authority on the NNDR appeals provision.



Audit risks

Other areas of audit focus (Continued)

What is the risk/area of focus?

Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradict them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.



03

Value for Money Risks





Value for money

the Authority's responsibilities for value for money

the Authority is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

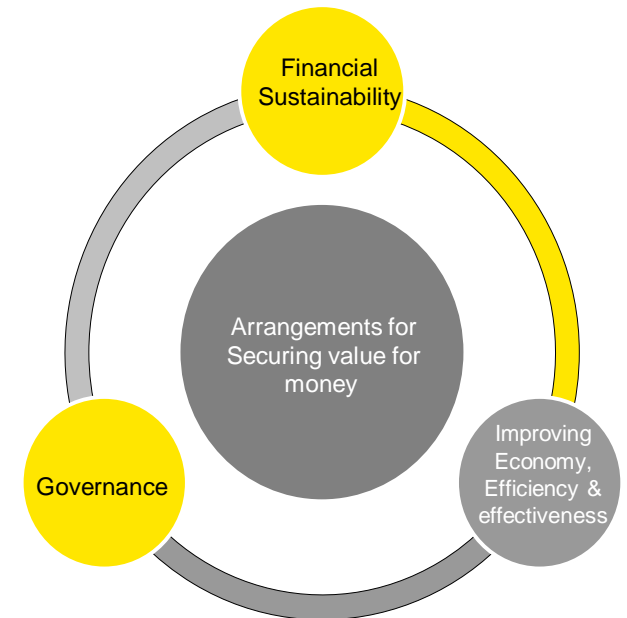
As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailor's the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a commentary against specified reporting criteria (see below) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
How the Authority uses information about its costs and performance to improve the way it manages and delivers its services.





Value for money

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Authority's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Authority's arrangements, we are required to consider:

- the Authority's governance statement
- Evidence that the Authority's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as OfSTED) and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes - or could reasonably be expected to expose - the Authority to significant financial loss or risk;
- Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Authority's reputation;
- Leads to - or could reasonably be expected to lead to - unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Authority;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Authority's reported performance;
- Whether the issue has been identified by the Authority's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Authority has had to respond to the issue.



Value for money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the audit committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Authority's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have yet to commence our detailed VFM planning. However, one area of focus will be on the arrangements that the Authority has in place in relation to financial sustainability in light of the impact of Covid-19 on the Authority's finances.

In January 2021 Cabinet received the Revenue Budget 2021/22. The report outlined how the Authority expects the Covid-19 pandemic to have a fundamental impact on the it's finances in the short and medium term. the Authority anticipates that additional funding from Central Government will not fully compensate for the financial impacts of Covid-19 and this will therefore reduce the projected reserves available at the start of 2021/22.

We will update the next Committee meeting on the outcome of our VFM planning and our planned response to any identified risks of significant weaknesses in arrangements.



04

Audit materiality



Materiality

Materiality

For planning purposes, planning materiality for 2020/21 has been set at £1.29 million for the financial statements. This represents 2% of the Authority's prior year gross revenue expenditure (GRE) on provision of services. We will reassess materiality throughout the audit process. We consider that gross expenditure on the provision of services is the area of biggest interest to the users of the Authority's accounts.



We request that the Finance, Audit and Risk Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

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

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.966mn for the financial statements which represents 75% of planning materiality. This reflects the low level of error detected in our 2019/20 financial statements audit.

Audit difference threshold - we propose that misstatements identified below this threshold of £64,000 are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

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



05

Scope of our audit



Scope of our audit

Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Authority's financial statements and, by exception, where we are not satisfied that the Authority had established arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK). We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

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

Procedures required by the Code

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

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

As outlined in Section 03, we are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Scope of our audit

Audit Process overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

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

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

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

Internal audit

We will review internal audit plans and the results of their work. We will reflect on these when designing our overall audit approach and when developing our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that could have a material impact on the financial statements.



06

Audit team



Audit team

Audit team structure:

EY Team

Suresh will continue as your engagement lead for 2020/21, which will be his fourth year of working with the Authority. He will be supported by Robert Garnett as audit manager. Robert was the audit senior on the 2017/18 audit of the Authority so is familiar to the finance team. Josh Smart continues as the audit senior for another year to bring continuity.

Suresh Patel
Associate Partner

Robert Garnett
Audit Manager

Josh Smart
Senior

Working together with the Authority

We are working together with officers to identify continuing improvements in communication and processes for the 2020/21 audit.

We will continue to keep our audit approach under review to streamline it where possible.

EY Real
Estates (EYRE)

PwC (consulting
actuary) and EY
Actuaries

Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where specialists are expected to provide input for the current year audit are:

Area	Specialists
Pensions disclosure	EY Actuaries Hymans Robertson - Actuary to the Hertfordshire Pension Fund
Property, plant and equipment	the Authority's own internal valuer along with an external valuation expert for investment properties. EY Real Estates

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Authority's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

Audit timeline





Indicative Audit timeline

Indicative timetable of communication and planned deliverables

Indicative timeline

Below is an indicative timetable showing the key stages of the audit and the planned deliverables we have agreed to provide to you through the audit cycle in 2020/21. Please note that we will communicate any changes to this plan to officers and members as soon as we can. From time to time matters may arise that require immediate communication with the Finance, Audit and Risk Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Finance, Audit and Risk Committee Meeting timetable	Deliverables
Initial Planning: Risk assessment and setting of scopes and walkthrough of key systems and processes	March 2021	Finance, Audit and Risk Committee Meeting	Outline audit plan
Completion of initial planning	March		
Interim audit testing and completion of walkthroughs	March		
Interim audit testing and completion of walkthroughs	April		
	May		
Draft accounts received	June	Finance, Audit and Risk Committee Meeting	Updated Audit Plan (if needed)
Year end audit Audit Completion procedures	July		
	August		
	September	TBC	Audit Results Report
	October		Annual Auditor's Report including commentary on VFM



Page 44

08

Independence



Introduction

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

Required communications

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

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider the safeguards that have been adopted appropriately mitigate the principal threats identified and we confirm that EY is independent and that Suresh Patel, your audit engagement partner, and the audit engagement team have not compromised their objectivity and independence

Self interest threats

A self interest threat arises when EY has financial or other interests in the Authority. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees. At the time of producing this plan EY advisory are responding to the Authority's invitation to tender for a review of our Quality Behavioural Insights. We do not believe there to be any perceived or actual independence matters that this engagement would create for the external audit, including consideration of the NAO's list of prohibited non-audit services. The proposed fee is also well below the NAOs fee cap for non-audit services of 70% of the scale audit fee. We will continue to keep you updated on whether this work proceeds.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

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

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Authority. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf



09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2020/21 (£)	Final fee 2019/20 (£)
Scale Fee - Code work [note 1]	40,068	40,068
Additional fees: [note 2]		
- Additional work on PPE	4,000-7,000	6,120
- EY FM significant risk	TBC	4,000
- Management override and inappropriate capitalisation risk	TBC	-
- Going concern assessment & disclosure	1,000-2,500	2,808
- EY internal consultation on audit report	1,000-2,000	1,949
- Revised auditing standard for estimates	TBC	-
- Accounting for C-19 related grants	TBC	-
- NNDR appeals provision	TBC	-
Total audit	TBC	54,945
Non-audit services:		
Housing Benefits	TBC	TBC
Total other non-audit services	TBC	TBC
Total fees	TBC	TBC

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion being unqualified;
- Appropriate quality of documentation is provided by the Authority;
- the Authority has an effective control environment;
- EY internal consultation on the audit report in line with 2019/20.

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

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

All fees exclude VAT




Notes:

1. We are currently in discussion with PSAA nationally about an increase to the scale fee. For North Hertfordshire we proposed an increase of £19,752. This is yet to be determined by PSAA.
2. 2019/20 additional fees agreed in principle with management. This remains subject to approval by PSAA. Ranges for 2020/21 additional fees based on prior year experience where appropriate.



Appendix B

Required communications with the Finance, Audit and Risk Committee



We have detailed the communications that we must provide to the Finance, Audit and Risk Committee.

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Finance, Audit and Risk Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Outline Audit Plan, March 2021 meeting of the Finance, Audit and Risk Committee.
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report, September 2021 (TBC) meeting of the Finance, Audit and Risk Committee.

Required communications with the Finance, Audit and Risk Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern Misstatements	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report, September 2021 (TBC) meeting of the Finance, Audit and Risk Committee.
	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit Results Report, September 2021 (TBC) meeting of the Finance, Audit and Risk Committee.
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report, September 2021 (TBC) meeting of the Finance, Audit and Risk Committee.
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report, September 2021 (TBC) meeting of the Finance, Audit and Risk Committee.

Required communications with the Finance, Audit and Risk Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Outline Audit Plan, March 2021</p> <p>Audit results report, September 2021 (TBC)</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>Audit Results Report, September 2021 (TBC) meeting of the Finance, Audit and Risk Committee.</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	
Representations	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	<p>Assurance Letter to be received shortly after year-end.</p>
Material inconsistencies and misstatements	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	<p>Audit Results Report, September 2021 (TBC) meeting of the Finance, Audit and Risk Committee.</p>
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards	<ul style="list-style-type: none">▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Authority to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and Maintaining auditor independence.
--	--

Page 53

Purpose and evaluation of materiality

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

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

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

This page is intentionally left blank



INTERNAL AUDIT PROGRESS REPORT

NORTH HERTS DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MARCH 2021

RECOMMENDATIONS

- Note the Internal Audit Progress Report for the period to 12 February 2021,
- 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
 - 2.3 High Priority Recommendations
 - 2.6 Proposed Amendments
 - 2.8 Performance Management

Appendices

- A Progress against the 2020/21 Audit Plan
- B Implementation Status of High Priority Recommendations
- C 2020/21 Audit Plan Start Dates Agreed with Management
- D Assurance and Finding Definitions 2020/21

1. Introduction and Background

Purpose of Report

1.1 This report details:

- a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Internal Audit Plan for 2020/21 as at 12 February 2021.
- b) Implementation status of previously agreed high priority recommendations.
- c) Annual Internal Audit Plan Progression for 2020/21.
- d) An update on performance indicators as at 12 February 2021.

Background

- 1.2 The 2020/21 Internal 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 fourth, and final, 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 12 February 2021, 85% of the 2020/21 Audit Plan days had been delivered.
- 2.2 The following 2020/21 final reports have been issued since 18 November 2020 (cut-off date for the SIAS Update Report for 8 December 2020 FAR Committee):

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Customer Services	November 2020	Good	1 Medium
Financial Resilience of Suppliers 19/20	January 2021	Limited	3 High, 1 Medium
Payroll Processing	January 2021	Good	1 Low

Medium Term Financial Strategy	February 2021	Satisfactory	3 Medium
--------------------------------	---------------	--------------	----------

High Priority Recommendations

- 2.3 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.
- 2.4 We have made three high priority recommendations as a result of the work undertaken in the audits detailed in paragraph 2.2 above. The three recommendations were raised as part of the Financial Resilience of Suppliers audit completed. The details of the recommendations have been outlined in Appendix B. All implemented recommendations will removed for the next committee cycle.
- 2.5 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.

Proposed Amendments

- 2.6 There have been no amendments to the audit plan since the last committee meeting in December 2020.
- 2.7 The title of the Parking Strategy and Enforcement audit has changed titles to reflect the scope of the work. This project is now titled Parking Income. This change was agreed with management as a result of the impact of COVID-19 on progress of the Parking Strategy which deemed the planned audit to be too early to adequately assess the governance, control framework and risks relating to the Parking Services.

Performance Management: Reporting of Audit Plan Delivery Progress

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

Status	No of Audits at this Stage	% of Total Audits (24)	Profile
Draft / Final Report Issued	16	67%	(20/24)
In Fieldwork / Quality Review	8	33%	(4/24)

Terms of Reference Issued / In Planning	0	0%	(0/24)
Not Yet Started	0	0%	(0/24)

2.9 Annual performance indicators and associated targets were approved by the SIAS Board in March 2020. As at 18 November 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 12 February 2021	Actual to 12 February 2021
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	91% (266 / 292 days)	86% (250 / 292 days)
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	83% (20 / 24 projects)	67% (16 / 24 projects)
3. Client Satisfaction with Conduct of the Audit – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100% (11 issued, 9 returned – all returned satisfactory)
4. Number of High Priority Audit Recommendations agreed	95%	95%	100% (5 recommendations)

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

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

APPENDIX A – PROGRESS AGAINST THE 2020/21 AUDIT PLAN AS AT 12 FEBRUARY 2021

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	8.5	In Fieldwork
Integra (Financial System)						15	Yes	12	In Fieldwork
Payroll Processing	Good	0	0	0	1	15	Yes	15	Final Report Issued
Revenues						15	Yes	11	In Fieldwork
Treasury Management	Satisfactory	0	0	1	1	8	Yes	8	Final Report Issued
Cross-Council Audits									
Community Engagement						10	Yes	4	In Fieldwork
Performance Indicators	Satisfactory	0	0	1	2	15	Yes	15	Final Report Issued
Operational Audits									
Anti-Social Behaviour						0	N/A	0	Cancelled
Climate Change and Sustainability						7	Yes	3.5	In Fieldwork
Commercial Strategy						15	Yes	14.5	Draft Report Issued
Customer Services – Digitalisation	Good	0	0	1	0	10	Yes	10	Final Report Issued
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	6	In Fieldwork
Housing Allocations	Good	0	0	0	0	10	Yes	10	Final Report Issued
King George V Playing Fields	Not Assessed	0	0	0	0	1	Yes	1	Final Report Issued
Medium Term Financial Strategy	Satisfactory	0	0	3	0	12	Yes	12	Final Report Issued

APPENDIX A – PROGRESS AGAINST THE 2020/21 AUDIT PLAN AS AT 12 FEBRUARY 2021

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
Parking Income						15	No	5.5	In Fieldwork
Review of FAR	Not Assessed					5	Yes	5	Final Report Issued
Trade Waste						10	Yes	2.5	In Fieldwork
Waste Contract Follow Up						3	Yes	2.5	Draft Report Issued
Workman's Hall	Not Assessed	0	0	0	0	1	Yes	1	Final Report Issued
Contract Audits									
Green Space Providers	Good	0	0	0	0	12	Yes	12	Final Report Issued
Risk Management Audits									
Risk Management Framework	Satisfactory	0	0	1	3	12	Yes	12	Final Report Issued
IP Audits									
Disaster Recovery	Satisfactory	0	0	3	0	12	Yes	12	Final Report Issued
IT Asset Management	Good	0	0	0	1	15	Yes	15	Final Report Issued
Shared Learning and Joint Reviews									
Joint Reviews						0	N/A	0	Cancelled
Shared Learning						0	N/A	0	Cancelled
Investigations									
Investigation						5	Yes	5	Completed
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	8	Through Year

APPENDIX A – PROGRESS AGAINST THE 2020/21 AUDIT PLAN AS AT 12 FEBRUARY 2021

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
Client Meetings						8	Yes	8	Through Year
Liaison with External Audit						1	Yes	1	Through Year
Progress Monitoring						9	Yes	9	Through Year
SIAS Development						5	Yes	5	Through Year
2021/22 Audit Planning						6	Yes	6	Through Year
Completion of outstanding 2019/20 projects						5	Yes	5	In Progress
Total - North Herts D.C.		0	0	10	8	292		250	

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)	<p>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.</p> <p>Additionally, management should implement an annual review process to ensure all required files are removed in a timely manner.</p> <p>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.</p>	<p>Deletion of files where no breach was established in accordance with the Retention Schedule</p> <p>Deletion of remaining files in accordance with the Retention Schedule (taking account of any public register requirements)</p> <p>Formal assessment of risk re: DPA</p> <p>Review process implementation</p>	<p>Planning Control and Conservation Manager</p> <p>Technical Support Manager</p>	<p>By September 2020</p> <p>By January 2021</p> <p>31 August 2020</p> <p>31 August 2020</p>	<p>August 2020: Recommendations on track for implementation by original target date.</p> <p>November 2020: The following will be completed/ongoing by January 2021 in line with the retention schedule: - Applications and documents are being deleted 3 years after any decision made not to enforce. - Applications and documents are being deleted 6 years after the compliance with any enforcement notice. The notice will be retained as per planning legislation. - Review process to be implemented, and guidance notes on deletion of files outside of retention schedules to be agreed/written. It is anticipated that this will</p>	Implemented

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	Status of Progress
2.			Internal protocol to be established together with	Planning Control and	30 September 2020	<p>be an automatic process going forward.</p> <p>In progress, with only high hedge complaints remaining to be agreed. We agreed that all complaints that did not result in a notice will be deleted after 3 years in accordance with the wider enforcement case retention schedule.</p> <p>The need to disclose the breach to the ICO was referred to Service Director (Customers), although given the security of data and the low risk of a complaint, this was not expected to be required.</p> <p>February 2021: Recommendation now fully implemented.</p>	
						<p>August 2020: Recommendations on</p>	Implemented

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	Status of Progress
Page 65	Development Management (July 2020)	<p>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.</p> <p>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.</p>	monitoring regime and record keeping	Conservation Manager		<p>track for implementation by original target date.</p> <p>November 2020: The findings of the audit report were considered and various improvements have been developed/implemented (e.g. a schedule of quarterly checks, S106 monitoring updated from an excel spreadsheet system to a bespoke module within Uniform, automatically generated monitoring reports set up in the new system, new closure request system, reasons for no site visit being added to closure reports and checked by the officer closing the file). The quarterly spot-check management system for completed files is being finalised and will commence from January 2021.</p>	

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	Status of Progress
						February 2021: Recommendation now fully implemented.	
3	Financial Resilience of Suppliers (January 2021)	<p>a) The Guide to Contract and Relationship Management should be updated, recording the next review date.</p> <p>b) Regular review meetings with suppliers should be conducted to assess the contractor compliance with contract and delivery standards and to identify and rectify any performance issues.</p> <p>We recommend that annual and at least quarterly review meetings to be conducted for non-core and core contracts respectively in line with best practice. Contract Managers should ensure that discussions and agreed actions are</p>	<p>We are currently updating the Guide to Contract and Relationship Management, including the removal of the use of terminology 'core and non-core contracts'. The core terminology will be applied to contracts with an annual spend of £50k and above, Non-core contracts will be changed to applying to contracts where the spend is under £50k per annum. We are content with the frequency recommendations. The recommendation for quarterly review meetings will be applicable to the contracts that meet the financial threshold set out above and the annual review meetings for those that do not.</p>	<p>a) Procurement Officer b) Contract Managers</p>	<p>a) September 2020 b) October 2020</p>	<p>February 2021: The regular meetings are not required for all contracts and the updated guidance will reflect this to ensure that the reviews are appropriate in the circumstances. It is accepted that there will need to be a periodic review for all core contracts over £50k, which again will be reflected in the updated guidance. The risk and insurance checker has been updated, which assists in determining the frequency of contract reviews. Current estimate is that the work to fully implement the recommendation will be completed in March</p>	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
		recorded and stored electronically.				2021.	
4	Financial Resilience of Suppliers (January 2021)	<p>a) The rapid risk and insurance checker should be completed for all contracts over £50k in value before appointing the supplier in line with best practice. This should be retained in the contract file along with the copies of the signed contract and financial due diligence documents as recommended in finding 1</p> <p>b) The risk and insurance checker should be periodically (we recommend annually) reviewed to ensure that the initial assessment of risk is still valid.</p>	We are currently updating the Guide to Contract and Relationship Management, including the removal of the use of terminology 'core and non-core contracts'. The risk and insurance checker should only be required for contracts over the £50k threshold in accordance with our contract and procurement rules.	Contract Managers	<p>a) September 2020</p> <p>b) April 2021</p>	February 2021: In order to ensure compliance with this, we have worked this into the form which is entitled "Contract details to be included on the contract register" which is saved on the Intranet. Contract Managers have to confirm that the risk and insurance checker tool has been completed and uploaded when completing a contract. This step ensures this is complied with. This recommendation is completed.	Implemented
5	Financial Resilience of Suppliers (January 2021)	a) All core contracts should have a business continuity plan in place to ensure continued delivery of statutory services. The plan should include key information around actions	We are currently updating the Guide to Contract and Relationship Management, including the removal of the use of terminology 'core and non-core contracts'. The requirements currently assigned to 'core'	<p>a) Contract Managers</p> <p>b) Contract Managers & Procurement Officer</p>	<p>a) September 2020</p> <p>b) Subject to spot checks October 2020</p>	February 2021: We intend to tackle (a) the same way in which we have looked to tackle the "Contract Monitoring (Strategy and Assurance Frameworks)"	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
Page 68		<p>staff should take in case of a contractor failure.</p> <p>b) Contract Managers should ensure that insurance cover is maintained throughout the term of the contract. Annual updated certificates should be requested from the supplier and the Contract Managers should provide a confirmation to the Procurement Team regarding the obtained insurance certificates on an annual basis.</p>	<p>contracts, will now apply to any contracts where the spend per annum is over £50k.</p>			<p>recommendation, by updating the risk and insurance checker tool, which once amended will determine whether a business continuity plan is required and to what extent it needs to go. We also noted that the guide should be updated to explain that sometimes a business continuity plan does not need to be complex and in some circumstances it may be appropriate for there to be just a few explanatory lines setting out the fact there will not in fact be an impact on the service at all and therefore further planning is not required. In relation to (b), as InTend allows Contract Managers to upload insurance certificates on to the system, we have now built a procedure in place ensuring Contract Managers upload the</p>	

APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS





No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	Status of Progress
Page 69						<p>certificates and utilise InTend to diarise annual reminders. Additionally, in order to ensure compliance with obtaining and uploading the insurance certificate, we have worked this into the form which is entitled "Contract details to be included on the contract register" which is saved on the Intranet. Contract Managers have to confirm that they have obtained and uploaded this and this step ensures compliance. Part (b) of this recommendation has been completed. Current estimate is that the work to fully implement the recommendation will be completed by March 2021.</p>	

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

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.
	High		Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
Service	Medium		Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low		Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.

This page is intentionally left blank



INTERNAL AUDIT PLAN 2021/22

NORTH HERTS DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MARCH 2021

RECOMMENDATION

Members are recommended to approve the proposed North Herts District Council Internal Audit Plan for 2021/22

Contents

1. Introduction and Background

2. Audit Planning Process

- 2.1 Planning Principles
- 2.2 Approach to Planning
- 2.4 Planning Context
- 2.7 Internal Audit Plan 2021/22

3. Performance Management

- 3.1 Update Reporting
- 3.3 Performance Indicators

Appendices

- A Proposed North Herts District Council Audit Plan 2021/22
- B Proposed North Herts District Council Audit Plan 2021/22– Reserve List
- C Audit Start Dates Agreed with Management

1. **Introduction and Background**

- 1.1 Internal Audit is an independent and objective assurance and consulting activity designed to add value and improve the organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively.
(Chartered Institute of Internal Auditors – Internal audit definition and purpose)
- 1.2 The Council's Internal Audit Plan sets out the programme of internal audit work for the year ahead, and forms part of the Council's wider assurance framework. It supports the requirement to produce an audit opinion on the overall internal control environment of the Council, as well as a judgement on the robustness of risk management and governance arrangements, contained in the Head of Assurance annual report.
- 1.3 The Shared Internal Audit Service's (SIAS) Audit Charter which was presented to the June 2020 meeting of this Committee shows how the Council and SIAS work together to provide a modern and effective internal audit service. This approach complies with the requirements of the United Kingdom Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013 and revised on 1 April 2017. An updated version of the SIAS Audit Charter will be brought to the June 2021 FAR Committee meeting for Member approval.
- 1.4 The PSIAS require that the audit plan incorporates or is linked to a strategic or high-level statement which:
- Outlines how the service will be developed in accordance with the internal audit charter
 - Details how the internal audit plan will be delivered
 - Evidences how the service links to organisational objectives and priorities
- 1.5 Section 2 of this report details how SIAS complies with this requirement.

2. **Audit Planning Process**

Planning Principles

2.1 SIAS audit planning is underpinned by the following principles:

- a) Focus of assurance effort on the Council's key issues, obligations, outcomes and objectives, critical business processes and projects and principal risks. This approach ensures coverage of both strategic and key operational issues.
- b) Maintenance of an up-to-date awareness of the impact of the external and internal environment on the Council's control arrangements.
- c) Use of a risk assessment methodology to determine priorities for audit coverage based, as far as possible, on management's view of risk.
- d) Dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs. This approach includes recognition that in a resource-constrained environment, all needs cannot be met.
- e) Identification of responsibilities where services are delivered in partnership.
- f) In-built flexibility to ensure that new risks and issues are accommodated as they emerge.
- g) Capacity to deliver key commitments including governance work.
- h) Capacity to respond to management requests for assistance with special investigations, consultancy and other forms of advice.

Approach to Planning

- 2.2 In order to comply with the requirements of the PSIAS, SIAS applies a methodology at all its partners which contains the following elements:



- 2.3 The approach to audit planning for 2021/22 has been characterised by:

- a) Detailed discussions with senior managers and other key officers within the Council to confirm auditable areas and elicit high level detail of the scope of audits. This process incorporates the following four steps to assist in the later prioritisation of projects:

Risk Assessment

Senior Managers and SIAS agree the level of risk associated with an identified auditable area and prioritise this (high, medium and low). **All auditable areas prioritised as 'high' have been included in the draft annual audit plan.**

Other sources of Assurance

Senior Managers are asked whether assurance in the auditable area is obtained from other assurance providers e.g. External Audit or the Health and Safety Executive. This approach ensures that provision of assurance is not duplicated.

Significance

Senior Managers assess how significant the auditable area is in terms of the achievement of corporate or service objectives and priorities.

Timings

Senior Managers identify when an audit should be undertaken to add most value.

- b) Proposed plans are based on the information obtained from the planning meetings. Details of audits that have not been included in the proposed draft plan as a result

of resource limitations are reported to senior management and the audit committee.

- c) The proposed 2021/22 plans for all SIAS partner councils are then scrutinised and cross-partner audits highlighted.

This approach ensures that our work gives assurance on what is important, focussing on those areas of highest risk, and supports the Council in achieving its objectives.

The Planning Context

2.4 The context within which local authorities provide their services remains challenging:

- The impact of Covid-19 may not fully be known and will continue to have significant impact on the Council's operations in future years. Whilst the longer-term impacts of the pandemic remain speculative, the current challenges and risks relate to economic impacts, growth, public health and equality for local authorities.
- From 1 January 2021, the UK entered into new trading arrangements with the EU ending 11 months of transition arrangements. The result of the changes to trading with EU based companies will have an impact on Council services with additional risks needing to be considered that include compliance with customs rules, , continuity of supply / services and workforce pressures related to the right to work in the UK.
- Latest forecasts show a cloudy outlook for the UK economy, reflecting increasing national and international uncertainties. Local authorities will need to be attuned to the impact on their local economies and any direct investments of their own.
- Demand continues to rise, driven by complex needs, an ageing population and challenges in the healthcare system. With reduced financial support, local authorities will have to continue to become more innovative and commercial.
- Digital transformation continues to offer opportunities along with significant risks. The innovative use of technology is helping to reduce costs, as well as be more efficient and transparent. However, factors such as security, privacy, ethical and regulatory compliance are a recognised concern.
- Major national programmes in areas like business rates, public health and housing mean the overall financial environment remains relatively unstable.

2.5 The resultant efficiency and transformation programme that councils are in the process of implementing and developing continues to profoundly alter each organisation's nature. Such developments are accompanied by potentially significant governance, risk management and internal control change.

2.6 The challenge of giving value in this context, means that Internal Audit needs to:

- Meet its core responsibilities, which are to provide appropriate assurance to Members and senior management on the effectiveness of governance, risk management and control arrangements in delivering the achievement of Council objectives.
- Identify and focus its effort on areas of significance and risk, assisting the organisation in managing change effectively, and ensuring that core controls remain effective.
- Give assurance which covers the control environment in relation to new developments, using leading edge audit approaches such as use of technology to achieve 'whole population testing' and new insights over sampling or 'continuous assurance' where appropriate.
- Retain flexibility in the audit plan and ensure the plan remains current and relevant as the financial year progresses, this is particularly key given the current challenges and risks of COVID-19 and the impact this has had on audit activity.

Internal Audit Plan 2020/21

- 2.7 The draft plan for 2020/21 is included at Appendix A and B and contains a high-level proposed outline scope for each audit; Appendix C details the agreed start months. The number of days purchased in 2021/22 has reduced by 50 days, which for North Herts District Council equates to a reduction from 320 days to 270 days.
- 2.8 The table opposite shows the estimated allocation of the total annual number of purchased audit days for the year and the allocated budgets for 2020/21 for comparison and to demonstrate where the audit days saving has been achieved.
- 2.9 In reviewing the table opposite, Members will note the number of days (and percentage of total days) for the audit of Key Financial Systems has been reduced and this is to avoid duplication with External Audit and focus on areas of key risk to the Council. Additionally, Members should be assured that the percentage of audit days for planned projects remains consistent year to year with 63% (171 days) dedicated to non-financial audit activity (2020/21 was 60% or 194 days). Members will note the reduction in days for Operational audits, this is facilitating an increase in the number of Council wide audit days included in the plan.

	2021/22 Days	%	2020/21 Days	%
Key Financial Systems	44	16	63	20
Corporate Audits (Council Wide)	75	28	30	9
Operational Audits	51	19	113	35
Procurement / Contracts	15	6	12	4
IT Audits	30	10	27	8
Corporate Governance / Risk Management	0	0	12	4
Joint Reviews and Shared Learning	5	2	5	1.5
Strategic Support*	40	15	41	13
Contingency and other	0	0	2	0.5
Carry forward work	10	4	15	5
Total allocated days	270	100%	320	100%

* This covers supporting the Audit Committee, monitoring delivery of the audit plan, client liaison and planning for 2021/22.

- 2.10 In order to retain flexibility in the audit plan and to ensure SIAS has the ability to respond to any changes in environment at the Council, further planning discussions will be held with Senior Managers prior to the September 2021 FAR Committee. These discussions will allow SIAS and Senior Managers to undertake a further risk assessment on the planned projects during the final two quarters of the year as well as discussing any changes in risk exposure, emerging or new areas of risk or project work and any amendments to governance arrangements. The results of these discussions will be brought to the FAR Committee in September to approve any changes. As a result, no contingency has been included in this year's annual audit plan.
- 2.11 A list of reserve audits that will be considered as a substitute for an agreed planned review that is cancelled in-year is presented at Appendix B.
- 2.12 Any significant audit plan changes agreed between Management and SIAS will be brought before this committee for noting through the usual plan update reporting cycle.
- 2.13 Members will note the inclusion of a provision for the completion of projects that relate to 2020/21. The structure of Internal Audit's programme of work is such that full completion of every aspect of the work in an annual plan is not always possible; especially given the high dependence on client officers during a period where there are competing draws on their time, e.g. year-end closure procedures.
- 2.14 The nature of assurance work is such that enough activity must have been completed in the financial year, for the Head of Assurance to give an overall opinion on the Authority's internal control environment. In general, the tasks associated with the total completion of the plan, which includes the finalisation of all reports and negotiation of the appropriate level of agreed mitigations, is not something that adversely affects delivery of the overall opinion. The impact of any outstanding work is monitored closely during the final quarter by SIAS in conjunction with the Section 151 Officer.

3. Performance Management

Update Reporting

3.1 SIAS is required to report its work 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. Progress against the agreed plan for 2021/22 and any proposed changes will be reported to this Committee four times in the 2021/22 civic year.

3.2 SIAS will report on the implementation of agreed high priority recommendations as part of the update reporting process.

Performance Indicators

3.3 Annual performance indicators were approved at the SIAS Board and are reviewed annually by the Board. Details of the targets set for 2021/22 are shown in the table below. Actual performance against target will be included in the update reports to this Committee.

Performance Indicator	Performance Target
1. Planned Days (percentage of actual billable days against planned days)	95%
2. Planned Projects (percentage of projects completed to draft report against planned projects)	95%
3. Client Satisfaction (percentage of satisfaction questionnaires returned at satisfactory level)	100%
4. Agreed High Priority Audit Recommendations	95%
5. Annual Plan	Presented to the March (or equivalent) meeting of each Audit Committee.
6. Head of Assurance's Annual Report	Presented to the first meeting of each Audit Committee in the new financial year.

APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2021/22

Audit Title	Proposed Scope / Risk Areas	Reason for Inclusion	Officers	Days	Quarter
Financial System Audits					
Integra Automation	To provide assurance that the introduction of automated processes (e.g. suppliers portal) have met their objectives for development. In addition, to ensure that effective controls are operating in the automated environment.	The Council is continuing to evolve the financial system including advancing automation which may affect the embedded control framework.	Audit Sponsor: Service Director (Resources)	8	3
Non-UK Purchases	To provide assurance that any non-UK purchases have been appropriately processed, including authorisation by the Service Director (Resources) and all custom rules have been complied with.	The Council has prohibited non-UK purchases, except in exceptional circumstances.	Audit Sponsor: Service Director (Resources)	6	3
Investments	To provide assurance that investments in property markets and multi-asset funds are based on risk assessments and controls are in place relating to the decision making, processing and authorisation of investments.	The Council is intending to invest in new markets.	Audit Sponsor: Service Director (Resources)	6	3
Discretionary Housing Payments	To provide assurance over the application and assessment processes and awarding of discretionary housing payments.	The Council has seen an increase in DHP applications as a result of the coronavirus pandemic.	Audit Sponsor: Service Director (Customers)	8	1
Resilience in Revenues and Benefits	To provide assurance that the technical team have sufficient procedure notes and guidance is available to support business continuity and resilience. To review the business continuity and resilience arrangements of the team to provide	Integral part to the Revenues and Benefits service	Audit Sponsor: Service Director (Customers)	8	2

APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2021/22

Audit Title	Proposed Scope / Risk Areas	Reason for Inclusion	Officers	Days	Quarter
	assurance that these are sufficiently robust.				
Business Grant Administration	To provide assurance that the administration and awarding of grants relating to COVID-19 have been processed correctly. In addition, to provide assurance that mechanisms exist to process such grants in the future, should the need arise.	The Council has processed a large volume of grants as a result of the coronavirus pandemic.	Audit Sponsor: Service Director (Customers)	8	3
Corporate Audits					
COVID-19 Response	To provide assurance that the Council has learned lessons from the response to the COVID-19 pandemic and are well setup to respond to any resurgence or new wave. This will include an assessment of H&S arrangements, IT provision, service delivery, etc. To assess the impact on business continuity and emergency planning in the medium to long term.	The Council has included a high risk in the corporate risk register relating to COVID-19.	Audit Sponsor: Service Director (Resources)	15	2
COVID-19 Recovery - Planning	To provide assurance that the Council has appropriate plans in place for recovery from the pandemic. This audit will assess the plans, it will not provide assurance over the implementation and achievement of key objectives of these plans (this is to be completed later in the year). This review will also extend to assessing the	The Council has included a high risk in the corporate risk register relating to COVID-19.	Audit Sponsor: Service Director (Resources)	10	1

APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2021/22

Audit Title	Proposed Scope / Risk Areas	Reason for Inclusion	Officers	Days	Quarter
	governance arrangements in place to oversee the recovery activities.				
COVID-19 Recovery - Implementation	To provide assurance that the Council is on track in relation to implementing the recovery plan set and that actions completed to date have achieved the expected outputs and outcomes. This audit will focus on the action taken to recover from the pandemic both internally with services and also the external recovery of the district.	The Council has included a high risk in the corporate risk register relating to COVID-19.	Audit Sponsor: Service Director (Resources)	10	4
Shaping Our Future	To provide assurance that training and development links to the future needs from the workforce, including considering the outcomes and future needs related to any revised working arrangements post COVID-19.	This is a key project for the Council.	Audit Sponsor: Service Director (Resources)	15	3
Climate Emergency	To provide assurance that any issues or observations raised in the 2020/21 Climate Change and Sustainability audit have been addressed, that action plans are in place to achieve objectives (and that these are monitored and reported) and that the impact of actions taken to date are measurable and reported.	A climate emergency was declared by the Council in May 2019 and to follow up the outcomes of the previous audit in 2020/21.	Audit Sponsor: Service Director (Legal and Community)	10	4

APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2021/22

Audit Title	Proposed Scope / Risk Areas	Reason for Inclusion	Officers	Days	Quarter
Partnerships	To provide assurance that governance arrangements are suitable for the partnership arrangements in place within the Council. In addition, to assess the impact of previous audit reports on partnership arrangements.	Partnership working is key to the Council delivering its objectives. Previous audit work (2018/19 and 2019/20) has identified some weaknesses in existing partnership arrangements.	Audit Sponsor: Managing Director	15	4
Operational Audits					
Breathing Space (Debt Respite Scheme)	To provide assurance that the Parking debts and recovery actions are joined up with the Corporate debt recovery policy and approach.	There is new legislation introduced from May 2021 placing new requirements on creditors. For the Council, this will involve ensuring a joined up approach to debt management across all services.	Audit Sponsor: Service Director (Customers)	10	2
Customer Services Strategy	To provide assurance that the revised customer service strategy is in line with Council objectives and wider strategies that the Council has adopted.	The Council is launching a new Customer Service Strategy during 2021.	Audit Sponsor: Service Director (Customers)	10	1
Income Generation (Selling our Services)	To provide advice and benchmarking data on income generation of Local Authorities. Review to focus on internal culture, mechanisms available to generate income or sell Council services and reviews of fees and charges.	Selling our services is a high priority within the Commercial service plan for 2021/22.	Audit Sponsor: Service Director (Commercial)	10	1

APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2021/22

Audit Title	Proposed Scope / Risk Areas	Reason for Inclusion	Officers	Days	Quarter
Development Management Follow Up	To provide assurance that the recommendations made in the 2019/20 review have been fully implemented.	High priority findings previously raised.	Audit Sponsor: Service Director (Regulatory Services)	2	2
Financial Resilience of Suppliers Follow Up	To provide assurance that the recommendations made in the 2019/20 review have been fully implemented.	High priority finding previously raised.	Audit Sponsor: Service Director (Legal and Community)	2	2
Anti-Social Behaviour	To provide assurance that the campaigns and activities relating to fly tipping and abandoned vehicles has been successful and measurable outcomes achieved. In addition, the review will focus on CCTV usage, case management and enforcement.	This is considered a high risk on the Council's corporate risk register.	Audit Sponsor: Service Director (Legal and Community)	10	4
Review of the Finance, Audit and Risk Committee	To review the effectiveness of the Finance, Audit and Risk Committee and confirm that NHDC complies with the guidance in the CIPFA Audit Committee 'Practical Guidance for Local Authorities and Police'.	Annual review.	Audit Sponsor: Service Director (Resources)	5	1
Workman's Hall and King George V Playing Fields	To produce the Independent Examiner's Reports for the trusts.	Annual review.	Audit Sponsor: Service Director (Resources)	2	4
Contract Audits					
Leisure Contract	To provide assurance that the decision making, governance and monitoring arrangements in respect to the support provided to SLL are appropriate. In addition, to review the contingency arrangements in place in the event of	Leisure providers are facing significant financial challenges as a result of Covid-19 and the leisure contract is on the Council's	Audit Sponsor: Service Director (Place)	15	1

APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2021/22

Audit Title	Proposed Scope / Risk Areas	Reason for Inclusion	Officers	Days	Quarter
	provider failure or inability to provide services and assess the impact these may have on the strategic objectives of the Council.	corporate risk register as a result.			
IT Audits					
Data Breaches	To provide assurance that data breaches are effectively managed and reported in line with Council policy and legislation.	The Council have recently changed the Data Protection Officer.	Audit Sponsor: Service Director (Customers)	10	3
Freedom of Information and Subject Access Requests	To provide assurance that statutory deadlines are being met, responses are adequate, information is managed appropriately, appeals are handled suitably and within statutory timeframes and that income from SAR's is accurately recorded.	The volume of requests received by the Council has increased, and this area has not been subject to audit since GDPR was introduced.	Audit Sponsor: Service Director (Customers)	10	2
Cloud Computing	To provide assurance that the migration of services to cloud based has delivered its objectives and to appraise the design and operational effectiveness of the systems and processes in relation to setting a cloud strategy. In addition, monitoring software as a service (SaaS) providers and the cloud service itself, to ensure satisfactory encryption exists. The review will also consider the back-up arrangements for cloud data.	The Council is increasingly utilising cloud-based services and has a programme of migration in 2021/22.	Audit Sponsor: Service Director (Customers)	10	1

APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2021/22

Audit Title	Proposed Scope / Risk Areas	Reason for Inclusion	Officers	Days	Quarter

Title	Description	Days
Shared Learning and Joint Reviews		
Joint Reviews	Joint review topics to be agreed by the SIAS Board.	2
Shared Learning	Production of SIAS Quarterly Shared Learning papers.	3
Contingency		0
Client Management – Strategic Support		
Head of Internal Opinion 2020/21	To prepare and agree the Head of Internal Audit Opinion 2020/21.	3
Audit Committee	To provide service linked with the preparation, agreement and presentation of Audit Committee reports.	6
Client Meetings	Meetings with the Council's S151 Officer and other key officers and attendance at corporate groups.	6
Progress Monitoring	Audit Plan monitoring and reporting.	10
SIAS Development	Included to reflect the Council's contribution to developing the partnership.	5
2022/23 Audit Planning	Provision of services to prepare, agree and report the 2022/23 Annual Audit Plan.	10
Completion of outstanding 2020/21 projects	Completion of outstanding work from 2020/21.	10

APPENDIX B – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2021/22 – RESERVE LIST

Provided below is a list of reserve audits that may be introduced, if required, into the plan during 2021/22:

Audit Title	Proposed Scope / Risk Areas	Officers	Days
Parking Strategy	To provide assurance that the new parking strategy has been implemented (or is being implemented), operational guidance and action plans exist.	Audit Sponsor: Service Director (Regulatory Services)	10
Council Plan and Budgeting	To provide assurance that the Council plan is based on sound financial and budgetary projections. To review the outcome of the planned workshop activities and assess if these have achieved their objectives and are applied in practice.	Audit Sponsor: Service Director (Resources) and Managing Director	12
Corporate Governance – Ethics	To provide assurance that appropriate and sufficient protocol, documents and guidance are in place to provide adequate direction for all officers and members to behave in an ethical manner. These tools have been suitably communicated and applied in practice across the authority.	Audit Sponsor: Managing Director	15
Compliance Contract	To assess the adequacy of the service provided through the shared Property Compliance contract and review contingency arrangements in the event of performance risks materialising.	Audit Sponsor: Service Director (Resources)	10
Absence Management	To provide assurance over the arrangements to manage absences across the Council. This may include the following areas: a) Policy; b) Consistency of management; c) Reporting; d) Referrals to Occupational Health	Audit Sponsor: Service Director (Resources)	15

APPENDIX C – AUDIT START DATES AGREED WITH MANAGEMENT

Quarter 1	Quarter 2	Quarter 3	Quarter 4
Discretionary Housing Payments	Resilience in Revenues and Benefits	Grant Administration	Climate Emergency
COVID-19 Recovery Planning	Freedom of Information and Subject Access Requests	Integra Automation	Workman's Hall and King George V Playing Fields
Customer Services Strategy	COVID-19 Response	Non-UK Purchases	COVID-19 Recovery
Cloud Computing	Development Management F/U	Investments	Anti-Social Behaviour
Income Generation (Selling our Services)	Financial Resilience of Suppliers F/U	Data Breaches	Partnerships
Leisure Contract	Breathing Space	Shaping Our Future	
Review of the Finance, Audit and Risk Committee			
2020/21 Projects Requiring Completion			
			AUDITS TO BE CONFIRMED FOR QUARTER 3 AND 4 IN SEPTEMBER 2021

This page is intentionally left blank



North Hertfordshire District Council

Anti-Fraud Plan 2021/22

Recommendation

Members are recommended to:

1. Approve the Anti-Fraud Plan 2021/22; and
2. Note the activity to protect the Council against fraud and corruption in 2020/21

Contents

- 1 Purpose
- 2 Background
- 3 Anti-Fraud Plan 2021/22
- 4 Current Anti-Fraud Activity (2020/21)
- 5 Further Reading

1 Purpose

- 1.1 This report provides details of the Council's anti-fraud and corruption arrangements for 2020/21. The Anti-Fraud Plan ensures that the Council considers and acknowledges the risk of fraud, has in place appropriate policies and processes to deter/prevent/investigate fraud, and that senior officers understand their role in protecting the Council against fraud.

2 Background

- 2.1 Recent reports have been provided to officers and are being used by SAFS to ensure that the Council is aware of its fraud and corruption risks and finds ways to mitigate or manage these effectively wherever possible. Details of these reports and other recommend reding for Committee members can be found **at Section 5** of this report.
- 2.2 According to reports from CIPFA, National Audit Office (NAO), Cabinet Office, and the Private Sector, fraud loss across local government in England exceeds £2.billion each year, with some more recent reports indicating levels considerably above this.
- 2.3 The Cabinet Office, Ministry for Housing Communities and Local Government, National Audit Office, and CIPFA provide advice and best practice guidance to support local councils in the fight to reduce the risk of fraud and prevent loss to the public purse. This advice includes the need for vigilance in recognising fraud risks and the investment of sufficient resources into counter fraud activities.
- 2.4 It is essential that the Council has in place a robust framework to prevent and deter fraud, including effective strategies and policies, and plans to deal with the investigation and prosecution of fraud and corruption.
- 2.5 North Hertfordshire District Council is a founding partner of the Shared Anti-Fraud Service (SAFS). Members of this committee and Senior Leadership Team have received reports about how this service works closely with the Shared Internal Audit Service (SIAS) dealing with all aspects of fraud from prevention and deterrence to investigation and prosecution working with services and staff at all levels.

3 Anti-Fraud Plan 2021/22

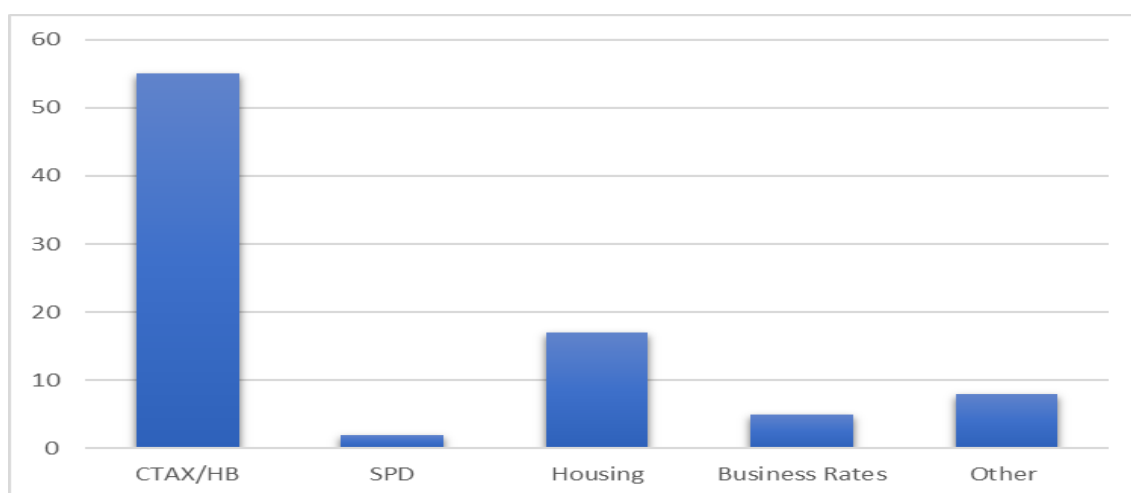
- 3.1 The reports and papers mentioned previously and guidance from National Audit Office (NAO) and the Ministry of Housing Communities and Local Government (MHCLG) recommend that organisations have effective and robust counter fraud and corruption measures. These measures must include the acknowledgement of fraud and corruption as a tangible risk, policies and procedures to deter and prevent fraud and resources to investigate fraud and recover losses. Above all an organisation should have a plan to protect itself against fraud and corruption.

- 3.2 Council officers and SAFS develop an anti-fraud plan each year and the proposed plan for 2021/22 is attached for approval by this Committee.
- 3.3 The Anti-Fraud Plan for 2021/22 has been designed to meet the recommendations of the Fighting Fraud and Corruption Locally Strategy (FFCL) by adopting the five 'pillars' of Protect, Govern, Acknowledge, Prevent and Pursue.
- 3.4 We have adopted the FFCL checklist as a 'To-do' list and we will use this to track responsibility for each action/objective and then identify how the Council is doing in that area, rating each and providing evidence to support this. In future years we will use this framework to review the Councils performance adding/editing actions/objectives as they arise or become relevant to the Council.

4. Anti-Fraud Activity 2020/21

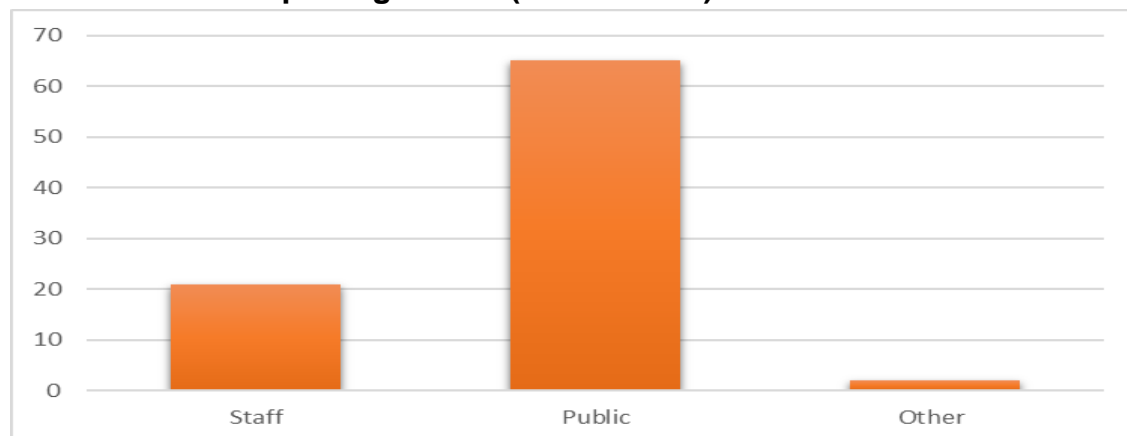
- 4.1 Between April and December 2020 SAFS received 88 allegations (referrals) of fraud affecting Council services. It should be noted that these are only allegations at this stage and although not all will need to be investigated each will be reviewed and appropriate action taken, if needed.
- 4.2 Table 1 shows the number of allegations of fraud received by the Council and which services these relate to. The majority of matters, 58, relate to council tax and/or housing benefit matters, 17 referrals are about housing applications and five about business rates. Eight cases are recorded as 'other', these include grant /payroll/mandate issues or where the allegation did not relate to the Council directly.

Table 1. Types of fraud being reported- (88 Referrals)



- 4.3 Table 2 shows who is reporting suspicions of fraud to the Council. Of the 88 matters reported 21 came from members of staff, 65 were reported by the general public and two came from other sources.

Table 2. Who is reporting Fraud- (88 Referrals)



'Other' includes data matching/ analytics activity or reports from public bodies such as the Police or DWP.

4.4 SAFS carried forward 45 live cases from 2019/20 and currently 41 cases are open and under investigation with estimated fraud losses/savings of £354k.

4.5 At the time of this report many cases raised for investigation are still in the early stages, however, of the 13 investigations closed in year fraud loss/savings in excess of £35k have been reported.

'Fraud Loss' is fraud that has occurred resulting in a debt that can be recovered through civil/statutory routes. 'Fraud Savings' reflect attempted frauds that have been prevented or an ongoing 'Loss' that has been stopped.

4.6 A significant number of cases have been delayed or suspended due to the restrictions with face to face interviews resulting from social distancing and some cases where SAFS works with other agencies, in particular the Department for Work and Pension (DWP), have been delayed as staff working for the DWP have been redeployed during the Covid crisis.

4.7 Officers have ensured the Council's compliance with the National Fraud Initiative (NFI) for 2020/21 and officers, supported by SAFS, are currently reviewing the output and reports from this exercise.

4.8 A detailed report of all counter fraud activity undertaken in 2020/21 will be provided to this Committee in the early summer 2021.

5. Further Reading

- *Councillors Workbook on Bribery & Fraud Prevention*
- *Fighting Fraud and Corruption Locally a Strategy for the 2020's.*
- *Tackling Fraud in the Public Sector.*
- *COVID-19 Counter Fraud Measures Toolkit.*
- *UK Annual Fraud Indicator 2017.*
- *Fraud and Corruption Tracker 2019.*
- *United Kingdom Anti-Corruption Strategy 2017-2022.*
- *Local Government Transparency Code.*
- *The National Fraud Strategy: Fighting Fraud Together.*
- *CIPFA Red Book 2 – Managing the Risk of Fraud – Actions to Counter Fraud and Corruption.*

**North Hertfordshire District Council
Anti-Fraud Plan 2021/22**

in partnership with

The Shared Anti-Fraud Service



<u>Contents</u>	Page No.
Introduction	2.
The National Context	3.
Anti-Fraud Plan 2021/2022	4.
SAFS Resources for 2021/2022	4.
Workplans & Projects 2021/2022	5
SAFS KPIs & Standards of Service	6
Appendices	
Anti-Fraud Action Plan 2021/2022	A.
SAFS KPIs 2021/2022	B.

Introduction

This plan supports the Council's Fraud Prevention Policy by ensuring that the Council, working in partnership with the Shared Anti-Fraud Service (SAFS), has in place effective resources and controls to prevent and deter fraud as well as investigate those matters that do arise.

The Councils Policy states:

The Council will promote an environment where everyone feels able to report any concerns that they have.

The Council, through the Senior Management Team, is committed to developing a policy that is proportionate to the risks it faces.

The Council has an overarching "Fraud, Corruption and Bribery" risk on its risk register. This incorporates a number of sub-risks that are kept under regular review. This includes the risks from both within the Council, and from outside.

This plan includes objectives and key performance indicators that support the Councils Policy and follows the latest best practice/guidance/directives from the Ministry for Housing Communities and Local Government (MHCLG), National Audit Office (NAO), Local Government Association (LGA) and the Chartered Institute for Public Finance and Accountancy (CIPFA).

National Context.

In 2013 the National Fraud Authority stated that the scale of fraud against local government “is large, but difficult to quantify with precision”. Since 2013 a number of reports have been published including by CIPFA, NAO and MHCLG stating that the threat of fraud against local government is both real, causes substantial loss (including reputational, service as well as financial) and should be prevented where possible and pursued where it occurs. The latest annual estimates of fraud risk to local government exceed £7bn.

The Fighting Fraud and Corruption Locally, A Strategy for the 2020’s, published in March 2020 is supported by CIPFA, the LGA, SOLCACE and a number of External Auditors.

The new Strategy compliments work undertaken in 2019 by CIPFA, NAO and Cabinet Office as well as the *Code of practice on managing the risk of fraud and corruption* CIPFA 2015 adding to its three ‘Pillars’ of **Acknowledge, Prevent & Pursue** with a fourth **Governance** with an overarching aim **Protect** which sits across all Pillars:

Governance: Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation. Ensuring a tone from the top

Protect: Against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community.

For a local authority this will also cover protecting public funds, protecting its organisation from fraud and cybercrime and also protecting itself from future frauds.



NHDC Anti-Fraud Plan 2021-2022

The Councils Plan will be overseen by the Shared Anti-Fraud Service (SAFS) but officers at all levels across the Council will have responsibility for ensuring that the plan is delivered.

The Anti-Fraud Plan highlights specific areas of work to protect the Council against fraud and corruption but the Council also has a duty to protect the public and it does this through its work across all services but in particular by sharing information and knowledge through communications either directly or via its website. The Council has frameworks and procedures in place to prevent fraud and encourage staff and the public to report suspicions of fraud through a number of channels

The Anti-Fraud Plan follows current best practice contained in the Fighting Fraud and Corruption Locally Strategy (FFCL) and elsewhere. The FFCL checklist attached at **Appendix A** will be completed by March 2022 and reported back to this Committee then with updates throughout the year. This will help determine if there are any further actions or activities that should be added to the Fraud Plan via an in-year update.

SAFS Resources 2021-2022

Anti-Fraud Arrangements

North Hertfordshire District Council is a Partner of the Hertfordshire Shared Anti-Fraud Service (SAFS) and this service has provided the majority of the anti-fraud arrangements for the Council since April 2015. In 2019 the SAFS Partnership won the '*Outstanding Partnership*' award at the Tackling Economic Crime Awards.

SAFS is a Partnership with each organisation paying an annual fee for Hertfordshire County Council to provide a contracted service across the Partnership. SAFS, as a service, has a number of key objectives developed by its Management Board (the Board) and every Partner has a seat on that Board. For the North Hertfordshire District Council the Service Director- Resources is the Board representative.

Although SAFS provides much of the Councils proactive, reactive and operational counter fraud work Council officers are responsible for ensuring the policies, procedures, training and appropriate resources are in place to protect the Council from fraud, corruption and bribery.

Budget

In December 2020 the SAFS Board agreed to increase the fees for all Partners by 1% to meet increased service costs. The Board also received assurance from financial modelling that the service would be sustainable, in its current form, for the next three years.

North Hertfordshire District Council fees for 2021-2022 have been set at £84,064. This sum is payable in four quarters.

Staffing

The full complement of SAFS in 2021-2022 will be 19.6 FTE.

North Hertfordshire District Council will have exclusive access to 1 FTE Counter Fraud Officer (Investigator), access to intelligence functions of the service, all data-matching services being offered through the SAFS Data-Hub and Herts *FraudHub* (hosted by Cabinet Office) and can call on SAFS management for liaison meetings, management meetings and three Audit Committees reports per annum. An Accredited Financial Investigator is also available to assist in money laundering or proceeds of crime investigations.

SAFS also has access to specialist IT forensics, covert surveillance and national counter fraud intelligence services provided via third parties and criminal litigation services to support the in-house legal team.

SAFS will also provide alerts (local and national) to Council officers and senior management of new and emerging fraud risks through its membership of anti-fraud forums and specialist providers including the Fighting Fraud and Corruption Locally Board (FFCLB) the Credit Industry Fraud Avoidance Service (CIFAS), Certified Institute of Public Finance and Accountancy (CIPFA) Finance National Fraud Intelligence Bureau (NFIB) and the National Anti-Fraud Network (NAFN).

Workplans & Projects 2021/2022

SAFS will work in the following areas delivering specific activity agreed with service managers.

Service Area	Agreed Projects
Central Services / Finance	<p>General Support and advice on fraud matters.</p> <p>3 Reports to Finance Audit and Risk Committee.</p> <p>Qtly Meetings with officer group to consider any new and emerging fraud risks and performance against SAFS KPIs</p> <p>SAFS attendance at Corporate Governance/Enforcement Groups.</p> <p>5 fraud training/awareness events for staff/members in year.</p> <p>AML/ MLRO Provision- Policy review and training.</p> <p>Liaison with SIAS on fraud risks as part of the Audit Plan and areas of weaknesses identified either through the Audit Plan or from SAFS work.</p> <p>Review of all current and any new Anti-Fraud and Corruption arrangements.</p>
Revenues and Benefits	<p>Reactive investigations for HB/CTRS.</p> <p>Identify systems/processes/new developments to assist in recovery of debt created by fraud.</p> <p>Assist with potential fraud resulting from Covid Grant Schemes administered by the Council.</p> <p>Post payment assurance of grant schemes.</p>
Housing Services	<p>Reactive investigations for Housing Application, Tenancy fraud</p> <p>Provide a focus on fraud risks affecting temporary accommodation costs.</p> <p>Review housing register to identify fraudulent applications and, where appropriate, investigate these.</p>
Data- Analytics	<p>Use of data and technology to prevent or identify fraud.</p> <p>Assist with NFI 2020/21 output and reports.</p> <p>FraudHub. Agreeing a programme for upload of data-sets and reporting of matches to relevant services.</p> <p>Support for Council Tax Review Framework.</p> <p>Use of data-analytics to identify fraud/evasion of business rates and rate collection.</p> <p>Review extension of NFI Powers to 'other' crime and debt collection.</p>
Other / Contingency	<p>Identify fraud risks and training in other areas including payroll, licensing, parking services, planning, procurement processes & contract management.</p>

SAFS KPIs.

SAFS will work to a set of KPIs agreed with senior officers and can be found at **Appendix B** and progress with delivering these will be reported to senior officers and the Finance Audit and Risk Committee throughout the year.

SAFS - Standards of Service.

SAFS will provide the Council with the following anti-fraud services.

1. 24/7 Access to a fraud hotline, email and online solution for public reporting.
2. Process for Council staff to report suspected fraud to SAFS.
3. Training in: Fraud Awareness (management/staff/members), Fraud Prevention, Identity Fraud and Prevention.
4. Assistance in the design/review of Council policies, processes and documents to deter/prevent fraud.
5. SAFS will design shared/common anti-fraud strategies and policies or templates which can be adopted by the Council.
6. SAFS will continue to develop with the Cabinet Office and Council officers a data-matching solution (NFI- Herts *FraudHub*) to assist in the early identification and prevention of fraud.
 - The FraudHub will be funded by the Council
 - The FraudHub will be secure and accessible only by nominated SAFS and Council Staff.
 - Data will be collected and loaded in a secure manner.
 - SAFS will design and maintain a data-sharing protocol for all SAFS Partners to review and agree annually.
 - SAFS will work with Council officers to identify data-sets (and frequency) of the upload of these.
 - SAFS will work with Council officers to determine the most appropriate data-matching.
7. All SAFS Staff will be qualified, trained and/or accredited to undertake their duties lawfully.
8. All SAFS investigations will comply with legislation including DPA, UK GDPR, PACE, CPIA, HRA, RIPA, IPA* and relevant Council policies
9. Reactive fraud investigations.
 - Any high profile, high value, high risk cases or matters reported by senior managers will receive a response within 24 hours of receipt
 - All cases reported to SAFS will be reviewed within 2 days of receipt and decision made on immediate action including selection of cases for further review, no action, investigation or referral to 3rd parties including police, DWP, Action Fraud.
 - The Council will be informed of all reported fraud affecting its services.
 - SAFS will allocate an officer to each case.
 - SAFS officers will liaise with nominated officers at the Council to access data/systems to undertake investigations.
 - SAFS officers will provide updates on cases and a summary of facts and supporting evidence on conclusion of the investigation for Council officers to review and make any decisions.
 - Where criminal offences are identified SAFS will draft a report for Council officers to make a decision on any further sanctions/prosecutions.
10. Where sanctions, penalties or prosecutions are sought SAFS will work with the Council to determine the appropriate disposal in line with the Council's policies.
11. SAFS will provide Alerts to the Council, of suspected fraud trends or reports/guidance from government and public organisations that are relevant to fraud.
12. SAFS will provide reports to senior management on the progress with delivery of this Plan and any other relevant activity planned or otherwise.
13. SAFS will provide reports through the SAFS Board and to the Council's Audit Finance Audit & Risk Committee as agreed in the SAFS Partnership Contract.

**Data Protection Act , UK General Data Protection Regulation, Police and Criminal Evidence Act, Criminal Procedures and Investigations Act, Human Rights Act, Regulation of Investigatory Powers Act, Investigatory Powers Act.*

No.	Action or Activity from the FFCL Checklist	Pillar	Responsibility	Achieved RAG	Evidence/Plans	Date reviewed	Reviewing officer
1	The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members.	GOVERN					
2	There is an annual report to the audit committee, or equivalent detailed assessment, to compare against FFCL 2020 (and this checklist).	GOVERN					
3	the relevant portfolio holder has been briefed on the fraud risks and mitigation	GOVERN					
4	The audit committee supports counter fraud work and challenges the level of activity to ensure it is appropriate in terms of fraud risk and resources	GOVERN					
5	Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud-proof systems.	GOVERN					
6	The local authority has undertaken a fraud risk assessment against the risks and has also undertaken horizon scanning of future potential fraud and corruption risks. This assessment includes the understanding of the harm that fraud may do in the community.	ACKNOWLEDGE					
7	There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been communicated throughout the local authority and acknowledged by those charged with governance.	ACKNOWLEDGE					
	The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.	ACKNOWLEDGE					
8	Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.	ACKNOWLEDGE					
9	There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.	ACKNOWLEDGE					

No.	Action or Activity from the FFCL Checklist	Pillar		Achieved RAG	Evidence/Plans	Date reviewed	Reviewing officer
10	The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	PREVENT					
11	Counter fraud staff are consulted to fraudproof new policies, strategies and initiatives across departments and this is reported upon to committee.	PREVENT					
12	The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.	PREVENT					
13	The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended in FFCL 2020 to prevent potentially dishonest employees from being appointed.	PREVENT					
14	Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to committee.	PREVENT					
15	There is an independent and up-to-date whistleblowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.	PREVENT					
16	Successful cases of proven fraud/corruption are routinely publicised to raise awareness.	PREVENT					
17	There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communications team.	PREVENT					
18	The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering: – codes of conduct including behaviour for counter fraud, anti-bribery and corruption – register of interests – register of gifts and hospitality.	PREVENT					
19	There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.	PREVENT					
20	Contractors and third parties sign up to the whistleblowing policy and there is evidence of this.	PREVENT					
21	The fraud response plan is linked to the audit plan and is communicated to senior management and members.	PREVENT					
22	There is a zero tolerance approach to fraud and corruption that is defined and monitored and which is always reported to committee.	PREVENT					

No.	Action or Activity from the FFCL Checklist	Pillar		Achieved RAG	Evidence/Plans	Date reviewed	Reviewing officer
23	Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.	PURSUE					
24	Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.	PURSUE					
25	All allegations of fraud and corruption are risk assessed.	PURSUE					
26	There is a programme of proactive counter fraud work which covers risks identified in assessment.	PURSUE					
27	The counter fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.	PURSUE					
28	The fraud and corruption response plan covers all areas of counter fraud work: – prevention – detection – investigation – sanctions – redress.	PURSUE					
29	Asset recovery and civil recovery are considered in all cases.	PURSUE					
30	The local authority shares data across its own departments and between other enforcement agencies.	PURSUE					
31	Prevention measures and projects are undertaken using data analytics where possible.	PURSUE					
32	The counter fraud team has registered with the Knowledge Hub so it has access to directories and other tools.	PURSUE					
33	The counter fraud team has access to the FFCL regional network.	PURSUE					
34	There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work they too must be trained in this area.	PURSUE					
35	The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas. The counter fraud team has access to (through partnership/other local authorities/or funds to buy in) specialist staff for: – surveillance – computer forensics – asset recovery – financial investigations.	PURSUE					

This page is intentionally left blank

SAFS KPIs - 2021/ 2022

KPI	Measure	Target 2021/22	Reason for KPI
1	Return on investment from SAFS Partnership.	Demonstrate, via SAFS Board, that the Council is receiving a financial return on investment from membership of SAFS and that this equates to its financial contribution.	Transparent evidence to Senior Management that the Council is receiving a service matching its contribution.
2	Provide an investigation service.	A. 1 FTE on call at the Council. (Supported by SAFS Intel/ AFI/Management). B. 3 Reports to Finance Audit & Risk Committee. C. SAFS Attendance at Corporate Governance, Champion meetings, team management meetings.	Ensure ongoing effectiveness and resilience of the Councils anti-fraud arrangements.
3	Action on reported fraud.	A. All urgent/ high risk cases 1 Day. B. All other cases 2 Days on Average.	Ensure that all cases of reported fraud are triaged within agreed timescales.
4	Added value of SAFS membership.	A. Membership of NAFN & PNLD B. Membership of CIPFA Counter Fraud Centre C. NAFN Access/Training for relevant Council Staff D. 10 Training events for staff/Members in year.	Deliver additional services that will assist in the Council in preventing fraud across all services and in the recovery of fraud losses.
5	Allegations of fraud received. & Success rates for cases investigated.	A. All reported fraud (referrals) will be logged and reported to the Council by type & source. B. All cases investigated will be recorded and the financial value, including loss/recovery/ savings of each, Reported.	This target will measure the effectiveness of the service in promoting the reporting of fraud & measure the effectiveness in identifying cases worthy of investigation.
6	Making better use of data to prevent/identify fraud.	A. Support the NFI 2020/21 Output and reports across services. B. Consider other areas where the better use of data will benefit the Council financially.	Further develop a Hub that will allow the Council to access and share data to assist in the prevention/detection of fraud.

This page is intentionally left blank

**FINANCE, AUDIT & RISK COMMITTEE
8 MARCH 2021**

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: LOCAL CODE OF CORPORATE GOVERNANCE 2021 AND ANNUAL GOVERNANCE STATEMENT 2019/20 (ACTION PLAN FOR 2020/21) UPDATE

REPORT OF THE POLICY AND COMMUNITY ENGAGEMENT MANAGER

EXECUTIVE MEMBER: [NON-EXECUTIVE FUNCTION]

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1. For the Finance, Audit & Risk Committee to approve the Local Code of Corporate Governance for 2021; and review the progress of the Annual Governance Statement ('AGS') Action Plan for 2020/21.

2. RECOMMENDATIONS

- 2.1. approves the Local Code of Corporate Governance 2021 (Appendix A); and
- 2.2. notes the current position with the AGS Action Plan (Appendix B).

3. REASONS FOR RECOMMENDATIONS

- 3.1 It is recommended practice to review the Local Code of Corporate Governance each year to ensure it remains up to date and relevant.
- 3.2 Reviewing the AGS Action Plan during 2020/21 provides the Committee with assurances that NHDC is following through with recommended changes and/or improvements to 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. The Council's external auditors and Shared Internal Audit Service (SIAS) were consulted on the AGS 2019/20. Finance, Audit & Risk Committee Members were given the opportunity to comment on the draft AGS and Action Plan at Committee and post Committee before this was finalised.

The AGS referred to assurances provided from various sources (for example internal and external audit reports completed) for the 2019/20 period. The Action Plan was based on recommended action/ planned review procedures by SIAS, Leadership Team (which at the time comprised of the Chief Executive, Deputy Chief Executive and Service Directors) and relevant Service Managers through the combined assurance statements.

- 5.2. No other external or Member consultation has been undertaken on the content of the report.

6. FORWARD PLAN

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

7. BACKGROUND

AGS:

- 7.1 Reference is made to the report of [7 September 2020](#)^{*}, which sets out the AGS and legal requirements for preparation, review and approval of the AGS, together with the matters included/ and parties involved in that process. The AGS reviews the systems in place for the previous financial year and identifies any actions to be undertaken in the forthcoming year as part of an Action Plan.

Local Code of Corporate Governance:

- 7.2 It is recommended good practice for the Local Code of Corporate Governance ('the Local Code') be reviewed annually and was last updated in March 2020. It was based on the (2016) CIPFA/ SOLACE Framework Delivering Good Governance in Local Government Framework 2016 Edition principles. This remains the basis for an assessment of governance arrangements for the 2020/21 period. The only amendment is to the first overarching Council objective (It now reads: 'Be a welcoming, inclusive, and efficient council') at Section 4 of Appendix A.

- 7.3 If the Code is approved by this Committee, it will be placed on the NHDC Corporate Governance internet page. Confirmation of the updated Code shall be provided to Members through the MIS process and to employees via the *Insight* monthly staff briefing.

- 7.4 The Code and the CIPFA/SOLACE Framework will then provide the effective scheme against which the AGS operational governance compliance will be measured.

Action Plan:

- 7.5 The last AGS (2019/20) was approved at the Finance, Audit and Risk Committee in September 2020. This included an Action Plan to be reviewed bi-annually. The updated position is provided in Appendix B. This also sets out what is recommended for a carry forward for the Action Plan for the AGS 2020/21.

8. RELEVANT CONSIDERATIONS

- 8.1. The Local Code 2021 is at Appendix A.

- 8.2. Appendix B notes the progress made against the individual actions against the Action Plan for 2020/21. All five actions are on-going for this financial year.

9. LEGAL IMPLICATIONS

There is currently a Ministry of Housing, Communities and Local Government (MHCLG) consultation taking place on the Accounts and Audit (Amendment) Regulations 2021, which would see the relevant deadline extended to 30th September in 2021 and 2022. Otherwise the legal implications are set out under section 7 above.

- 9.1 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.*” Review and approval of the AGS is a non-executive function and falls within the Committee’s remit.

10. FINANCIAL IMPLICATIONS

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

11. RISK IMPLICATIONS

- 11.1. Ineffective corporate governance arrangements have a number of inherent risks in the context of organisational management, the use of resources and service delivery. Approving a Local Code of Corporate Governance based on the national CIPFA/SOLACE Framework is a means of mitigating potential risks.
- 11.2. The ongoing review of the identified actions arising from the AGS provides the Committee with assurance that measures are being put in place to reduce identified risks. The process of assessing the Council’s governance arrangement enables any areas of weakness to be identified and an Action Plan to improve governance identified and monitored.

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no direct equality implications of this report or the AGS. Where relevant the Council’s arrangements have been assessed against the 2016 Framework Principles. In respect of those arrangements, the SMT AGS self-assessment identifies the procedures in place and any outcomes. Council reports include any equality implications and are assessed by the Corporate Policy Team. Where appropriate an impact assessment will be undertaken, and mitigation measures identified by the report author and Policy team. The Corporate Policy team undertake an Annual Cumulative Equality Impact Assessment of these and publishes it on the Council’s website¹.

¹ <https://www.north-herts.gov.uk/sites/northherts-cms/files/Cumulative%20EiA%20assessment%20201920%20FINAL.pdf>

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.

14. HUMAN RESOURCE IMPLICATIONS

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

15. APPENDICES

15.1 Appendix A – Local Code of Governance

15.2 Appendix B - Action plan for 2020/21 and corresponding actions

16. CONTACT OFFICERS

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

Contributors:

16.2 Ian Couper Service Director - Resources:
Email: ian.couper@north-herts.gov.uk 01462 474243

16.3 Jo Keshishian Interim Human Resources Services Manager:
Email: Jo.kershishian@north-herts.gov.uk 01462

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

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

16.6 Georgina Chapman Corporate Policy Officer
Email: Georgina.chapman@north-herts.gov.uk 01462 474121

17. BACKGROUND PAPERS

17.1 The Finance, Audit & Risk Report and Appendix A (September 2020 linked above).

17.2 [Local Code of Governance](#) published in March 2016, updated in March 2020

17.3 [Annual Governance Statement 2019/20](#)

LOCAL CODE OF CORPORATE GOVERNANCE

1. INTRODUCTION

- 1.1 North Hertfordshire District Council (NHDC) is committed to achieving good corporate governance and this Local Code of Corporate Governance confirms its ongoing commitment to do so.
- 1.2 This Code outlines NHDC's approach towards corporate governance and the principles against which its arrangements will be measured.

2. WHAT IS CORPORATE GOVERNANCE?

- 2.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Government Chief Executives (SOLACE) set the standard for local authority governance in the UK through their Framework principles and published a new set in April 2016. These principles *are themselves* derived from the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) (the 'International Framework'). NHDC's Code is therefore based on these principles:



- 2.2. The 2016 Framework defines governance as comprising of: “...***the arrangements (including political, economic, social, environmental administrative, legal, and other arrangements)***”

put in place to ensure that the intended outcomes for stakeholders are defined and achieved.”

2.3. The CIPFA/Solace Framework states¹ that ***“To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in this Framework. It should therefore develop and maintain a local code of governance/governance arrangements reflecting the principles set out.”***

2.4. These principles and sub-principles are:

Principles in bold, Sub-principles in italics.
Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.
1) Behaving with integrity
<i>i) Ensuring Members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation.</i>
<i>ii) Ensuring Members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles).</i>
<i>iii) Leading by example and using these standard operating principles or values as a framework for decision making and other actions.</i>
<i>iv) Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively.</i>
2) Demonstrating strong commitment to ethical values
<i>i) Seeking to establish, monitor and maintain the organisation’s ethical standards and performance.</i>
<i>ii) Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation’s culture and operation.</i>
<i>iii) Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values.</i>
<i>iv) Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation.</i>
3) Respecting the rule of law

¹ Delivering good governance in Local Government Framework (2016 Edition)

- i) Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations.*
- ii) Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements.*
- iii) Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders.*
- iv) Dealing with breaches of legal and regulatory provisions effectively.*
- v) Ensuring corruption and misuse of power are dealt with effectively.*

Principle B. Ensuring openness and comprehensive stakeholder engagement.

Local government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

1) Openness

- i) Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness.*
- ii) Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided.*
- iii) Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear.*
- iv) Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/courses of action.*

2) Engaging comprehensively with institutional stakeholders

- i) Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably.*
- ii) Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively.*
- iii) Ensuring that partnerships are based on:*
 - trust*
 - a shared commitment to change*
 - a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit.*

3) Engaging stakeholders effectively, including individual citizens and service users

- i) Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes.*

<i>ii) Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement.</i>
<i>iii) Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs.</i>
<i>iv) Implementing effective feedback mechanisms in order to demonstrate how their views have been taken into account.</i>
<i>v) Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity.</i>
<i>vi) Taking account of the interests of future generations of tax payers and service users.</i>
Principle C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.
1) Defining outcomes
<i>i) Having a clear vision which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation's overall strategy, planning and other decisions.</i>
<i>ii) Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer.</i>
<i>iii) Delivering defined outcomes on a sustainable basis within the resources that will be available.</i>
<i>iv) Identifying and managing risks to the achievement of outcomes.</i>
<i>v) Managing service user's expectations effectively with regard to determining priorities and making the best use of the resources available.</i>
2) Sustainable economic, social and environmental benefits
<i>i) Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision.</i>
<i>ii) Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints.</i>
<i>iii) Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs.</i>
<i>iv) Ensuring fair access to services.</i>

Principle D. Determining the interventions necessary to optimise the achievement of the intended outcomes
Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.
1) Determining interventions
<i>i) Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided.</i>
<i>ii) Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts.</i>
2) Planning interventions
<i>i) Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets.</i>
<i>ii) Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered.</i>
<i>iii) Considering and monitoring risks facing each partner when working collaboratively including shared risks.</i>
<i>iv) Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances.</i>
<i>v) Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured.</i>
<i>vi) Ensuring capacity exists to generate the information required to review service quality regularly.</i>
<i>vii) Preparing budgets in accordance with organisational objectives, strategies and the medium term financial plan.</i>
<i>viii) Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy.</i>
3) Optimising achievement of intended outcomes
<i>i) Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints.</i>
<i>ii) Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term.</i>

iii) Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage.

iv) Ensuring the achievement of 'social value' through service planning and commissioning. The Public Services (Social Value) Act 2012 states that this is "the additional benefit to the community...over and above the direct purchasing of goods, services and outcomes".

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

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

1) Developing the entity's capacity

i) Reviewing operations, performance use of assets on a regular basis to ensure their continuing effectiveness.

ii) Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently.

iii) Recognising the benefits of partnerships and collaborative working where added value can be achieved.

iv) Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources.

2) Developing the capability of the entity's leadership and other individuals

i) Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained.

ii) Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body.

iii) Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority.

iv) Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:

- ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged.
- ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis.
- ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external.

v) Ensuring that there are structures in place to encourage public participation.

vi) Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections.

vii) Holding staff to account through regular performance reviews which take account of training or development needs.

viii) Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing.

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

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.

It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery.

Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

1) Managing risk

i) Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making.

ii) Implementing robust and integrated risk management arrangements and ensuring that they are working effectively.

iii) Ensuring that responsibilities for managing individual risks are clearly allocated.

2) Managing performance

i) Monitoring service delivery effectively including planning, specification, execution and independent post implementation review.

ii) Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook.

iii) Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible.

iv) Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement.

v) Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements).

3) Robust internal control

i) Aligning the risk management strategy and policies on internal control with achieving the objectives).

ii) Evaluating and monitoring the authority's risk management and internal control on a regular basis).

iii) Ensuring effective counter fraud and anti-corruption arrangements are in place).

iv) Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor).

v) Ensuring an audit committee or equivalent group or function which is independent of the executive and accountable to the governing body:
— *provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment*
— *that its recommendations are listened to and acted upon.*

4) Managing data

i) Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data.

ii) Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies.

iii) Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring.

5) Strong public financial management

i) Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance.

ii) Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls.

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

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

1) Implementing good practice in transparency

i) Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate.

ii) Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand.

6) Implementing good practices in reporting

i) Reporting at least annually on performance, value for money and the stewardship of its resources.

ii) Ensuring members and senior management own the results.

iii) Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement).

iv) Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate.

v) Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations.

7) Assurance and effective accountability

i) Ensuring that recommendations for corrective action made by external audit are acted upon.

ii) Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon.

iii) Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations.

iv) Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement.

v) Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met.

3. NHDC'S GOVERNANCE AIM

- 3.1. NHDC aims to meet the above Framework principles in a cost efficient and effective governance manner. The Council is required to review its arrangements annually and will assess these against the principles and prepare and publish an Annual Governance Statement (AGS) in accordance with Delivering Good Governance in Local Government: Framework (2016) and the statutory requirements².
- 3.2. Many of the requirements contained within the principles and this Code are included in the Council's Constitution and the Council's key strategies and policies, which are available through the Council's website:

<https://www.north-herts.gov.uk/>

As part of the annual assessment, the AGS will, however, set out how the requirements have been met through specific examples/ outcomes as against the above principles; or if these have not been met in part/ fully, detail the actions NHDC will take to address the matter. The assessment document will be published on the Council's website.

4. NHDC'S VISION

- 4.1. Leadership and collaborative working are developed themes within NHDC. It has a vision and the Council Plan that sets out NHDC's strategic ambitions and aspirations for the district for 2021-2026.

- 4.2. NHDC's Vision is:

'Making North Herts a district in which everyone who lives, works or visits is able to flourish'

It is clear that the Council must work with its partners, businesses and urban and rural communities to achieve this vision.

- 4.3. NHDC's internal corporate business planning process supports the delivery of the vision in terms of what we do and the collaborative work we carry out in conjunction with our partners.
- 4.4. The vision is supported by the Council's Objectives, which for 2021 onwards are:

- **Be a more welcoming, inclusive, and efficient council**

We will engage with and welcome the contributions of residents, community groups and businesses; working collaboratively with local people.

- **Build thriving and resilient communities**

We will work on frequent and regular opportunities to improve the partnership and relationship that the Council has with local citizens. Some of this will be achieved by change in culture, tone and communications but more will be done through direct measurable activity, intervention and consultation.

We will develop a range of innovative ways in which local communities, from small groups to whole towns and communities of interest can be encouraged to become more involved in supporting, planning, improving and maintaining local environments.

² Under the Local Audit and Accountability Act 2014 ('LAAA 2014') and the Accounts and Audit Regulations 2015/234

This work stream will focus particularly on engaging with young residents and those who are disadvantaged or in any way socially excluded, to ensure such innovations are fit for the future and imaginative in concept and delivery.

- **Respond to challenges to the environment:**

We will seek to provide a clean and safe environment, in consultation and partnership with local people. We will engage local people and organisations as we progress towards our target of net zero carbon emissions by 2030, whilst taking action to enable and encourage residents to minimise their own carbon impact. We will protect the natural and built environment through our planning policies and an effective green spaces strategy. We will take action against environmental crime and ensure that our approach to waste and recycling promotes the hierarchy of reduce, re-use, recycle. We will complete the elimination of single use plastics from the council and support reductions in their use across the district. We will work to improve the monitoring and management of air quality across the district, prioritising those areas where air quality is most in need of improvement.

- **Enable an enterprising and co-operative economy**

We will aim to become an increasingly innovative and inclusive Council, committed to generating community wealth, by seeking commercial and investment opportunities and through proactive engagement with a wider range of small and medium sized businesses to build a sustainable local economy. We will continue to engage with residents, staff and Councillors to continue to embrace modern working practices through the use of IT and a commitment to working towards a paperless Council whilst increasing the efficiency of services and access to them by residents.

- **Support the delivery of good quality and affordable homes.**

We will enable and support the delivery of good quality and affordable housing in the district, ensuring both new and existing housing is fit for purpose, including a commitment to consultation and ensuring communities have the infrastructure they need. We will build more effective relationships with local housing associations and recognise our role in the fight against homelessness. We will continue to support Parishes with Neighbourhood plans.

- a. The Council aspires to achieve its priorities in an open and transparent manner having due regard to equal opportunities and the opportunities and benefits proffered by innovative and flexible partnership working.

5. CONCLUSION

To ensure that it keeps its aims, NHDC will:

- Review its Local Code of Corporate Governance annually to ensure that it reflects current recommended practice and remains a “live” document;
- Monitor all arrangements in place for practical effectiveness;
- Review practices, procedures and guidelines on a regular basis;
- Review its arrangements and report these through the AGS on how NHDC is complying with the principles/ the Code. This will include oversight of the assessment by the Senior Management Team and Member consideration and approval (through appropriate bodies). This assessment will include review of: the annual internal auditor’s opinion from the Head of the

Shared Internal Audit Service (SIAS); external auditors opinion/ letter; managers' assurance statements; the Finance, Audit and Risk Committee annual report/ review of its effectiveness; inspection reports (SIAS and the Shared Anti-Fraud Service – SAFS); Ombudsman's recommendations; annual Scrutiny report; Standards Committee report; project governance and risk arrangements;

- Identify any necessary governance actions in the AGS including appropriate timescales and designate Lead Officers for the forthcoming year;
- Ensure that actions identified in the AGS are monitored and reported back through the Senior Management Team process (as appropriate) and to Members of Finance, Audit and Risk Committee.

Review date – 8 March 2021

This Code will be reviewed by 31st March 2022 unless any significant changes are required in the interim.

Action	Officer update
1. Ethical awareness training – increased staff/member uptake of the Anti-bribery e-learning module (Learning & Development)	An extensive Induction programme took place in May 2019 for new members. A Councillors' Learning and Development Protocol was also instituted with nominated Member training champions. To date 263 staff and 10 members have completed the training. Learning and Development will issue a reminder to prompt higher completion rates. ONGOING.
2. Revised Grant Policy to be reviewed after a complete cycle of area committee meeting to assess awards across the voluntary sector (Policy and Community Engagement Manager)	The Policy and Community Engagement Team are drafting an annual report to assess the scope of revenue Area Committee grants awarded in 2019/20. A report will be presented at the March Cabinet meeting. ONGOING.
3. Implement recommendations of Gender Pay Gap Report action plan for 2020/21 (HR Manager and Learning and Development)	Recommendations include – review of recruitment selection methods, unconscious bias training for recruiting managers, application of software to assess job adverts, job descriptions and personal specifications to mitigate gender bias and proposed introduction of staff network groups. ONGOING.
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].	The 'Shaping Our Future' programme has been established to take forward organisational development for the council and relevant activities identified in the LGA Peer Challenge Action plan. A Steering group of members and officer has been established; information sessions have been held to update staff on this programme. 17 actions of the 60 have been completed with timescales for each identified action. An officer group (The Inclusion Group) has been set up to consider wider equality matters and act as a forum for staff. ONGOING.
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)	The weekly officer group is chaired by the Managing Director. The Project Board continues to meet fortnightly and comprises of the group leaders and party representatives. The recovery Board reflect the current local and national situation and moves between response and recovery as appropriate as national lockdowns dictate. ONGOING.

This page is intentionally left blank

FINANCE AUDIT AND RISK COMMITTEE 8 March 2021
--

*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 INCLUSIVE AND EFFICIENT 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 and recommends to Cabinet, the reviews of the Corporate Risks for the quarter, namely
- The review of the Corporate Planning risks with no change to the risk score.
 - The review of the Increased Homelessness Corporate risk with an increase in the risk score from 5 to 7 and a target risk score of 6.
 - The review of the Waste Corporate risks with no change to the risk score.
 - The proposal to archive the Workforce Planning Corporate Risk. Original Risk score 5, Final Risk score 5.

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 14 August 2020.

7. BACKGROUND

At the September meeting, the Committee noted

- The review of the Covid 19 Leisure Management Contract Corporate risk with an increase in the risk score from an 8 to a 9 and a Target risk score of 6.
- The review of the Income Generation Corporate Risk with no change to the risk score.
- The amendments to the Risk Management Framework to reflect the outcome of the Risk Management audit.

The FARC recommended the Risk Management Framework changes, and these were referred on to Cabinet and approved.

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. Guest Login details can be found at the link below.

<https://intranet.north-herts.gov.uk/search/node/pentana%20quest%20login>

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.

Likelihood	3 High	4	7 <ul style="list-style-type: none"> • Impact of Anti-Social Behaviour on Council Facilities (29.01.21) ↔ • Income Generation (25.01.21) ↔ • Increased Homelessness (01.02.21) ↑ • National and Regional Planning Issues (21.10.20) 	9 <ul style="list-style-type: none"> • Brexit (EU Transition) (11.01.21) ↔ • Local Plan (21.10.20) • Managing the Council's Finances (29.01.21) ↔ • Novel Coronavirus (Covid-19) (18.01.21) ↔ • Covid-19 - Leisure Management Contracts (02.02.21) ↔
	2 Medium	2	5 <ul style="list-style-type: none"> • Workforce Planning (08.01.21) Proposed for Archiving 	8 <ul style="list-style-type: none"> • Cyber Risks (25.01.21) ↔ • Delivery of the Waste Collection and Street Cleansing Services Contract (18.01.21) ↔ • Sustainable Development - Neighbouring Authorities (21.10.20)
	1 Low	1	3	6 <ul style="list-style-type: none"> • External Factors Affecting the Future Provision of Waste Services (18.01.21) ↔
		1 Low	2 Medium	3 High
		Impact		

- 8.2. At the Risk Management Group (RMG) on the 8 February, the Group received an update on the Local Plan, National and Regional Planning Issues and the Neighbouring Authorities Corporate Risks (Appendix A). The group discussed related issues including the Masterplan for Baldock. As the previous updates remain valid and there are a number of pending actions and decisions, the group agreed that the risk scores should remain as they are, but the risks should be reviewed and updated again at the end of March 2021.

- 8.3. The RMG received an overview of the recently updated Increased Homelessness Corporate Risk (Appendix B). The service area proposed an increase in the score from a 5 to a 7, in order to reflect the increased levels of homelessness, and use of temporary accommodation. The Group agreed to the change in risk score.
- 8.4 The RMG discussed the review of the Waste Corporate Risks (Appendix C) and noted that no change had been made to the risk scores. The group discussed the target risk score of the “Delivery of the Waste Collection Street Cleansing Services Contract”, which is currently set as 8. The financial risks were greater in the early period of the contract and the position has now improved. It was confirmed that the contract will be reviewed next year to review options for extension or retendering, and this will need to be aligned with East Herts Council.
- 8.5 The Group suggested that the target risk score should reflect a more normal position outside of the current Covid-19 one. It should reflect the low likelihood of a major impact and the higher likelihood of a low/medium impact. After some discussion, it was proposed that the target risk score be set as 6 and that the ongoing work be kept up to date to reflect what we can do to lower the current risk level. Once the target risk level has been achieved, the group should then consider the need to retain it as a Corporate Risk or move it to a Service risk.
- 8.6 The Group agreed that the overall risk score for “External factors affecting the future provision of Waste Services, with a risk score of 6 was appropriate.
- 8.7 The RMG considered the proposal to archive the Workforce Planning Corporate Risk (Appendix D). Original Risk score 5, Final Risk score 5. This has been a Corporate Risk for some time and the actions in place to manage the risks are embedded into current HR practices. There is nothing new to be implemented and it is believed to have reached its target risk score. There will always be recruitment and retention issues relating to specific service areas and these will continue to be recorded via individual service risks. Therefore, the RMG recommends that this should go forward as a deletion.

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 – Planning Corporate Risks
Appendix B – Increased Homelessness Corporate Risk
Appendix C – Waste Corporate Risks.
Appendix D – Archived Corporate Risks

17. CONTACT OFFICERS

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

Ian Couper, Service Director – Resources

lan.couper@north-herts.gov.uk ext. 4243

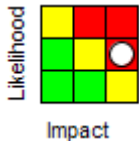
18. BACKGROUND PAPERS

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

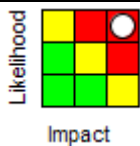
Corporate Risk Code & Title	CR52.01 National and Regional Planning Issues		
Description	<p>There are a variety of national and regional planning issues that NHDC has to comply with that have a presumption in favour of sustainable development, as well as taking into consideration changes in government legislation and guidance. If the Council fails to properly interpret or implement planning legislation there is a risk of:</p> <ul style="list-style-type: none"> - Failure to comply with legislation - Challenge of NHDC planning decisions - Unfavourable outcomes at examination by inspector - Poor advice provided to third parties <p>This could lead to:</p> <ul style="list-style-type: none"> - Inappropriate development - Additional costs for examinations - Legal challenges from others, e.g. Judicial Review <p>As a result of Local Growth Fund funding being allocated through competitive bidding, there is a risk that:</p> <ul style="list-style-type: none"> - Local Enterprise Partnerships (LEP) fail to bid successfully for funding <p>This could lead to:</p> <ul style="list-style-type: none"> - LEPs, along with the Council, missing out on opportunities to improve infrastructure provision, nurture science-based businesses, improve links with London and develop its towns <p>Future Government policy could pose a risk that:</p> <ul style="list-style-type: none"> - New Homes Bonus is not paid upon successful appeal of planning applications or non-progression of a Local Plan <p>This could lead to:</p> <ul style="list-style-type: none"> - Further loss of income to the Council 		
Opportunities	- Planning system becomes more democratic and effective		
Consequences	<p>The consequences of this risk include:</p> <ul style="list-style-type: none"> - Impact on revenue from decrease in New Homes Bonus, planning fee income and section 106 monies - Strategic development needs of the district are not attained - Loss of character of the district - Impact on infrastructure 		
Service Area	Regulatory		
Lead Officer	Ian Fullstone	Cabinet Member	Executive Member for Planning and Transport
Current Risk Matrix			
Date Reviewed	21-Oct-2020	Next Review Date	31-Mar-2021
Work Completed	<ul style="list-style-type: none"> - Permitted development legislation guidelines in place by Development Management - Responded to Central Government consultations, as reported through the Strategic Planning Matters reports to Cabinet - Introduced a register of individuals and associations seeking to acquire serviced plots of land for self-build homes - Endorsement by Full Council of strategic policies and site allocations relating to the preparation of the Local Plan - Submission of Local Plan to the Secretary of State for examination and hearings underway - Financial risk identified for 2019/20: 		

	<ul style="list-style-type: none"> -- New duties and obligations associated with changes to government policy (£25K/Low) - Financial risk identified for 2020/21: -- New duties and obligations associated with government policy, e.g. Brexit, require additional and/or specialist staff or consultancy support to deliver (£100K/Medium)
Ongoing Work	<ul style="list-style-type: none"> - Engage consultants for external legal and professional expertise where needed - The Council's Economic Development Officer (a joint post with East Hertfordshire) will engage with the LEPs and other stakeholders to support their Growth Strategies to maximise funding for Hertfordshire and North Hertfordshire - Monitoring of performance levels and fee incoming in Development Control to determine appropriate level of staff resources now and in the future - Maximise s.106 and Unilateral Undertaking monies from applications - Monitoring Government policy/consultations/statements and responding as required - Regular Strategic Planning Matters reports to Cabinet - Examinations for neighbourhood and local plans - Responding to central government consultations regarding national and regional planning issues - Following approval by Cabinet on 29 January 2019, progressing the making of, and consultation on, a non-immediate Article 4 Direction for the district's defined employment areas

Corporate Risk Code & Title	<u>CR52.02 Neighbouring Authorities</u>
Description	<p>The Strategic Planning strategies, policies and decisions of neighbouring authorities can have a significant impact on NHDC and on the Local Plan duty to co-operate. The main risks to NHDC arise from:</p> <ul style="list-style-type: none"> - The unmet need for housing from Luton and Stevenage - The potential increase in capacity at London Luton Airport and Century Park - The accumulative impact of neighbouring authorities growth aspirations <p>The risks arising from these include:</p> <ul style="list-style-type: none"> - Planning applications are given approval in neighbouring authorities prior to our Local Plan being agreed - Failing to respond to consultations/strategies/plans in neighbouring authorities in a timely manner due to insufficient staff resources - Having to accommodate additional housing from neighbouring districts within North Herts borders - Having to challenge neighbours legally <p>This could lead to:</p> <ul style="list-style-type: none"> - Housing and other development being developed adjacent to and/or within the North Herts area that would impact on our strategic planning including site allocation in locally determined areas - Representations or challenges by NHDC fail to be considered by neighbouring authorities and by the Planning Inspectorate at examination - Having to accommodate housing with inadequate supporting infrastructure within North Herts - Challenges from others against North Herts Local Plan - Increased legal costs
Opportunities	<ul style="list-style-type: none"> - Sustainable development by neighbouring authorities that has a beneficial impact for NHDC in terms of meeting housing needs nationally
Consequences	<p>The consequences of this risk include:</p> <ul style="list-style-type: none"> - Housing land allocations to meet needs of adjoining districts are made within North Hertfordshire - Loss of character of the district

	<ul style="list-style-type: none"> - Impact on infrastructure - Resource impacts on planning services that would have to respond - Costs to NHDC in the case of legal fees at examination 		
Service Area	Regulatory		
Lead Officer	Ian Fullstone	Cabinet Member	Executive Member for Planning and Transport
Current Risk Matrix			
Date Reviewed	21-Oct-2020	Next Review Date	31-Mar-2021
Work Completed	<ul style="list-style-type: none"> - Representation through the Planning Committee made to Luton Borough Council and to the SoS with regard the application to extend and increase passenger numbers at London Luton Airport - Representation prepared with regard the speculative expansion of London Luton Airport to four runways - Representations prepared and submitted regarding the Central Bedfordshire, East Hertfordshire, Luton, Stevenage, St Albans and Welwyn Hatfield local plans - Cabinet allocated a reserve fund of £500K relating to the risks associated with neighbouring authorities - Consultation concluded on the NHDC Local Plan Main Modifications (April 2019) - Worked with neighbouring authorities to secure a Planning Performance Agreement regarding costs associated with the Council's representations on the expansion of London Luton Airport - Responded to Statutory Consultation on London Luton Airport expansion 		
Ongoing Work	<ul style="list-style-type: none"> - Regular reports to Cabinet so that neighbouring consultation is monitored and reported - Assessment of planning applications received for East of Luton - Ongoing duty to co-operate meetings with neighbouring authorities - Appearing and representing NHDC at examinations of neighbouring authorities - Under duty to co-operate, preparing memorandums of understanding or similar statements with neighbouring authorities - Representing NHDC at neighbouring authorities/consortium meetings - Neighbouring authorities at various stages of their own examination processes - Joint working with Central Bedfordshire, Luton and HCC to investigate implications and options relating to the significant planned and future housing/economic growth along the A505 corridor (Phase 3) - Working with neighbouring authorities to establish the appetite for developing joint plans relating to long-term growth options, e.g. new settlement schemes 		

Corporate Risk Code & Title	<u>CR54 Local Plan</u>
Description	<p>The risks from this and arising from this include:</p> <ul style="list-style-type: none"> - Failure to have sufficient resources to deal with unknown volume of representations to Local Development Documents - possibly significant public opposition - Failure to have sound Development Policy Documents - Failure to have software able to deliver statutory functions - Failure to retain or recruit officer resources to ensure delivery - Failure to achieve sufficient revenue - New Homes Bonus - Failure to adhere to government policy changes - Failure to have 5 year land supply (+20%) of readily available housing sites

	<ul style="list-style-type: none"> - Failure to proceed with developments - downturn in housing market will impact on willingness of builders to proceed with developments - Failure to recognise long term needs for Town Centres - Impact of delay on the validity of the Local Development Scheme - Failure to have an appropriate Infrastructure Delivery Plan to obtain levels of inward investment - Impact of delay in receiving government guidance and other data relevant to policy development - Impact of new household projections upon our Objectively Assessed Housing Need and that of our neighbours - Failure to meet the requirements under Duty to Cooperate - Impact of further government reforms, e.g. the Housing and Planning Act, Neighbourhood Planning Act, Housing White Paper and changes to the National Planning Policy Framework (NPPF) - Impact of changing local political priorities <p>These risks can lead to:</p> <ul style="list-style-type: none"> - Delay in adoption of the new Local Plan, resulting in a longer period without appropriate guidance - Increased uncertainty of planning policy base - Inspector at Examination finding Local Plan not sound - External imposition on our LDF - Costs of Independent Examination - Legal challenge to Local Plan - Intervention by the Secretary of State, i.e. issuing a holding direction - Detrimental impact on environment of additional buildings - Detrimental effect of economic situation on New Homes Bonus, as it is based on housing built 		
Opportunities	- Balancing the need for sustainable development against environmental protection		
Consequences	<ul style="list-style-type: none"> - Development not sustainable - Development harms the environment - Hostile planning applications if Local Plan found unsound - Hostile planning applications for development due to lack of 5 year land supply - Costs of challenge 		
Service Area	Regulatory		
Lead Officer	Ian Fullstone	Cabinet Member	Executive Member for Planning and Transport
Current Risk Matrix			
Date Reviewed	21-Oct-2020	Next Review Date	31-Mar-2021
Work Completed	<ul style="list-style-type: none"> - Internal Audit on LDF consultation process 2014 - Local Plan Preferred Options consultation published December 2014 - Local Plan Preferred Options consultation concluded February 2015 - Preferred Options Local Plan consulted on December 2014 - February 2015 - Strategic Housing Market Assessment completed with Stevenage Borough Council June 2015 - Employment provision study completed with Central Bedfordshire and Stevenage Borough Council July 2015 - Statement of Community Involvement updated and approved September 2015 - Housing Market Areas in Bedfordshire and Surrounding Areas completed with Luton, Central Bedfordshire and other neighbouring authorities December 2015 - Local Development Scheme updated and approved January 2016 - Successful appointment in December 2015 of Principal Strategic Planning Officer and Senior Planning Officer in May 2016 		

	<ul style="list-style-type: none"> - New IT consultation software system procured September 2015 - Local Plan Project Board set up to provide strategic guidance and oversee the delivery of the Local Plan - Housing growth options analysed and updated to inform agreed housing target and land allocations for inclusion in the Local Plan - Strategic policies and site allocations prepared and submitted to Full Council for endorsement in July 2016 - Local Plan Proposed Submission draft and supporting evidence base prepared and submitted to Cabinet in September 2016 for approval for public consultation - Consulted on the Proposed Submission Draft Local Plan between 19 October 2016 and 30 November 2016 - Implementation of new IT consultation software in time for Local Plan submission draft - Temporary staff brought in to assist processing representations to the Local Plan - Reviewed modifications to the Local Plan in light of representations submitted to the Proposed Submission Draft consultation - Considered Housing Growth Options in terms of NPPF - Held meetings with adjoining districts on duty to cooperate on redevelopment targets etc. - Held meetings with adjoining districts within housing market areas with regard joint Strategic Housing Market Assessments - Held meetings with adjoining districts within the Functional Economic Market Area with regard to joint working on employment provision - Independent Programme Officer appointed - On 11 April 2017, Full Council approved the submission of the new Local Plan for North Hertfordshire for examination by the Secretary of State and approved the revised Local Development Scheme for North Hertfordshire - NHDC submitted the Local Plan to the Planning Inspectorate (PINS) on 9 June 2017 - Examination in Public scheduled hearings completed on 27 March 2018 - Related Financial Risks identified for 2019/20 and retained for 2020/21: <ul style="list-style-type: none"> -- Specialist advice required with regard to planning applications, e.g. town centre schemes and hostile applications (£100K/Medium) -- Local Plan: additional costs associated with progressing the Local Plan (£250K/High) -- Local Plan: costs associated with a challenge to the Local Plan either from the Council or another stakeholder/authority (£450K/High) - Submitted relevant responses to the Planning Inspector, having reviewed actions and modifications in light of his requests - Planning Inspector published Main Modifications November 2018 - Main Modifications reported to Cabinet and approval granted for consultation on the proposals December 2018 - Concluded consultation on Main Modifications arising from the examination April 2019 - Inspector concluded the review of representations made in response to the Main Modifications - Inspector's letter dated 9 July 2019 received and NHDC issued a response on 18 July 2019 - Response from the Inspector dated 9 August 2019 received, which identified a number of further questions and queries - Officers, in consultation with the Local Plan Project Board, considered a realistic timetable for responding to the Inspector's wide-ranging requests (letters dated 9 July 2019 and 9 August 2019) and the Council responded to the Inspector's letters at the end of September 2019 - Inspector's queries responded to by 29 November 2019
Ongoing Work	<ul style="list-style-type: none"> - Monitoring Planning Inspectorate decisions on other authorities Local Plans and adapting or amending our approach as required - Expert legal and technical advice obtained from external consultants - Ongoing advice sought from PAS, Counsel and DCLG

	<ul style="list-style-type: none"> - Ongoing meetings with neighbouring authorities under the legal duty to cooperate - Meeting with adjoining districts to produce a growth study for the Luton area - Regular Project Board meetings set up - Ongoing recruitment to vacant Planning Officer posts
--	--

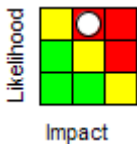

Increased Homelessness

Generated on: 03 February 2021



Risk Code	CR60	Risk Title	Increased Homelessness
Risk Owner	Ian Fullstone	Updated By	Martin Lawrence
Year Identified	2011	Council Objective	Support the delivery of good quality and affordable homes
Risk Description	<p>As a result of:</p> <ul style="list-style-type: none"> - Impact of the Homelessness Reduction Act 2017 - The ongoing impact of welfare reform - Major difficulties for some members of the public to access the private rented sector - The full occupation of temporary accommodation - An increase in the number of single homeless people with complex needs (e.g. offending histories, substance misuse and/or poor mental health) - The current and future impact of Covid-19 (including accommodating those threatened with rough sleeping and ending of furlough scheme and 'eviction ban') <p>There is a risk of:</p> <ul style="list-style-type: none"> - An excessive demand from the public for housing services - An increase in the levels of homelessness - A lack of alternative housing options - An increased use of hotel accommodation for homeless households 		
Opportunities	<ul style="list-style-type: none"> - Potential homelessness is managed through prevention and/or relief activity and there are accommodation options for those experiencing housing challenges, including those with nowhere to live 		
Consequences	<ul style="list-style-type: none"> - There may be lower levels of homelessness prevention and/or relief, resulting in detrimental outcomes for the households - An increase in homelessness levels could lead to the full occupation of temporary accommodation units. This in turn would lead to increased usage of hotel accommodation, which in turn would have the following consequences: <ul style="list-style-type: none"> -- A significant budget gap for the Council, as only a limited amount of housing benefit costs can be reclaimed by way of government subsidy -- Adverse impact on households, as hotel accommodation in itself is not ideal and it could be located anywhere in Hertfordshire or beyond -- Negative publicity for the Council -- The process for securing hotel accommodation is inefficient and a poor use of officer resources 		
Work Completed	<ul style="list-style-type: none"> - Agreed that discretionary housing payments (funded by the DWP) that involve potential homelessness will be managed by the Benefits Team in partnership with Housing Services - Utilisation of government homelessness grant to provide a Rough Sleeper Outreach Worker, specialist support for victims of domestic abuse and two 5-year fixed-term contracts to increase officer capacity and support the frontline delivery of housing services - The grant has also provided some extra capacity for environmental health services to help tackle illegal evictions and poor conditions in the private rented sector - Ongoing training programme for staff, including weekly meetings - Introduced new software to manage casework more efficiently and produced a comprehensive procedure manual - Introduced new web-based portal that enables customers to refer themselves directly and external bodies to highlight homeless households to the Council in an efficient manner - SIAS Temporary Accommodation audit report received in March 2020 (Overall Assurance - Good, with no recommendations) - SIAS Housing Allocations audit report received in November 2020 (Overall Assurance - Good, with no recommendations) 		

Increased Homelessness

	<ul style="list-style-type: none"> - New Housing Strategy (2019-2024), which includes Homelessness and Rough Sleeping Strategy, agreed by Cabinet in March 2019 - Updates to Common Housing Allocation Scheme agreed in March 2019 and further updates due September 2020 - Financial Risk identified for 2020/21: Usage of bed and breakfast accommodation for homeless households (£180k/Medium) - Restructured staff resources with focus on accommodation options and the introduction of two externally funded five-year fixed-term contracts - £183k secured from MHCLG to help fund extra capacity for Haven First supported housing provision for single people and their intensive service too, as well as a contribution to the Council's net hotel costs 		
Ongoing Work	<p><u>Business-as-Usual Activities</u></p> <ul style="list-style-type: none"> - A continuous review of all homeless households accommodated by the Council, in order to establish whether an ongoing accommodation duty exists and if so, the best way to manage this - Develop key actions to reduce hotel use and improve move-on/create capacity in temporary accommodation on a weekly basis - Increase options to prevent and relieve homelessness - Improve and develop meaningful partnerships with key agencies, including settle and First Garden City Homes, with particular focus on potential evictions - When new homeless households present themselves, prioritise activities that establish whether an ongoing legal accommodation duty exists at the earliest possible stage - Liaising with registered providers and other local authorities, in order to see whether alternative accommodation options exist - Continue to fund a CAB Court Desk Worker in order to prevent homelessness - Continue to work with Herts Young Homeless (HYH) regarding Education Project - Continue to support Haven First (North Herts Sanctuary) outreach and supported housing resettlement service for single people - Liaise with key registered providers due to increased number of evictions and agree joint approach to prevent homelessness - Review opportunities to reduce the administrative burden introduced by the new legislation - Support delivery of specialist accommodation service for single homeless people - Continue to work with private rented sector to improve accessibility and supply of units for those in need - Ensure continuous training and support for team and build resilience <p><u>Other Actions</u></p> <ul style="list-style-type: none"> - Haven First submitted planning application for 40-bed hostel for single people with complex needs in North Hertfordshire, which will be considered by Planning Committee in March 2021 - Amend Memorandums of Understanding with relevant partner organisations to focus on the prevention and relief of homelessness for period beginning April 2021 - Establish options for meeting potential high levels of homelessness when Covid-19 lockdown eases, especially the private rented sector - Continue with resettlement activity with all single homeless people in hotels when Covid-19 lockdown eases - Launch intensive support service with Haven First (due February 2021) - Work with MHCLG on funding opportunities for services to prevent/relieve homelessness - Meet with settle to attempt to secure units to provide extra accommodation capacity for Haven First supported housing service (due February 2021) 		
Current Overall Risk Score	7		
Current Impact Score	2	Current Likelihood Score	3
Current Risk Matrix		Target Risk Matrix	
Date Reviewed	01-Feb-2021	Next Review Date	30-Apr-2021

Increased Homelessness

Latest Note	02-Feb-2021 Risk reviewed and updated by Martin Lawrence on 1 February 2021. Ongoing Work updated to reflect the latest position of mitigating activities. At the time of the review, there were 130 households in temporary accommodation, of which, 54 were in hotels or nightly paid units. In view of the prolonged period of increased levels of homelessness and increased use of temporary accommodation, the likelihood score has been increased to 3-High.
--------------------	---

This page is intentionally left blank

Waste Corporate Risks

Generated on: 04 February 2021



Risk Code	CR66	Risk Title	Delivery of the Waste Collection and Street Cleansing Services Contract
Risk Owner	Vaughan Watson	Updated By	Chloe Hipwood
Year Identified	2019	Council Objective	Respond to challenges to the environment
Risk Description	<p>Waste management and recycling is the highest profile service that affects every resident of the district and it is the most significant service delivered by NHDC. NHDC is the lead authority for the joint waste contract with East Hertfordshire District Council (EHDC).</p> <p>There is a risk that:</p> <ul style="list-style-type: none"> - The contractor could fail to collect kerbside waste in line with the relevant specifications. - The contractor could fail to collect commercial waste in line with the relevant specifications. - The contractor could fail to maintain the cleanliness of streets to the levels specified. - The contractor's contact centre (systems/staff) could fail to manage the volume of customer contacts effectively. - NHDC could fail to identify service deficiencies and to apply appropriate penalties. <p>This could lead to:</p> <ul style="list-style-type: none"> - NHDC not achieving best value from the contract. - Waste accumulating for residents/businesses. - An increase in complaints from residents. - Residents not taking up or renewing the chargeable garden waste service. - Businesses not taking up or renewing the chargeable trade waste service. - Payments not being received for justified performance penalties. <p>Possible causes:</p> <ul style="list-style-type: none"> - Issues with the implementation of new and revised services. - Contractor's staffing levels being below required levels. - Industrial action. - Staffing of the NHDC client team being below required levels. - High volume of customer contacts received during service changes. - Due to the closure of the Westmill landfill site, EHDC directing its residual waste via the Buntingford depot. - Extreme adverse weather (significant prolonged snowfall). - Financial viability of the contract for the contractor. - Impacts of Covid-19 or another pandemic. 		
Opportunities	<ul style="list-style-type: none"> - Achieving value for money through the effective management and operation of the Waste Collection and Street Cleansing Services contract, with minimal service issues and public complaints. 		
Consequences	<ul style="list-style-type: none"> - Damage to NHDC's reputation. - Poor performance against associated targets. - Relevant budgets not achieved. - Possible environmental hazards and health implications to the public relating to the accumulation of waste. 		
Work Completed	<ul style="list-style-type: none"> - New telephone system installed and waste related calls directed to Urbaser (November 2018). - Implemented contingency measures to deal with the high number of customer contacts relating to the renewal of the garden waste collection service. - Inter Authority Agreement agreed and signed. - Clarified NHDC, EHDC and contractor responsibilities and formalised contractual arrangements. - SIAS audit of the Joint Waste Contract reported July 2019. - Following on from the high priority SIAS audit recommendation, all 64 criteria within the Performance Monitoring Regime (PMR) are now live and operational for the Urbaser contract. 		

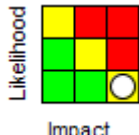
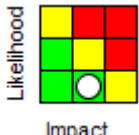
Waste Corporate Risks

	<ul style="list-style-type: none"> - Full establishment of staff appointed with additional temporary staff employed to meet the current challenges (August 2019). - Business Continuity Plans in place to implement necessary resilience arrangements, if required. - Business Continuity Plans revisited as a result of Covid-19 (March 2020). - Improved KPI monitoring (April 2020). - Consistency work on shared service commercial waste completed (November 2020). - Restructure of client team to fill skills gaps (December 2020). - Negotiated service change for EHDC introduction of chargeable garden waste service to improve consistency across contract (January 2021). 		
Ongoing Work	<u>Business-as-Usual Activities</u> <ul style="list-style-type: none"> - Implementing a sustainable joint work programme, approved by the Partnership Board. - Monitoring performance of the contractor's contact centre and providing support to enable it to meet expectations. - Embedding the implemented PMR. - Ongoing discussions with Urbaser regarding performance levels. - Monthly performance report produced for Executive Members. <u>Specific (SMART) Actions</u> <ul style="list-style-type: none"> - Review of base property data and street cleansing data (due for completion April 2021). 		
Current Overall Risk Score	8		
Current Impact Score	3	Current Likelihood Score	2
Current Risk Matrix		Target Risk Matrix	
Date Reviewed	18-Jan-2021	Next Review Date	16-Apr-2021
Latest Note	<p>18-Jan-2021 Risk reviewed with Chloe Hipwood and Jeanette Lowden on 18 January 2021. Generally, routine collections and street cleansing are being performed to an acceptable level. The contractor's contact centre is performing satisfactorily, although does fail to manage the high volume of customer contacts associated with the annual renewal of the garden waste service. Covid-19 and EHDC service changes have impacted our ability to fully implement further contract management improvements and officers continue to work with the contractor to address relevant issues. No change made to the risk score, as the identified causes are still relevant and officers still assess the likelihood of the risks materialising as being Medium.</p>		

Waste Corporate Risks

Risk Code	CR67	Risk Title	External Factors Affecting the Future Provision of Waste Services
Risk Owner	Vaughan Watson	Updated By	Chloe Hipwood
Year Identified	2019	Council Objective	Respond to challenges to the environment
Risk Description	<p>There is a risk that:</p> <ul style="list-style-type: none"> - Post 2026, HCC could direct NHDC residual waste to transfer facilities outside of the district or directly to landfill sites. <p>This could lead to:</p> <ul style="list-style-type: none"> - Significant increased costs to NHDC, e.g. additional transport costs. - Significant increased vehicle emissions and environmental impact of service delivery. <p>Possible causes:</p> <ul style="list-style-type: none"> - HCC not continuing to operate a residual waste transfer solution for NHDC collected waste from the Bury Mead, Hitchin Transfer Station when the current contract ends in 2026 (contract extended from 2024). <p>There is a risk that:</p> <ul style="list-style-type: none"> - NHDC could be forced to change its preferred service delivery models and charging regimes. <p>This could lead to:</p> <ul style="list-style-type: none"> - Associated costs to implement the changes required. - Loss of income from current chargeable services. - Services being designed to meet budget restrictions and not focussing on the achievement of waste minimisation objectives. <p>Possible causes:</p> <ul style="list-style-type: none"> - New emerging Government strategies coming into force, e.g. national consistency of services, free garden waste collections and a circular economy to promote sustainable production. - Further reductions to HCC's Alternative Funding Model (AFM), beyond the approved £500K per annum reduction over a three-year period commencing in 2020/21. 		
Opportunities	<ul style="list-style-type: none"> - Minimising transport costs and the environmental impact of service delivery. - Consolidating existing facilities, i.e. transfer station for residual waste and Letchworth HWRC, by working with HCC and other Hertfordshire authorities to develop a Northern Transfer Station. - Partnership working for other services, resulting in shared costs and economies of scale. - Improving operational efficiencies. - Achieving waste minimisation objectives. 		
Consequences	<ul style="list-style-type: none"> - Negative impact on the Council's overall financial position. - Negative impact on the local environment and the achievement of NHDC's Climate Change objectives. 		
Work Completed	<p><u>Transfer of Residual Waste</u></p> <ul style="list-style-type: none"> - Worked with HCC in identifying suitable locations for a Northern Transfer Station and possible Stevenage/North Herts location aborted due to planning restrictions. - Contract let by HCC for continuation of transfer until March 2024. - NHDC accepting a Royalty payment based on commercial activity at the site, to ensure the medium-term availability of the site. - Bury Mead contaminated land investigations undertaken with contractor. - HCC and NHDC undertook a feasibility study (approximately four years ago) for a Northern Transfer Station and joint depot facility for East and North Hertfordshire. However, the successful operation of the Buntingford depot and the continued use of the Works Road, Letchworth depot significantly reduced the associated risks and the need for a new joint depot facility. - HCC extended the Bury Mead Road site to 2026, as the Local Plan and Master Plan have been delayed. - East Herts confirmed during summer 2020 that they have no interest in a Northern Transfer Station. <p><u>Preferred Service Delivery Models</u></p> <ul style="list-style-type: none"> - NHDC's new waste contract significantly improved performance in relation to AFM (an increase of £180K per year in 2018/19). The current Medium Term Financial Strategy was calculated on the lower base figure. Therefore, the £1.5M of AFM savings HCC made in 2019 should have no negative impact on the current MTFS or service provision. 		

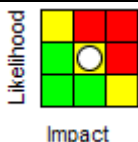
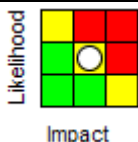
Waste Corporate Risks

Ongoing Work	<u>Transfer of Residual Waste</u> Business-as-Usual Activities: - Working with Estates and HCC to ensure Bury Mead Road remains fit for purpose. Specific Actions: - Working with and supporting HCC to identify the most effective solution for a potential Northern Transfer Station for residual waste collections and improved Household Waste Recycling Centre facilities for Letchworth. Development of a detailed Business Case has been delayed due to delays with the Local Plan. Agreed with HCC that the Business Case will be reconsidered once the Local Plan has been adopted (timeframe for Business Case is now summer 2022). - Subsequent report to Cabinet (date to be confirmed).			
	<u>Preferred Service Delivery Models</u> Business-as-Usual Activities: - Representations through feedback to the government consultation process on emerging strategies. Responded that any proposed new initiatives (e.g. free garden waste collections (which could result in a loss of revenue of approximately £1M per year) and weekly food waste collections for all collection authorities in the country) needed to be funded fully by the government. - The expectation would be that Central Government would recompense NHDC, under New Burdens doctrine, for any mandated changes to charging regimes or collections. - Working closely with the HWP to ensure a consistent and coherent approach to consultation responses and to maintain positive partnership working in light of reduced AFM funding.			
	6			
	Current Overall Risk Score			
	Current Impact Score	3	Current Likelihood Score	1
Current Risk Matrix		Target Risk Matrix		
Date Reviewed	18-Jan-2021	Next Review Date	16-Jul-2021	
Latest Note	18-Jan-2021 Risk reviewed with Chloe Hipwood and Jeanette Lowden on 18 January 2021. The described risks are largely the same as at the time of the previous review. They remain strategic in nature with long lead-in times required to manage them effectively. Although work on developing a joint business case for a purpose-built depot, transfer facility and household waste recycling centre has been delayed due to delays relating to the Local Plan and Baldock Master Planning proposals, HCC has now extended use of the Bury Mead Road site to March 2026. No change made to the risk score.			

Archived Corporate Risk - Workforce Planning

Generated on: 26 January 2021



Risk Code	CR07	Year Identified	2003
Risk Title	Workforce Planning		
Description	<p>As a result of:</p> <ul style="list-style-type: none"> - A history of pay freezes and low pay rises (from 2009 onwards) - Austerity measures and a continual review for efficiencies - An increase in job vacancies in the private sector - Changes to NI contributions in 2016, which impacted on take home pay levels - An ageing workforce - A reduction in external funding - The ongoing need to review service structures and resources to ensure they remain fit for purpose <p>There is a risk of the following:</p> <ul style="list-style-type: none"> - Loss of staff due to more competitive salaries being available at other local authorities or in different employment sectors - Loss of key staff or temporary absence due to the pressures of ongoing change, with the highest risk being loss of those in professional roles and senior manager positions - Loss of staff with key skills and knowledge due to the age profile of the workforce - Failure to have sufficient turnover to bring new ideas and processes to the Council - Failure to have effective succession planning - Limits on the ability to plan the future workforce needs of NHDC effectively - Unanticipated additional costs associated with the outcomes of National Pay Bargaining <p>The above risks could lead to the following:</p> <ul style="list-style-type: none"> - Lack of professional staff and/or senior management capacity - Failure to meet statutory obligations - Failure to deliver key services, processes and projects - Additional demands and pressures on remaining staff 		
Original Matrix		Final Matrix	
Latest Note	<p>19-Jan-2021 Risk reviewed by Jo Keshishian and Ian Couper. The actions in place to mitigate the perceived risk are embedded into current HR practices and we continue to ensure that we take appropriate steps to support this ongoing concern. There remains recruitment and retention issues relating to professional roles, i.e. in legal and environmental health, and these are covered by specific Service Risks. There will always be uncertainty relating to corporate workforce planning, but as all planned risk management activities are now established and undertaken as part of business-as-usual work, the risk entry is proposed for archiving.</p>		

This page is intentionally left blank

**FINANCE, AUDIT AND RISK COMMITTEE
16 MARCH 2020**

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: THIRD QUARTER REVENUE MONITORING 2020/21

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

1. EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to inform Cabinet of the summary position on revenue income and expenditure forecasts for the financial year 2020/21, as at the end of the third quarter. The forecast variance is a £624k increase on the net working budget of £19.621million, with an ongoing impact in future years of a £79k decrease and requests to carry forward budgets totalling £62k 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. The net General Fund variance movement is expected to be covered by an increase in the Sales, Fees and Charges compensation from Government that has been applied.
- 1.2. The report also provides an update on;
- the delivery of planned efficiencies (paragraph 8.3)
 - the use of budget approved to be carried forward from 2019/20 (paragraph 8.4)
 - performance against the four key corporate 'financial health' indicators (paras 8.5-8.7)
 - the overall forecast funding position for the Council and factors that may affect this (paras 8.8 – 8.22)
 - the support payments made to businesses and those individuals required to self-isolate due to the Covid-19 pandemic (paragraph 8.23)

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 £624k increase in net expenditure. Noting that this net movement is expected to be covered by an increase in the Sales, Fees and Charges compensation from Government that has been applied.
- 2.3. That Cabinet approves the changes to the 2021/22 General Fund budget, as identified in table 3 and paragraph 8.2, a total £17k decrease in net expenditure.

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 February 2021.

7. BACKGROUND

- 7.1. Council approved the revenue budget for 2020/21 of £15.136million in February 2020. As at quarter 3 the working budget has increased to £19.621million. 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
Quarter 1 2020/21 Revenue Monitoring report - 2020/21 variances approved by Cabinet (September 2020)	1,468
Quarter 2 2020/21 Revenue Monitoring report - 2020/21 variances approved by Cabinet (December 2020)	2,036
Month 8 revenue monitoring included within 2021/22 budget report – 2020/21 variances approved by Cabinet (January 2021)	291
Current Working Budget	19,621

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

Table 2 – Service Directorate Budget Allocations

	Working Budget at Q2	Changes approved at Q2	Changes approved at Month 8	Other Budget Transfers	Current Net Direct Working Budget
Service Directorate	£k	£k	£k	£k	£k
Managing Director	1,893	0	0	(27)	1,866
Commercialisation	(273)	(8)	25	42	(214)
Customers	4,019	168	58	73	4,318
Legal & Community	2,257	(63)	(13)	12	2,193
Place	4,848	1,852	442	13	7,155
Regulatory Services	2,066	49	(206)	(83)	1,826
Resources	2,484	38	(15)	(30)	2,477
TOTAL	17,294	2,036	291	0	19,621

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
Court Summons Income	40	0	+40	The forecast zero income outturn follows the decision taken, in consultation with the Executive Member for Finance & IT, to cancel the court dates in February and March. This decision was in adherence with the requirement for no non-essential travel during the period of national lockdown, with most other Herts Authorities taking the same approach.	0	0
DWP New Burdens Grant						
Grant Income	(205)	(475)	(270)	Additional New Burdens grant funding of £297k has been received for various Covid-19 grant schemes that the Council has administered. While £27k has been used to fund the related overtime and systems development costs, most of the resource required has been met from existing staffing budgets. It is proposed that £170k of the funding is transferred to the Welfare Reform grants reserve to finance future spending pressures in this area.	0	0
Transfer to Earmarked Reserve	0	170	+170		0	0
Net Total	(205)	(305)	(100)		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
Brexit Grant Funded Expenditure	52	10	(42)	A carry forward of the remaining £42k of the Brexit grant funding is requested, of which £10k is committed to funding a three-year subscription to RIAMS Environmental Health software. We are still in the early stages of post EU transition/ exit from the EU and options for planned expenditure of the remaining £32k budget will be explored at the Project Board meeting scheduled in April. This will be the discussion stage and any action will need to be taken forward in 2021/22 and potentially covers work with the local business community and impacts on them of this initial phase and/or in the medium term.	42	0
Garden Waste Service Expenditure	409	472	+63	Forecast increase in costs results from; the outcome of reconciliation work undertaken to ensure the final sum payable to the contractor for the previous subscription period was in line with the contractual requirement; additional resource needed at the start of the new subscription period to ensure that back office administration and customer contact management could be completed accordingly; the one-off payment made to the contractor to support the reintroduction of the garden waste service after the first lockdown.	0	+53
Garden Waste Service Income	(821)	(954)	(133)	Increase in income expectation reflects the sustained level of demand for the service, with a similar number of households signing up to the new subscription period that commenced in October 2020.	0	(133)
Comingled Recycling - Haulage and Processing Costs	654	811	+157	The trend of higher than anticipated tonnages and lower sales prices for materials, as evident and highlighted in the first and second quarter monitoring reports, continued during the third quarter, with total costs now forecast to be £431k higher than anticipated in the original budget. The higher tonnages are considered to be an impact of the pandemic, as more people work from home and receive deliveries ordered online.	0	0
Trade Refuse Service Tipping Charges	318	286	(32)	The tipping charges reflect the reduced tonnages collected during the first three quarters of the year with reduced business operation.	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
Trade Refuse Service Income	(895)	(863)	+32	The pandemic has continued to impact on the number of trade customers using the service, with many non-essential businesses closed either during national lockdowns or when tier restrictions were in place.	0	0
Regulatory Directorate Staffing Costs	3,481	3,347	(134)	Forecast staffing underspend is due to various vacant posts in Planning, Environmental Health and Parking Services. A combination of the delayed progress in the local plan, recruitment difficulties due to Covid-19 and several resignations in critical areas has led to the underspend. Recruitment to Parking Services vacancies has been deferred due to a reduced level of enforcement during lockdown.	0	0
Income from Planning Applications	(940)	(810)	+130	Underachievement of income is attributed to the economic impact of Covid-19 and the delay in the progress of the Local Plan. This area of income is covered by the Income Guarantee (see paragraph 8.18) and therefore the additional General Fund impact will be reduced to around £33k.	0	0
Planning Services Development Budget	34	0	(34)	This expenditure budget is funded from the 20% increase in statutory planning fees applied from January 2018. Ongoing this budget will be used to fund a Project Officer post for the next 5 years. This year, due to vacancies in planning, the impact of Covid-19 and the delay to the Local Plan, there has been no need to recruit the additional officer to assist in the delivery of the Local Plan.	0	0
Car Parking Income				As highlighted throughout the year, parking activity has been severely impacted by the Covid-19 pandemic, with people and businesses changing their normal routines and activities in response.		
Pay-As-You-Use Income	(1,380)	(848)	+532	An income shortfall of £216k was recorded for the third quarter due to the lockdowns in November and December. The forecast variance also includes the projected income loss for the final quarter. This assumes income receipts to be around 20% of the budgeted amount in January and February, with some recovery in March (assumes income at 60% of budget), which is based on the experience in July and the	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 Park Season Ticket Income	(188)	(147)	+41	<p>easing of restrictions after the first lockdown. It is anticipated that use of the car parks may increase in March with the reopening of schools and the progress of the national vaccination program facilitating the easing of restrictions and the reopening of shops. A total shortfall from this income stream of more than £1m is now estimated for this financial year.</p> <p>Forecast variance reflects the experience of the third quarter only, with the lockdown in November again requiring employees to work from home where possible and hence contributing to the lower demand for season tickets. Most season tickets are renewed in March, and at this stage it is unknown whether, even with lockdown measures easing, there will be reduced demand as more businesses choose to adopt home working routines on a permanent basis.</p>	0	0
PCN Income	(471)	(343)	+128	<p>There was a shortfall of £41k in PCN income for the third quarter. This is due to reduced traffic during lockdown, reduced use of car parks as people were encouraged to stay at home except for essential trips, adopting a more pragmatic approach to enforcement during the lockdown period and a reduced level of staff within the Parking Enforcement Team due to officers leaving the authority. The forecast variance includes the projection for the final quarter, which assumes receipts will total around two thirds of the budget expectation, with the assumed level of activity linked to the anticipated level of car park usage. This would mean a total PCN Income shortfall for the year of £230k.</p>	0	0
Total Parking Income:	(2,039)	(1,338)	+701	<p>These areas of income are covered by the Income Guarantee (see paragraph 8.18) and therefore the additional General Fund impact will be reduced to around £175k.</p>	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
Electric Vehicle Charging Consultants	20	0	(20)	This budget was an investment bid to engage consultants to undertake a study to review and consider opportunities from Electric Vehicle Charging. Officers prepared a Scoping Document and work will continue in 21/22. The requested carry forward of the remaining unspent budget will fund any specialist advice required.	20	0
Total of explained variances	28	656	+628		62	(80)
Other minor balances	19,593	19,589	(4)		0	1
Overall Total	19,621	20,245	+624		62	(79)

- 8.2. Cabinet are asked to approve the differences highlighted in the table above (a £624k increase in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to approve the estimated impact on the 2021/22 budget, an overall decrease in budget of £17k, which includes the request to carry forward £62k of budget from 2020/21 to 2021/22 (recommendation 2.3).
- 8.3. 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 Three is a total underachievement of £146k. This forecast comprises:
- £115k underachievement of treasury investment income (as highlighted at quarter 1)
 - £56k underachievement of the Town Lodge premises cost saving (as reported at quarter 2).
 - £25k overachievement of the Document Centre closure saving, with the cost of the related Outbound Mail contract being £34k lower than assumed in the efficiency proposal (as highlighted at Quarter One), marginally offset by an estimated £9k increase in postage costs in 2020/21, which has been managed within the existing working budget.
- 8.4. 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 Two it was forecast that £11k of the total carried forward would not be spent in 2020/21. At Quarter Three it is forecast that £222k will not be spent in 2020/21. The increase in the forecast relates to Brexit Grant expenditure (£42k of the £52k budget carried forward will not be spent in 2020/21) as detailed in table 3 above, as well as those unspent budget amounts highlighted and explained in the End of November (month 8) monitoring included within the 2021/22 Budget Report, which are listed below;

- Parking Lines and Signs. £20k (of the £46k budget carried forward).
- Electric Vehicle Charging. £15k.
- Community Infrastructure Levy. £87k.
- Transport User Forum, £47k (of the £50k carry forward budget).

All the budget forecast not to be spent in 2020/21 has been requested to be carried forward again into the next financial year 2021/22.

- 8.5. There are 4 key corporate 'financial health' indicators identified in relation to key sources of income for the Council. Table 4 below shows the 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. At Quarter 2 three of the indicators were red and one was amber. Currently all the indicators are red.
- 8.6. The red indicators for Land Charges, Car Parking Fees and Parking Penalty Charge Notices income were initially highlighted and explained at Quarter One. The further reduction in income from parking penalty charge notices estimated at Quarter Three is itemised and explained in Table 3 above. A further reduction in projected parking fees income was highlighted at Quarter Two and the forecast outturn has reduced again at the end of Quarter Three, as detailed in table 3 above. While the projected income outturn from land charges has improved marginally from the Quarter One estimate, which has allowed a corresponding cost pressure to be absorbed rather than a variance being reported, a shortfall is still expected.
- 8.7. The red indicator in relation to income from planning applications is to highlight that cash receipts at the end of Quarter Three continue to be below the budget expectation and a shortfall on the income budget is now anticipated, as explained in table 3 above. The 'actual to date' total, which currently exceeds the projected outturn, includes the accounting adjustment posted in the last financial year to ensure the income total for 2019/20 only reflected planning applications resolved in the year, in accordance with accounting policy. An equivalent adjustment will be posted at year-end 2020/21, which will reduce the income outturn recorded for 2020/21.

Table 4 - Corporate financial health indicators

Indicator	Status	Original Budget	Actual to Date	Projected Outturn	Projected Variance
		£k	£k	£k	£k
Planning Application Fees (including fees for pre-application advice)	Red	(950)	(939)	(810)	140
Land Charges	Red	(164)	(105)	(136)	28
Car Parking Fees	Red	(1,936)	(693)	(848)	1,088
Parking Penalty Charge Notices	Red	(573)	(296)	(343)	230

FUNDING, RISK AND GENERAL FUND BALANCE

- 8.8. The Council's revenue budget is funded from the following main sources; Council Tax, New Homes Bonus and Retained Business Rates income. The Council was notified by Central Government in February 2020 of the amount of New Homes Bonus it could expect to receive in 2020/21 and planned accordingly.
- 8.9. Council Tax and Business Rates are accounted for in the Collection Fund rather than directly in our accounts, as we also collect them on behalf of other bodies. Each organisation has a share of the balance on the Collection Fund account. At the end of the third quarter, there is forecast to be a deficit on the NHDC share of the Council Tax Collection Fund of £186k and an estimated deficit on the Business Rates Collection Fund of around £8.75million. As statute requires that Collection Fund income amounts chargeable to the General Fund in 2020/21 must be those estimates prepared around the time of setting the budget for the year, the forecast deficits do not impact the funding total or the projected general fund balance shown in table 6. The repayment of the deficits will instead affect the funding position for future years.
- 8.10. As highlighted in the Revenue Budget Report 2021/22, the forecast deficit on the Council Tax Collection Fund will be subject to the 'Local Tax Income Guarantee' for 2020/21. This measure, in response to the impact of the Covid-19 Emergency on Local Government finances, was announced by the Government alongside the Provisional Finance Settlement for 2021/22 in December. The Government has pledged to compensate Councils for up to 75% of irretrievable Collection Fund losses occurring in this financial year. This will be received in the form of a grant that will be accounted for in 2020/21, with the cash receipt most likely to be received in 2021/22. Based on the current Council Tax Collection Fund forecast and the technical information published for calculating the value of eligible compensation, the Income Guarantee in respect of Council Tax is expected to benefit the Council's General Fund in 2020/21 by £150k (as shown in table 6 below). This is an increase of £29k on the £121k initial estimate included in the Revenue Budget Report 2021/22. The actual value will however not be known until after the accounts for 2020/21 are finalised.

- 8.11. It was also explained in the Revenue Budget Report 2021/22 that, as a further response to the Covid-19 pandemic, the Government has legislated that the repayment of Collection Fund deficits for 2020/21 be spread over three years from 2021/22, rather than full repayment in 2021/22 as would have been required under the previous legislation. The estimated impact on available Council Tax funding over the next three years from this measure was included in the budget estimates published in the Revenue Budget Report 2021/22, with a contribution of £77k to the Collection Fund required in 2021/22.
- 8.12. The forecast deficit on the Business Rates Collection Fund is primarily due to the additional business rate reliefs introduced by government in response to the COVID-19 pandemic. 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. The Council expects to receive total compensation of £10.877m for reliefs in 2020/21, which includes £9.193m for the additional reliefs introduced by government in response to the COVID-19 pandemic. The Council holds the grant received in a reserve to fund the repayment in future years of 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 deficit originally estimated for 2019/20, as shown in table 6.
- 8.13. The Business Rates Collection Fund deficit for 2020/21 after adjusting for business rate reliefs, currently estimated to be approx. £1.25m (£8.75m total deficit less £7.5m relating to additional reliefs), is also subject to the 'Local Tax Income Guarantee' for 2020/21. Based on current estimates, the Guarantee would currently equate to around an additional £935k of compensation in this year. The actual income value will however not be known until after the Collection Fund accounts for 2020/21 are finalised and the relevant business rates return to Government is submitted. The eligible income amount calculated at year-end will be transferred to the Grant reserve and used to fund the repayment of the deficit next year.
- 8.14. As noted above, the repayment of Collection Fund deficits for 2020/21 will be spread over three years from 2021/22. In respect of the Business Rates Collection Fund, the element of the deficit relating to the additional reliefs, currently estimated for NHDC to be around £7.5m, is still required to be repaid in full in the following financial year. The repayment of the remainder of the estimated deficit, totalling approximately £1.25m, will be spread over three years from 2021/22, with the relevant amount (£416k) included in each calculation of the surplus/ deficit recorded for the two subsequent financial years. A contribution from the General Fund to the Business Rates Collection Fund of £7.9m (total of £7.5m and £416k) is therefore required in the next financial year for the estimated deficit in this year. This will be funded from the grant held in reserve.
- 8.15. 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 6. 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.

- 8.16. The amount of levy payable for 20/21 and any pooling gain will be dependent on the actual value of business rates collected in the year after adjusting for business rate reliefs (which are directly compensated for via the grant from central government) and provisions for appeals and amounts that will not be collected. The Council will need to make a prudent estimate of what those provisions should be. This could reduce the pooling gain in the current year, but will help to avoid having to fund the deficit in future years. As the Pool Lead, Hertfordshire County Council is responsible for collating forecast estimates from each of the pooling authorities in order to gain an indication of the overall position for the pool and the levy implication for member authorities. The impact of the Covid-19 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.
- 8.17. The Council has received non-ringfenced emergency grant funding in 2020/21 from Government of £1.602m in relation to the Covid-19 pandemic. The Council has also received and is due to receive various streams of specific funding. This includes New Burdens Funding for Covid Grants administration which, as highlighted and explained in table 3 above, has made a net contribution to the General Fund. For other areas of specific funding, it is assumed that these have, or will be, spent on the specific purpose for which they have been allocated and therefore will have a net zero General Fund impact.
- 8.18. MHCLG has invited Local Authorities to apply for compensation for loss of sales, fees and charges income due to the impact of Covid, referred to previously as the 'Income Guarantee'. The Council's successful claim submitted for the period April to the end of July amounted to £680k. A further claim, amounting to £600k, has since been submitted for the period August to the end of November, bringing the total compensation sought for the period to £1.280million. After incorporating the anticipated impact of the third national lockdown on parking income in the final quarter of the year, as detailed in table 3 above, the full year forecast indicates total income compensation increasing from £1.5million, as estimated at Quarter Two, to around £1.85million. This will however depend on actual income levels achieved in the final months of the financial year.
- 8.19. As at the end of Quarter Two the total net General Fund impact related to Covid-19 impacts reported was £3.841m, as broken down in table 5 of the Quarter Two Revenue monitoring report. The total net General Fund impact relating to Covid-19 impacts highlighted in the November monitoring within the 2021/22 Revenue Budget Report was an additional £481k, while the net total detailed in this report is a further £675k (including the new burdens funding contribution of £270k). This means an overall total impact of £4.997million. Table 5 below shows the break down by budget area, and how it compares to the estimated full-year impact, which was reported to MHCLG in the latest impacts return (26th February 2021).

Table 5 – COVID Financial Impact on General Fund

Budget Area	Total Reported as at Q2 £k	Reported at November £k	Reported at Q3 £k	Total reported to date £k	Expected to be covered by Income guarantee	Full-year estimate £k	Reason for difference
Leisure Centres	1,800	420	0	2,220	Part	2,220	General Fund net impact assumes £230k Government Leisure Recovery Fund contribution.
Parking	779	0	701	1,480	Yes	1,530	Uncertainty over season ticket income in final quarter
Recycling Processing and materials	274	0	157	431	No	431	-
Garden Waste	186	0	(70)	116	No	116	-
Homeless Accommodation	160	0	0	160	No	160	-
Investment Income	115	0	0	115	No	115	-
HTH/ Museum Income	118	0	0	118	Yes	118	-
Trade Waste	90	0	0	90	Yes	93	-
Court Summons Income	79	61	40	180	No	237	Difference due to current year budget adjustment requested in 2019/20 revenue outturn report.
Land Charges	42	0	(13)	29	Yes	19	Demand recovering to normal levels
Careline fall response	30	0	0	30	No	30	-
Careline over-time	27	0	0	27	No	4	Only part due to Covid-19, the remainder is due to other factors
Planning	0	0	130	130	Yes	130	-
Support Grants	0	0	0	0	No	150	Net nil General Fund impact as covered from Special Reserve.
Other	141	0	0	141	Part	164	Full year estimate includes minor value impacts that have not been itemised in reporting.
Total	3,841	481	945	5,267		5,517	
	Less: non-ringfenced grant funding					(1,602)	
	Less: estimated Sales, Fees and Charges compensation income					(1,850)	
	Less: New Burdens Funding					(270)	
	Less: Funding from Special Reserve					(150)	
	Net General Fund impact					1,645	

8.20. As shown in table 5 above, the estimated overall net impact is around £1.645m. It is necessary to apply a proportion of the grants and compensation received to come back to this overall impact as, if the whole estimated grant and compensation was applied, this would understate the estimated year end position. Therefore £3.3521m (£4.997m less £1.645m) has been shown in table 6 below (split between un-ringfenced grant and income compensation).

- 8.21. Table 6 below summarises the impact on the General Fund balance of the position at Quarter Three detailed in this report.

Table 6 – General Fund impact

	Working Budget	Projected Outturn	Difference
	£k	£k	£k
Brought Forward balance (1st April 2020)	(9,378)	(9,378)	-
Net Expenditure	19,621	20,245	624
Funding (Council Tax, Business Rates, NHB)	(15,576)	(15,576)	0
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
Covid-19 un-ringfenced government grant funding	(1,602)	(1,602)	0
Applied Government Compensation for Covid-19 related income losses (to balance to £3.352m)	(665)	(1,750)	(1,085)
2020/21 Council Tax Guarantee Income	(121)	(150)	(29)
Carried Forward balance (31st March 2021)	(7,392)	(7,882)	(490)

- 8.22. 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 three a total of £837k has come to fruition. The identified risks realised in the third quarter relate to

- Hitchin Market. Cost neutral arrangements approved for the management of Hitchin Market mean a lower financial return to the Council, as reported in the November Monitoring within the budget report 2021/22 - £24k.
- Recycling services. Increase in net cost due to reducing volumes of paper collected for recycling (£44k - as highlighted in November monitoring) and the increased cost of haulage and processing of commingled recycling collected (£157k - as itemised in table 3 above) - £201k.
- Grounds Maintenance. Reduction in income from third party agency agreements for contracted grounds works following contractual dispute with settle (as reported in November monitoring) - £28k

- Housing services. Legal costs incurred following a challenge to a housing application decision (included within 'other minor variances' in November monitoring) - £21k.
- Planning Services. Lower than anticipated planning income due to the delay in progress of the Local Plan (as explained in table 3 above) - £130k

Table 7 – Known financial risks

	£'000
Original allowance for known financial risks	1,351
Known financial risks realised in Quarter 1	(189)
Known financial risks realised in Quarter 2	(244)
Known financial risks realised in Quarter 3	(404)
Remaining allowance for known financial risks	514

COVID-19: PAYMENTS TO BUSINESSES AND ISOLATING INDIVIDUALS

8.23. As part of the Government's economic support for Covid-19, the Council has been required to distribute a number of business grants. The Council has also been required to make self-isolation payments to individuals on low incomes. In both cases this has involved developing specific schemes (within the criteria set out by Government), setting up application processes, determining eligibility and making payments. The amounts that have been distributed (as at 14th February 2021) are detailed in table 8 below:

Table 8 – Covid-19 Financial Support to Businesses and Individuals

Support Schemes	Payments	
	Number	Value (£)
Small Business Grant Fund and Retail, Hospitality and Leisure Businesses Grant Fund (First National Lockdown)	2,224	27,745,000
Local Authority Discretionary Grant Fund (First National Lockdown)	221	1,455,600
Business Support Payments	661	4,800,449
Local Restrictions Support Grant (November 2020 National Lockdown)	724	1,187,648
Local Restrictions Support Grant (Hertfordshire in Tier 2)	388	268,218
Local Restrictions Support Grant (Hertfordshire in Tier 4)	641	626,949
Wet Pub Christmas Grants	66	66,000
Additional Restrictions Grant (National Lockdown commencing January 2021)	286	346,981
Total Payments to Businesses	5,211*	36,496,845
Track & Trace Payments to Isolating Individuals	271	135,500

* Businesses will have received payment from more than one grant.

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. Jo Keshishian, Acting Human Resources Services Manager
Jo.Keshishian@north-herts.gov.uk; ext 4314
- 17.5. Isabelle Alajooz, Legal Commercial Team Manager
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.

**FINANCE, AUDIT AND RISK COMMITTEE
8 MARCH 2021**

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: THIRD 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 December 2020.
- 1.2 To update Cabinet on the impact upon the approved capital programme for 2020/21 – 2030/31. The current estimate is a decrease in spend in 2020/21 of £1.6million and an increase in spend in future years of £2.0million. The most significant individual changes relate to £0.397M Property Improvements, £0.352M Lairage Lift Refurbishment, £0.350M Resurface Lairage Car Park and £0.265M Community Facilities Refurbishment. These are being reprofiled into future years. In addition, £0.320M from the Provide Housing at Market Rents budget has been reprofiled into 2020/21 from 2021/22.
- 1.3 To inform Cabinet of the Treasury Management activities in the first nine 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 remains unchanged from the estimate reported in the second quarter monitoring report.

2. RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of **£2.354million** 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 **£1.102million**.
- 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 That Cabinet approve the £0.050million budget to refurbish the Gym Floor at the North Herts Leisure Centre be reprofiled into 2020/21. The budget has been approved to spend in 2021/22 but with the Leisure Centre closed due to Covid-19 there's an opportunity to bring this work forward and avoid closing the gym once Covid-19 restrictions have been lifted.

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 February 2021.

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 significant 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 2030/31 and the funding source for each capital scheme.
- 8.3 Capital expenditure for 2020/21 is estimated to be **£2.354million**. This is a reduction of **£1.583million** on the forecast in the 2nd quarter report (reported to Cabinet on 15th December 2020). The decrease in spend in 2020/21 is largely due to the reprofiling of projects into 21/22. Table 1 below details changes to capital programme.

Table 1- Current Capital Estimates

	2020/21 £M	2021/22 £M	2022/23 to 2030/31 £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
Executive Member – Finance and I.T. approved additional Expenditure on 3 schemes	0.108	0	0

	2020/21 £M	2021/22 £M	2022/23 to 2030/31 £M
Changes approved by Council in Covid-19 Financial Impacts report 24/09/20	0.350	0	0
Changes at Q2	-7.040	7.022	0
Changes approved by Council	0.071	0.283	1.287
Changes at Q3	-1.654	1.102	0.537
Current Capital Estimates	2.354	15.821	29.570

- 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
Property Improvements	472	75	-397	Some capital works have been completed this year, but limited staff resource have been focused on reactive repairs, compliance and additional COVID-19 related compliance works. These capital improvements will be completed in 2021/22 (or later).	397
Lairage Lifts Refurbishment	352	0	-352	A review of the multi-storey car parks meant that there was a hold put on non urgent works . This delayed the start of the project. A specification and tender exercise has now been completed and a contractor appointed, with an anticipated start in late May 2021.	352
Resurface Lairage Car Park	350	0	-350	Options for surface treatments were put forward	350

Scheme	2020/21 Working Budget £'000	2020/21 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2021/22 onwards £'000
				and a budget approved. However there has been insufficient time to specify, tender and complete the works before the winter of 2020. Works are planned for summer 2021.	
Community Facilities Refurb	523	258	-265	The Community Facilities Capital Grant fund is demand lead. There has been a reduction in applications, which is probably related to Covid-19. It is expected that further applications will be received in 2021/22.	265
Letchworth Multi Storey Parapet / Soffit / Decoration	134	0	-134	Delays with the tender exercise have resulted in works now planned for summer 2021.	134
Museum Storage Solution	100	17	-83	Having explored the initial feasibility and put together a draft layout of the museum storage facility required, we are currently exploring what to do with the rest of the site to make the overall plot and development as financially viable as possible. As a result, this project is on pause until we decide what next steps to take.	83
Leisure Condition Survey	87	5	-82	Due to Covid-19 it has not been possible to carry out the majority of items included in the condition survey for 2020 which will now commence in 2021/22	82

Scheme	2020/21 Working Budget £'000	2020/21 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2021/22 onwards £'000
Sprung Floor Hitchin Town Hall	75	0	-75	Conditional Listed Building Consent has been awarded for this project and the contractor is preparing a submission to discharge the condition. The project will then be able to move forward and will take around 4 weeks. However, we have been asked to host a Covid-19 rapid testing site at HTH for the next 6 weeks, starting in February and as such, the project will not be completed within this financial year.	75
Mrs Howard Hall Boiler / Windows	63	0	-63	This funding is linked to the completion of a new lease. Due to various factors (particularly Covid-19 impacts) the lease will not be finalised until 2021/22.	63
Museum Services Development	48	0	-48	<p>This budget was intended for a canopy to the Terrace Area. Professional advice has determined that the building structure was not strong enough for the proposed canopy design. Alternative options will now be investigated, and if possible will be implemented in 2021/22.</p> <p>It is possible that there will not be a practical solution. Unfortunately, this would mean loss of income in the winter and during poor weather.</p>	48

Scheme	2020/21 Working Budget £'000	2020/21 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2021/22 onwards £'000
Hitchin Swim Centre Outdoor Boiler Replacement	40	0	-40	Due to Covid-19 the outdoor pool did not open in 2020 and the project to replace the boiler will be put on hold until 2021	40
Letchworth Outdoor Pool Boiler	40	0	-40	Due to Covid-19 the outdoor pool did not open in 2020 and the project to replace the boiler will be put on hold until 2021	40
Provide Housing at Market Rents	30	350	320	£2.947M of this budget was approved for reprofiling into 21/22 at the 2nd quarter. Work at Harkness Court has progressed a lot more quickly than previously anticipated, so increasing the spend in 2020/21 (rather than 2021/22).	-320
Total Minor (under £25k) slippage on other projects	130	88	-30		30
Total Revision to Budget Profile			-1.639		1.639

8.5 There are also minor changes to the overall forecast cost of schemes in 2020/21 with the revised estimate being a decrease of £0.015million

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	1.105	(2.118)	6.442

	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
S106 receipts			(0.148)	
Other third party grants and contributions			(0.088)	
Planned Borrowing			0	
Total			(2.354)	

- 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.
- 8.8 The Council's Capital Financing Requirement (CFR) at 31st March 2020 was negative £5.60 million. Based on current forecasts it will remain negative during 2020/21, which means that the Council does not have a need to borrow to fund capital spend.

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 and provisions balances and variations in cash due to the timing of receipts and payments. During the first nine months, the Council had an average investment balance of £44.4 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. The approved investment limits within the Investment Strategy were breached during the quarter ended 31 December 2020. The limit on investments placed with Building Societies was exceeded by £2.0 million for 19 days in October. Measures have been put in place to ensure limits are not exceeded again.
- 8.10 During the year the Council has had higher than expected cash balances due to the various grant funding that it has been given by Government to pass on to businesses. Even though every effort has been made to pass the money on to businesses as quickly as possible, there has inevitably been a delay between receipt and payment. There have also been tranches of grant where the amount received has exceeded the amounts eligible for payment. Balances have also been higher due to the delays in capital spend.

These have both been partially off-set by revenue costs and reduced income related to Covid-19. It has been necessary to keep the business grant funding very liquid, and therefore there has been an increase in short-term investments with the Debt Management Office.

8.11 The Council generated £0.161M of interest during the first nine months of 2020/21. The average interest rate on all outstanding investments at the 31st December was 0.54%. Interest rates have continued to decline since the second quarter report with some banks offering 0%. The Government's Debt Management Office (DMO) has recently been offering negative rates for very short term deposits. Consequently any new investments are yielding significantly less than 0.54%, usually 0.1% or less. 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.

8.12 As at 31 December 2020 the split of investments was as shown in the table below. There were no investments with non-UK banks during the quarter. There has been a general downgrading of banks which has meant a couple of non-UK banks have been temporarily removed from the Council's approved counter party list:

Banks	19%
Building Societies	27%
Government	12%
Local Authorities	36%
Money Market Fund (MMF)	6%

8.13 The level of risk of any investment will be affected by the riskiness of the institution where it is invested and the period that it is invested for. Where an institution has a credit rating this can be used to measure its riskiness. This can be combined with the period remaining on the investment to give a historic risk of default percentage measure. The table below shows the Historic Risk of Default for outstanding investments at 31 December 2020. The most risky investment has a historic risk of default of 0.178%. 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.

Borrower	Principal Invested £M	Interest Rate %	Credit Rating	Days to Maturity at 31 Dec	Historic Risk of Default %
Public Sector Deposit Fund (MMF)	3.0	0.09	AAA	Call	0
Santander UK	2.5	0.03	A	4	0.001
DMO (Government)	6.0	-0.01	AA-	4	0
Barclays Bank	1.5	0.01	A	15	0.002
West Brom Bldg Soc	1.0	0.08	*	18	0.032
Barclays Bank	1.5	0.01	A	19	0.003
Principality Bldg Soc	1.0	0.06	BBB+	19	0.008
Principality Bldg Soc	1.0	0.06	BBB+	21	0.009
Skipton Bldg Soc	2.0	0.1	A-	21	0.009
Marsden Bldg Society	1.5	1.6	*	22	0.010
Liverpool City Council	2.0	0.35	AA-	27	0.002
Fife Council	1.0	0.4	AA-	29	0.002
Principality Bldg Soc	1.0	0.16	BBB+	39	0.016
Surrey Heath Borough Council	3.0	0.18	AA-	53	0.003
Lloyds Bank	2.0	0.1	A+	67	0.013
Skipton Bldg Soc	1.0	0.2	A-	76	0.031
Bank of Scotland	1.0	0.1	A+	81	0.013
Lloyds Bank	1.0	0.05	A+	81	0.004
Leeds Bldg Soc	2.0	0.14	A-	82	0.011
Conwyn County Borough Council	2.0	0.08	AA-	110	0.007
Eastleigh Borough Council	2.0	0.05	AA-	137	0.009
Slough Borough Council	2.0	1.0	AA-	148	0.010
Monmouthshire Bldg Soc	1.0	1.5	*	148	0.178
Slough Borough Council	1.0	0.1	AA-	152	0.010
Monmouthshire County Council	1.0	0.25	AA-	169	0.011
Darlington Bldg Soc	1.0	0.35	*	189	0.083
London Borough of Southwark	2.0	0.2	AA-	217	0.014
Newcastle Bldg Soc	1.0	0.2	*	239	0.105
Blackpool Council	2.0	0.32	AA-	347	0.023
	50.0	0.54			

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

DMO and Local Authority credit ratings are the UK credit rating.

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 £4.393million higher than the budgeted £47.745million.
- 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 £1k per 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 next 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>

		2020/21 to 2026/27							Funding					
Project	Service Directorate	2020/21 Funding £	2021/22 Funding £	2022/23 Funding £	2023/24 Funding £	2024/25 Funding £	2025/26 Funding £	2026/27 - 2030/31 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	3,000	15,000	0	12,000	0	14,000	16,000	0	0	0	0	30,000	30,000
Access Burymean Road	Commercial	70,000	2,000	0	0	0	0	0	0	0	0	0	0	72,000
Additional PC's - Support Home Working/OAP	Customers	11,000	0	0	0	0	0	0	0	0	0	0	0	11,000
Allotments Water Supply Improvements		0	0	10,000	0	0	0	0	0	0	0	0	0	10,000
Alteration & improvement to underground drainage at Coombes Community Centre, Royston		0	25,000	0	0	0	0	0	0	0	0	0	0	25,000
Alternative to safeword tokens for staff/members working remotely	Customers	16,000	0	12,000	0	18,000	0	33,000	0	0	0	0	51,000	28,000
Avenue Park Splash Park	Place	0	0	0	70,000	0	0	0	0	0	0	0	0	70,000
Acquisition of Property Investments	Commercial	0	8,000,000	4,000,000	4,000,000	4,000,000	0	0	0	0	0	0	9,700,000	10,300,000
Back-up Diesel 40 KVA Generator (DCO)	Customers	0	0	0	25,000	0	0	0	0	0	0	0	0	25,000
Baldock Town Hall project	Legal and Community	48,800	0	0	0	0	0	0	0	0	0	0	0	48,800
Bancroft Lighting	Place	0	0	0	45,000	0	0	0	0	0	0	0	0	45,000
Bancroft & Priory Splash Pads	Place	0	0	0	0	35,000	0	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	0	0	0	19,400
Cabinet Switches - 4 Floors	Customers	0	18,000	0	0	18,000	0	18,000	0	0	0	0	54,000	0
Cadcom Local Knowledge & Notice Board Software	Customers	5,400	0	0	0	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	0	0	0	30,000
Conference Calling Solutions in Large Meeting Rooms at District Council Offices		0	35,000	0	0	0	0	0	0	0	0	0	0	35,000
Council Chamber		21,000	0	0	0	0	0	0	0	0	0	0	0	21,000
Council property improvements following condition survey	Resources	75,000	115,000	537,200	0	0	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	0	0	0	30,000
Cycle Strategy implementation (GAF)	Regulatory	0	278,000	0	0	0	0	0	0	278,000	0	0	0	0
Data Switch Upgrade	Customers	0	0	15,000	0	18,000	0	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	0	0	0	5,000
Disabled Facilities Grant	Regulatory	50,000	0	0	0	0	0	0	0	50,000	0	0	0	0
DR Hardware Refresh Inc UPS Battery Pk (unit 3)	Customers	0	0	0	55,000	0	0	60,000	0	0	0	0	60,000	55,000
Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract	Customers	15,500	23,500	0	0	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	0	0	0	45,000
Energy efficiency measures	Resources	8,500	0	0	0	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	0	0	0	15,000
Great Ashby District Park safety and security		0	20,000	0	0	0	0	0	0	0	0	0	0	20,000
Green Infrastructure implementation (GAF)	Regulatory	0	185,000	0	0	0	0	0	0	185,000	0	0	0	0
Hitchin Lairage car park - cosmetic coating to four stairwells and replacement windows and doors		0	75,000	0	0	0	0	0	0	0	0	0	0	75,000
Hitchin Swim Centre Boiler Replacement	Place	0	0	0	0	200,000	0	0	0	0	0	0	200,000	0
Hitchin Swim Centre Future Refurbishment	Place	0	0	0	0	0	300,000	605,000	0	0	0	0	905,000	0
Hitchin Swim Centre Outdoor Pool Boiler Replacement	Place	0	40,000	0	40,000	0	0	0	0	0	0	0	0	80,000
Hitchin Swim Centre Reception Toilet Refurbishment	Place	0	0	30,000	0	0	0	0	0	0	0	0	0	30,000
Hitchin Swim Centre Replacement of Domestic Hot Water Calorifer		0	25,000	0	0	0	0	0	0	0	0	0	0	25,000

Project	Service Directorate								Funding					
		2020/21 Funding £	2021/22 Funding £	2022/23 Funding £	2023/24 Funding £	2024/25 Funding £	2025/26 Funding £	2026/27 - 2030/31 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
Hitchin Town Hall Additional Bar & Glassware Infrastructure	Commercial	25,000	0	0	0	0	0	0	0	0	0	0	0	25,000
Hitchin Town Hall Sprung Floor Replacement	Commercial	0	75,000	0	0	0	0	0	0	0	0	0	0	75,000
Howard Gardens Splashpad	Place	0	0	35,000	0	0	0	0	0	0	0	0	0	35,000
Ickneild Way Cemetery Footpaths	Place	0	50,000	0	0	0	0	0	0	0	0	0	0	50,000
Infrastructure Hardware	Customers	300,000	0	28,000	0	278,000	25,000	348,000	0	0	0	0	651,000	328,000
Installation of trial on-street charging (GAF)	Regulatory	0	50,000	0	0	0	0	0	0	50,000	0	0	0	0
Ivel Springs Footpaths	Place	0	0	10,000	0	0	0	0	0	0	0	0	0	10,000
John Barker Place, Hitchin	Regulatory	0	0	1,096,000	0	0	0	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	0	0	0	120,700
Land Purchase Adj Grange CC	Commercial	20,000	0	0	0	0	0	0	0	0	0	0	0	20,000
Laptop Purchases for Officers		0	55,000	0	0	55,000	0	110,000	0	0	0	0	110,000	110,000
Laptops - Refresh Programme	Customers	109,600	30,000	7,000	7,000	80,000	5,000	70,000	0	0	0	0	155,000	153,600
Leisure Condition Survey Enhancements	Place	5,000	82,000	0	107,000	0	0	0	0	0	0	0	0	194,000
Letchworth Multi-storey Car Park - parapet walls, soffit & decoration	Resources	0	133,800	0	0	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	0	0	0	18,000
Letchworth Outdoor Pool Boiler Replacement	Place	0	40,000	0	40,000	0	0	0	0	0	0	0	0	80,000
Match Funding for Electric Vehicle charging		0	100,000	0	0	0	0	0	0	50,000	0	0	0	50,000
Members Laptops Refresh Programme		0	0	0	60,000	0	0	120,000	0	0	0	0	120,000	60,000
Microsoft Enterprise Software Assurance	Customers	0	0	390,000	0	0	426,000	462,000	0	0	0	0	888,000	390,000
Mrs Howard Hall Replacement Boiler & Windows	Resources	0	63,000	0	0	0	0	0	0	0	0	0	0	63,000
Museum Storage Solution	Commercial	17,300	1,182,700	0	0	0	0	0	0	0	0	0	630,000	570,000
Newmarket Road Royston Skatepark & Access	Place	0	0	0	90,000	0	0	0	0	0	0	0	0	90,000
NH Museum & Community Facility	Commercial	0	48,300	0	0	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	0	0	0	40,000
NHLC Boiler Replacement	Place	0	0	200,000	0	0	0	0	0	0	0	0	0	200,000
NHLC Dryside Changing Area	Place	0	0	100,000	0	0	0	0	0	0	0	0	0	100,000
NHLC Interactive Water Feature	Place	0	0	0	0	0	0	120,000	0	0	0	0	120,000	0
NHLC Pool Flume Replacement	Place	0	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	0	0	0	30,000
NHLC Refurbish Gym Floor	Place	0	50,000	0	0	0	0	0	0	0	0	0	0	50,000
NHLC Refurbishment of Gym Members Changing Rooms	Place	179,400	0	0	0	0	0	0	0	0	0	0	0	179,400
NHLC Replace Circulation Pipework	Place	58,700	0	0	0	0	0	0	0	0	0	0	0	58,700
NHLC Replacement of Sport Hall heating system		0	30,000	0	0	0	0	0	0	0	0	0	0	30,000
NHLC Sauna Steam Refurbishment	Place	0	0	0	250,000	0	0	0	0	0	0	0	250,000	0
Northern Transfer Station	Place	0	0	0	0	1,600,000	0	0	0	0	0	0	1,600,000	0
Norton Common Footpaths	Place	0	0	0	10,000	0	0	0	0	0	0	0	10,000	0
Norton Common Wheeled Sports improvements	Place	7,100	0	0	0	0	0	0	0	0	7,100	0	0	0
Off Street Car Parks resurfacing and enhancement	Resources	15,000	178,000	56,100	8,000	0	0	0	0	0	0	0	0	257,100
Oughtonhead Common Footpaths	Place	0	0	0	20,000	0	0	0	0	0	0	0	20,000	0
Park Recycling Litter Bins		0	25,000	0	0	0	0	0	0	0	0	0	0	25,000
Parking Charging, Payments & Management	Regulatory	0	235,000	0	0	0	0	0	0	0	0	0	0	235,000
Parking Machines Replacement		0	0	0	0	0	150,000	150,000	0	0	0	0	300,000	0
Parking Machines Upgrade - Contactless Payment Facility Installation		38,000	36,000	20,000	0	0	0	0	81,000	0	0	0	0	13,000
PC's - Refresh Programme	Customers	30,500	13,000	8,000	7,000	13,000	7,000	34,000	0	0	0	0	54,000	58,500
Playground Renovation District Wide	Place	0	180,000	180,000	180,000	180,000	180,000	900,000	0	0	0	0	1,260,000	540,000

Project	Service Directorate								Funding					
		2020/21 Funding £	2021/22 Funding £	2022/23 Funding £	2023/24 Funding £	2024/25 Funding £	2025/26 Funding £	2026/27 - 2030/31 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
Polling Booths for Elections		0	27,000	0	0	0	0	0	0	0	0	0	0	27,000
Private Sector Grants	Regulatory	60,000	60,000	60,000	60,000	60,000	60,000	300,000	0	0	0	0	360,000	300,000
Provide housing at market rents.	Commercial	350,000	2,626,700	0	0	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	0	0	0	30,000
Refurbishment and improvement of community facilities	Legal and Community	257,600	265,300	0	0	0	0	0	0	0	0	0	0	522,900
Refurbishment of lifts at Lairage Car Park	Resources	7,000	352,300	0	0	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	0	0	0	75,000
Renovate play area King George V Recreation Ground, Hitchin	Place	1,800	0	0	0	0	0	0	0	0	0	0	0	1,800
Renovate play area, District Park, Gt. Ashby	Place	800	0	0	0	0	0	0	0	0	0	0	0	800
Replace and enhance lighting at St Mary's Car Park	Resources	0	60,000	0	0	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	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	0	0	0	10,000
Replacement of Newark Close, Royston		0	65,000	0	0	0	0	0	0	0	0	0	0	65,000
Resurface Lairage Car Park	Resources	0	350,000	0	0	0	0	0	0	0	0	0	0	350,000
Royston Leisure Centre extension	Place	0	0	1,000,000	0	0	0	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	0	0	0	225,000
Royston Leisure Centre Dry Side Toilet Refurbishment	Place	0	0	30,000	0	0	0	0	0	0	0	0	0	30,000
Royston Leisure Centre Future Refurbishment	Place	0	0	0	0	0	0	300,000	0	0	0	0	300,000	0
Royston Leisure Centre Members Changing Refurbishment	Place	0	0	0	0	150,000	0	0	0	0	0	0	150,000	0
Royston Leisure Centre Solar Thermal Installation		0	50,000	0	0	0	0	0	0	0	0	0	0	50,000
S106 Projects	Various	128,800	0	0	0	0	0	0	0	0	128,800	0	0	0
Security - Firewalls	Customers	14,000	0	14,000	0	16,000	0	36,000	0	0	0	0	52,000	28,000
St Johns Cemetery Footpath	Place	10,000	0	0	0	40,000	0	0	0	0	0	0	6,000	44,000
Tablets - Android Devices	Customers	12,900	15,000	18,000	12,000	17,000	17,000	56,000	0	0	0	0	90,000	57,900
Telephony system	Customers	10,600	0	0	0	0	0	0	0	0	0	0	0	10,600
Thomas Bellamy House, Hitchin		0	65,000	0	0	0	0	0	0	0	0	0	0	65,000
Transport Plans implementation (GAF)	Regulatory	0	250,000	0	0	0	0	0	0	250,000	0	0	0	0
Voice Recorders Careline	Customers	28,500	0	0	0	0	0	0	0	0	0	0	0	28,500
Walsworth Common Pavilion - contribution to scheme	Place	0	0	300,000	0	0	0	0	250,000	0	37,000	0	0	13,000
Walsworth Common Pitch Improvements	Place	20,000	0	0	0	0	0	0	0	0	11,700	0	0	8,300
Waste and Street Cleansing Vehicles	Place	0	0	0	0	0	4,000,000	0	0	0	0	4,000,000	0	0
Weston Hills LNR Footpath Renovation	Place	0	0	20,000	0	0	0	0	0	0	0	0	0	20,000
Wilbury Hills Cemetery Footpaths	Place	10,000	10,000	0	10,000	10,000	0	30,000	0	0	0	0	30,000	40,000
WiFi Upgrade		0	0	0	0	0	40,000	0	0	0	0	0	40,000	0
WiFi Upgrades for DCO & Hitchin Town Hall	Customers	35,000	0	0	0	0	0	0	0	0	0	0	0	35,000
		2,354,200	15,820,300	8,456,300	5,143,000	6,788,000	5,224,000	3,959,000	379,300	863,000	455,000	4,000,200	18,440,000	23,607,300

This page is intentionally left blank

Treasury Management Update

Quarter Ended 31st December
2020

This report is intended for the use and assistance of customers of Link Group. It should not be regarded as a substitute for the exercise by the recipient of its own judgement. Link Group exists to provide its clients with advice primarily on borrowing and investment. We are not legal experts and we have not obtained legal advice in giving our opinions and interpretations in this paper. Clients are advised to seek expert legal advice before taking action as a result of any advice given in this paper. Whilst Link Group makes every effort to ensure that all information provided by it is accurate and complete, it does not guarantee the correctness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. Furthermore, Link Group shall not be held liable in contract, tort or otherwise for any loss or damage (whether direct, or indirect or consequential) resulting from negligence, delay or failure on the part of Link Group or its officers, employees or agents in procuring, presenting, communicating or otherwise providing information or advice whether sustained by Link Group customer or any third party directly or indirectly making use of such information or advice, including but not limited to any loss or damage resulting as a consequence of inaccuracy or errors in such information or advice. All information supplied by Link Group should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision.

Treasury services are provided by Link Treasury Services Limited (registered in England and Wales No. 2652033). Link Treasury Services Limited is authorised and regulated by the Financial Conduct Authority only for conducting advisory and arranging activities in the UK as part of its Treasury Management Service. FCA register number 150403. Registered office: 6th Floor, 65 Gresham Street, London, EC2V 7NQ.

Contents

1. Economic Background	3
2. Interest Rate Forecast	6
3. Annual Investment Strategy.....	8
4. New Borrowing	12
5. Debt Rescheduling	15
6. Compliance with Treasury and Prudential Limits.....	15
 APPENDIX 1: Prudential and Treasury Indicators as at 31st December 2020 .	16

Treasury Management Update

Quarter Ended 31st December 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. Economics update

- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that “announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target”. Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
 - The economy would recover to reach its pre-pandemic level in Q1 2022
 - The Bank also expected there to be excess demand in the economy by Q4 2022.
 - CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the “inflation risks were judged to be balanced”.
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it “stands ready to adjust monetary policy”, the MPC this time said that it will take “whatever additional action was necessary to achieve its remit”. The latter seems stronger and wider and may indicate the Bank’s willingness to embrace new tools.
- One key addition to **the Bank’s forward guidance in August** was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.
- **COVID-19 vaccines.** We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).
- These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that **life could largely return to normal during the second**

half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.
- **December 2020 / January 2021.** Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5.1.21 to national lockdowns of various initial lengths in each of the four nations, as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.
- **Brexit.** The final agreement on 24.12.20 has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.
- **Monetary Policy Committee meeting of 17th December.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks but they were still sufficiently concerned that they voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for another six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)
- **US.** The Democrats won the presidential election in November, and now that they have won two Senate seats in Georgia in early January, they have effective control of both Congress and the Senate, although power is more limited in the latter. This is likely to enable the Democrats to provide more fiscal stimulus to the economy and so help the speed of economic recovery.
- **The economy** had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave - impacting widely across the US this time. This

latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a \$900bn fiscal stimulus deal passed by Congress in late December will limit the downside. GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.
- After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.
- The Fed's meeting on **16 December** tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – **which will also have an influence on gilt yields in this country.**
- **EU.** In early December, the figures for **Q3 GDP** confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during **Q4 and in Q1 of 2021**, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism.
- With inflation expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore **unlikely to be a euro crisis** while the ECB is able to maintain this level of support. However, as in the UK and the US,

the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.
- **Japan.** A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.
- **World growth.** World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

2. Interest rate forecasts

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Following the conclusion of the HM Treasury review of PWLB margins over gilt yields on 25.11.20, all forecasts below now include the 1% reduction in the non-HRA Certainty Rate (now gilt yields plus 80bps):

Link Group Interest Rate View		9.11.20											
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2024 as economic recovery is expected to be only gradual.

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. In addition, there were growing expectations 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. Combined, 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. The consequence of this has been **the gradual lowering of the overall level of interest rates and bond yields in financial markets**. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. 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.

Gilt yields had, therefore, already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields initially spiked upwards in March, we have seen yields fall sharply in response to major western central banks taking rapid policy action to deal with excessive stress in financial markets during March, and starting massive quantitative easing driven purchases of government bonds: these actions also acted to put 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. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. **At the close on 31st December, all gilt yields from 1 to 8 years were in negative territory, while even 25 year yields were only at 0.84% and the 50 year at 0.64%.**

From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates in 2019-20** without any prior warning. The first took place on 9.10.19, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11.3.20, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and **on 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates**; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **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 80bps), above shows, there is likely to be little upward movement in PWLB rates over the next three years as it will take the UK a prolonged period to eliminate spare capacity in the economy so that inflation might start to become a sufficient concern for both the MPC to consider raising Bank Rate, and for gilt holders to require a higher yield.

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. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. 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.

As shown by the interest rate forecasts in section 2, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short term money market investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2024, investment returns are expected to remain low.

Negative investment rates

While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, (at least in the next 6 - 12 months), some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in investment balances searching for an investment home, some of which was only very short-term until those sums were able to be passed on. Meanwhile, uncertainty among corporate investors has also heightened their preference for the very short end of the yield curve. This, combined with a glut of monies which was particularly acute in the run up to the calendar year end, lead to some financial entities offering yet deeper negative yields or simply closing their books to new monies until 2021 began.

As for money market funds (MMFs), yields drifted lower through to the close of the calendar year. In response, managers continued to trim fee levels to ensure that net yields for investors remained in positive territory through the final quarter of the year.

Inter-local authority lending and borrowing rates have also declined due to elevated cash levels seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur, or when further large receipts will be received from the Government. In addition, the impact of the change in the PWLB margin has had a marked impact on rates being offered.

Creditworthiness.

Although the credit rating agencies changed their Outlook on many financial institutions from Stable to Negative during the quarter ended 30.6.20, the majority of ratings were affirmed due to the continuing strong credit profiles and wider government support provided to financial markets and economies in general. During Q1 and Q2 2020, banks did make provisions for *expected* credit losses, while the most recent set of quarterly reports saw a number of entities revise down provisions in light of better economic outlooks. As we move into the next quarters ahead, more information will emerge on *actual* levels of credit losses. (Quarterly performance is normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments if they are found to be misaligned. These adjustments could be negative or positive, although it should also be borne in mind that UK banks, among others, went into this pandemic with strong balance sheets.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

CDS prices

Although CDS prices (these are market indicators of credit risk) for banks (including those from the UK) spiked upwards at the end of March / early April as the crisis unfolded, they have returned to near pre-pandemic levels

by the close of the year. **However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.**

Investment balances

The average level of funds available for investment purposes during the quarter was **£49m**. 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 nine months of the year was 0.48%. This is the weighted average rate of interest earned on investments held by the Council between 1 April and 31 December. The 0.54% average interest rate shown in the table below is the weighted average rate of interest on outstanding investments on 31 December.

	Amount	Average
	£	Interest Rate %
Managed By NHDC		
Banks	9,500,000	0.06
Building Societies	9,000,000	0.14
Local Authorities	18,000,000	0.36
Money Market Fund	3,000,000	0.09
Government	6,000,000	-0.01
NHDC Total	45,500,000	0.27
Managed by Tradition		
Building Societies	4,500,000	1.30
Tradition Total	4,500,000	1.30
TOTAL	50,000,000	0.54

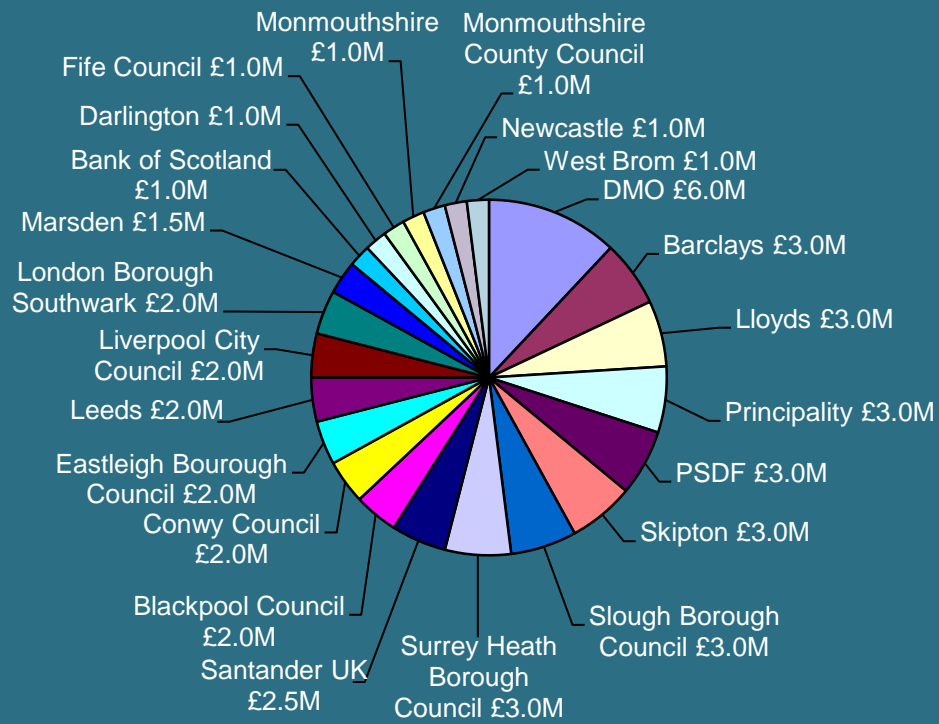
In percentage terms, this equates to:

	Percentage
Money Market Fund	6
Government	12
Banks	19
Building Societies	27
Local Authorities	36

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 31 December was £13.5M. This limit was breached in October by £2.0M for nineteen days. Addition checks have been put in place to ensure this does not happen again.

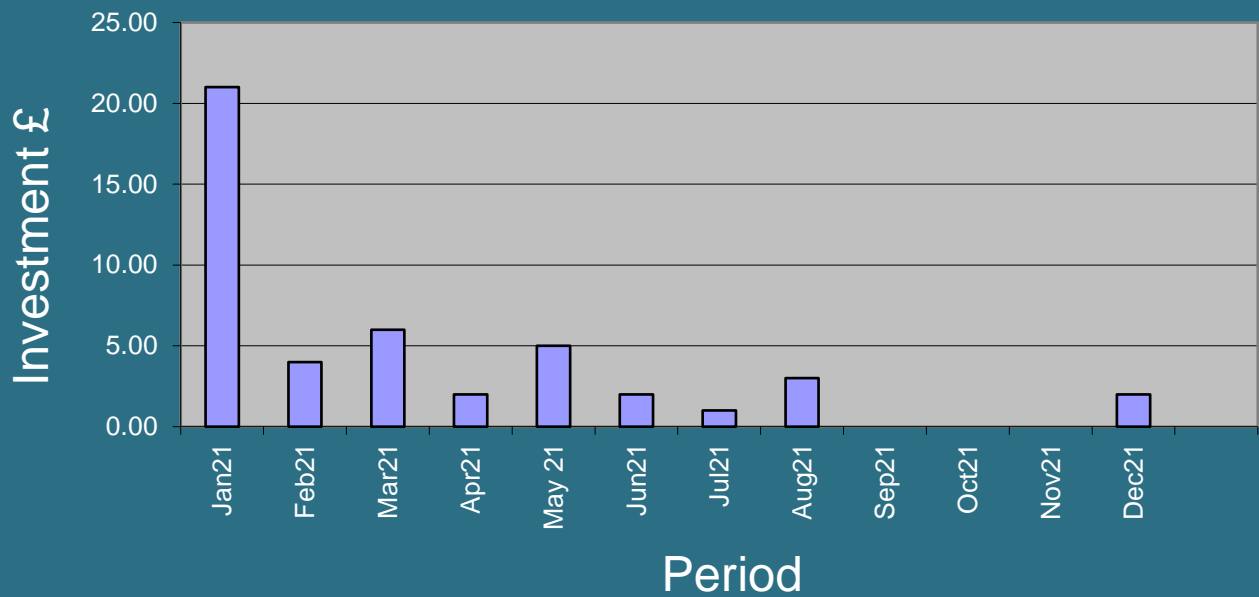
The pie chart below shows the spread of investment balances as at 31 December 2020. This is a snapshot in time that demonstrates the diversification of investments.

Placement of Investments 31st December 2020



The chart below shows the Council's investment maturity profile. This does not include the £3.0M held in the Public Sector Deposit Fund Money Market account nor the £1.0M held in a Notice Accounts.

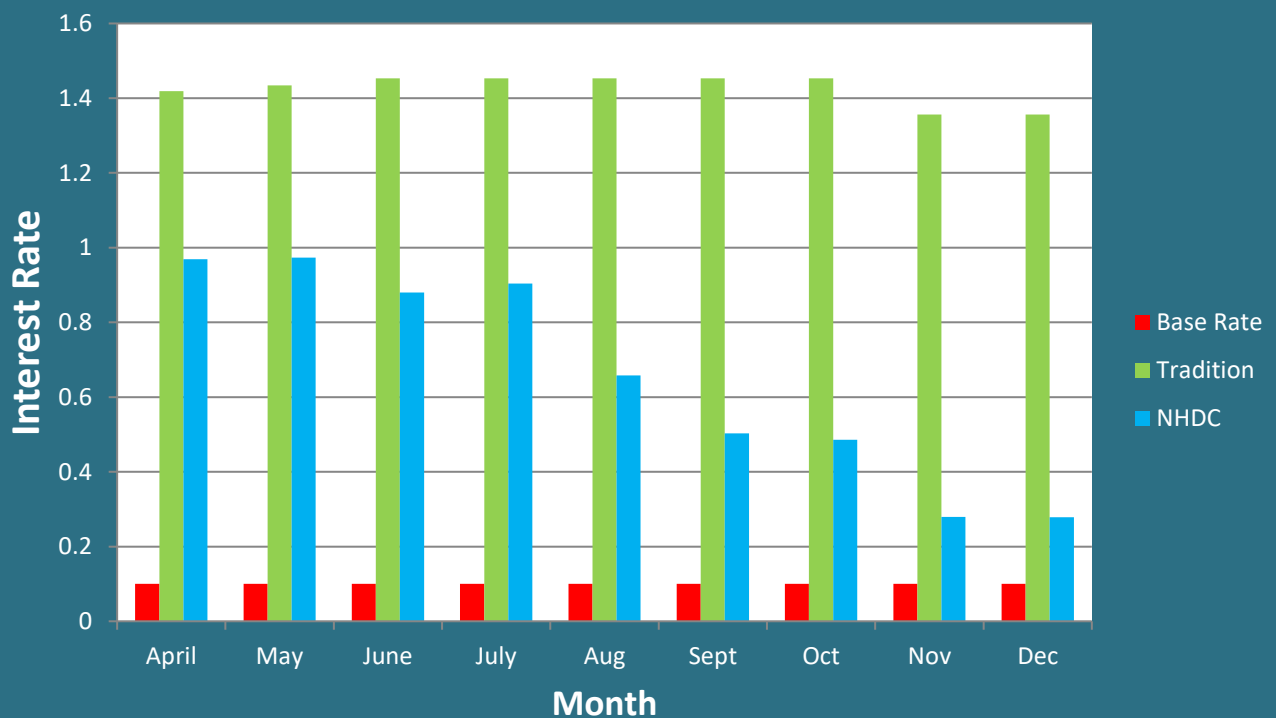
Investment Maturity 31st December 2020 (excludes Notice Account and PSDF which do not have a fixed term)



The Council's Original budgeted investment return for 2020/21 was £0.300M. The projection was amended at the 1st quarter to £0.185M and based on current investments and cashflow forecasts this remains unchanged and it is expected that the Council will generate £0.185M of interest.

The graph below shows the average rate of interest on outstanding investments at 31 December.

Average Interest Rates on Outstanding Investments



The higher rates achieved through Tradition reflect that these are longer-term investments and that these investments were generally made pre Covid-19. 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.

4. Borrowing

No long term borrowing was undertaken during the quarter ended 31 December 2020.

Based on 3rd quarter estimates for capital expenditure, the Council's capital financing requirement (CFR) for 2020/21 is expected to be -£5.002M (-£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). The balance of external and internal borrowing is generally driven by market conditions and future forecasts.

Loans Outstanding at 31 December 2020:

	Amount	Average Interest Rate
	£	%
Public Works Loans Board	£414k	9.89

Estimated outstanding debt:

Year	Forecast Borrowing £m	Forecast other long-term liabilities £m	Forecast Total External Debt £m	Operational Boundary £m	Authorised Limit £m
31 st March 2020	0.423	2.125	2.548	3.7	9
31 st March 2021 (Forecast)	0.405	1.622	2.027	3.2	9
31 st March 2022 (Forecast)	5.635	1.119	6.754	7.9	12
31 st March 2023 (Forecast)	5.353	0.616	5.969	7.1	11
31 st March 2024 (Forecast)	6.450	0.113	6.563	7.4	12
31 st March 2025 (Forecast)	12.726	0	12.726	13.6	18

* Comprises the finance lease relating to Letchworth Multi-storey car park and 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 next year if the Capital Programme is fully spent so may need to apply a Minimum Revenue Provision (MRP).

The Prudential 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	0.041	20.245	0.20
2021/22	0.275	18.441	1.49
2022/23	0.274	15.519	1.77
2023/24	0.334	15.487	2.16
2024/25	0.597	15.481	3.86

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	0.041	0.185	-0.144	20.245	-0.711
2021/22	0.040	0.103	-0.063	18.441	-0.342
2022/23	0.275	0.102	0.173	15.519	1.115
2023/24	0.274	0.097	0.177	15.487	1.143
2024/25	0.334	0.096	0.238	15.481	1.537

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. During the quarter ended / year to date as at 31st December 2020, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2020 except for nineteen days in October. The limit on investments placed with Building Societies was exceeded by £2.0 million. Measures have been put in place to ensure limits are not exceeded again.

APPENDIX 1: Prudential and Treasury Indicators for 2020-21 as at 31st December 2020

Treasury Indicators	2020/21 Budget £'000	31.12.20 Actual £'000
Authorised limit for external debt	12,000	414
Operational boundary for external debt	6,900	414
Gross external debt	5,807	414
Investments	26,000	50,000
Net borrowing	-20,193	-49,586
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	7	7
20 years to 30 years	250	250
Upper limit for principal sums invested over 365 days	11,000 Max	0

Prudential Indicators	2020/21 Budget £'000	31.12.20 Actual £'000
Capital expenditure *	2,354	1,203
Capital Financing Requirement (CFR) *	-5,002	-5,226
In year borrowing requirement	5.4	0
Ratio of financing costs to net revenue stream *	2.10	-2.99

This page is intentionally left blank