

**NORTH HERTFORDSHIRE DISTRICT COUNCIL**



3 September 2021

Our Ref Finance, Audit and Risk Committee/15  
September 2021  
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To: Members of the Committee: Councillor Keith Hoskins MBE, Councillor Clare Billing, Councillor Adam Compton, Councillor Morgan Derbyshire, Councillor Terry Hone, Councillor Sean Prendergast and Councillor Adem Ruggiero-Cakir

**NOTICE IS HEREBY GIVEN OF A  
MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE**

to be held in the

**COUNCIL CHAMBER, DISTRICT COUNCIL OFFICES,  
LETCHWORTH GARDEN CITY**

On

**WEDNESDAY, 15TH SEPTEMBER, 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**

<b>Item</b>		<b>Page</b>
<b>1. APOLOGIES FOR ABSENCE</b>	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.	
<b>2. MINUTES - 12 JULY 2021</b>	To take as read and approve as a true record the minutes of the meeting of the Committee held on 12 July 2021.	(Pages 5 - 10)
<b>3. NOTIFICATION OF OTHER BUSINESS</b>	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.	
<b>4. CHAIR'S ANNOUNCEMENTS</b>	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.	
<b>5. PUBLIC PARTICIPATION</b>	To receive petitions, comments and questions from the public.	
<b>6. SIAS ANNUAL REPORT 2020-21</b>	REPORT OF THE SHARED INTERNAL AUDIT SERVICE  To receive the 2020-21 Annual Report of the Shared Internal Audit Service.	(Pages 11 - 24)
<b>7. SIAS PROGRESS REPORT 2021-22</b>	REPORT OF THE SHARED INTERNAL AUDIT SERVICE	(Pages 25 - 36)

To receive the Internal Audit Progress Report 2021-22 of the SIAS.

8. **QUARTERLY RISK MANAGEMENT UPDATE** (Pages  
REPORT OF THE SERVICE DIRECTOR - RESOURCES 37 - 46)

An update on Risk Management at North Hertfordshire District Council

9. **FIRST QUARTER REVENUE MONITORING REPORT 2021/22** (Pages  
REPORT OF THE SERVICE DIRECTOR – RESOURCES 47 - 58)

To consider the First Quarter Revenue Monitoring Report 2021/22.

10. **FIRST QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2021/22** (Pages  
REPORT OF THE SERVICE DIRECTOR – RESOURCES 59 - 88)

To update the Committee on progress with delivering the Capital and Treasury Strategy as at the end of June 2021.

11. **MEDIUM TERM FINANCIAL STRATEGY** (Pages  
REPORT OF THE SERVICE DIRECTOR – RESOURCES 89 - 102)

To consider the Medium Term Financial Strategy.

12. **FINANCIAL REGULATIONS REVIEW** (Pages  
REPORT OF THE SERVICE DIRECTOR – RESOURCES 103 -  
150)

To consider the proposed review of the Financial Regulations.

13. **FINANCIAL MANAGEMENT CODE AND BALANCE SHEET INSIGHT** (Pages  
REPORT OF THE SERVICE DIRECTOR – RESOURCES 151 -  
168)

To consider the Council's performance against the Financial Management Code.

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

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## NORTH HERTFORDSHIRE DISTRICT COUNCIL

### FINANCE, AUDIT AND RISK COMMITTEE

MEETING HELD IN THE COUNCIL CHAMBER, DISTRICT COUNCIL OFFICES, GERONON ROAD, LETCHWORTH GARDEN CITY  
ON MONDAY, 12TH JULY, 2021 AT 7.30 PM

#### MINUTES

**Present:** *Councillors: Keith Hoskins MBE (Chair), Clare Billing (Vice-Chair), Adam Compton, Morgan Derbyshire, Terry Hone and Sean Prendergast*

**In Attendance:** *Ian Couper (Service Director - Resources), Reuben Ayavoo (Policy and Community Engagement Manager), Nick Jennings (Head of the Shared Anti-Fraud Service) and Matthew Hepburn (Committee, Member and Scrutiny Officer)*

**Also Present:** *Councillor Ian Albert was present as Executive Member for Finance and IT.*

#### 13 APOLOGIES FOR ABSENCE

*Audio Recording – 1 Minute*

Apologies for absence were received from Councillor Adem Ruggiero-Cakir.

#### 14 MINUTES - 23 JUNE 2021

*Audio Recording – 1 Minute 11 Seconds*

Councillor Adam Compton raised a minor correction in relation Minute 9 – Risk Management Update.

With the correction explained, Councillor Keith Hoskins proposed and Councillor Clare Billing seconded. It was voted upon and:

**RESOLVED:** That the Minutes of the Meeting of the Committee held on 23 June 2021 be approved as a true record of the proceedings and be signed by the Chair subject to the following amendment:

Minute item 9 – Risk Management Update:

#### **Original:**

In response to questions raised, the Service Director – Resources advised:

- He would be happy to look at re-wording 'e-tendering system able to transmit to the new government e-procurement system in the event of a no-deal Brexit'.

**Amendment:**

Insert 'both' after 'transmit to' and remove the article 'the'. The sentence to read: 'e-tendering system able to transmit to both new government e-procurement systems in the event of a no-deal Brexit'.

**Amendment to read:**

In response to questions raised, the Service Director – Resources advised:

He would be happy to look at re-wording 'e-tendering system able to transmit to the new government e-procurement system in the event of a no-deal Brexit' so that it reads 'e-tendering system able to transmit to both new government e-procurement systems in the event of a no-deal Brexit'.

**15 NOTIFICATION OF OTHER BUSINESS**

*Audio Recording – 2 Minutes 57 Seconds*

There was no other business notified.

**16 CHAIR'S ANNOUNCEMENTS**

*Audio Recording – 3 Minutes 3 Seconds*

- (1) The Chair welcomed Councillor Sean Prendergast who had joined the Committee following a change in the membership. The Chair advised that Councillor Prendergast had replaced Councillor Sam Collins;
- (2) The Chair advised that, in accordance with Council Policy, the meeting would be audio recorded and streamed on YouTube;
- (3) The Chair drew attention to the item on the agenda front pages regarding Declarations of Interest and reminded Members that, in line with the Code of Conduct, any Declarations of Interest needed to be declared immediately prior to the item in question.

**17 PUBLIC PARTICIPATION**

*Audio Recording – 3 Minutes 33 Seconds*

There was no public participation.

**18 ANTI-FRAUD REPORT 2020/21**

*Audio Recording – 3 Minutes 40 Seconds*

The Head of the Shared Anti-Fraud Service (SAFS) presented the report entitled Anti-Fraud Report 2020/21 along with Appendix A - North Hertfordshire District Council Anti-Fraud Plan 2020/21, including:

- The Plan was developed at the time of the emerging Covid pandemic in March 2020 and, although some 'delivery methods' and activity was reviewed, a decision was made to keep the plan much as it was;
- All actions proposed for the 2020/21 Anti-Fraud Plan commenced in year with the vast majority being completed in-year;

- Two separate fraud awareness/ publicity campaigns were launched in 2020 which were successful;
- Fraud referrals decreased during the pandemic;
- Members were directed to the SAFS KPI Performance 2020/21 in Section 3 and it was reported that all targets were achieved;
- Section 4 - Transparency Code – Fraud Data was also included in the report; and
- There was a further reading list outlined in Section 5.

The Chair thanked the Head of SAFS for the presentation and work undertaken.

The following Members asked questions:

- Councillor Terry Hone; and
- Councillor Adam Compton.

In response to questions raised, the Head of SAFS advised:

- In regards to Table 1- Types of fraud being reported - the 10 fraud referrals recorded as 'other' related to covid council tax refund, planning, local housing provider, local businesses and DWP benefits;
- In relation to Case Study 1 on page 18 within the report, he would be happy to investigate the type of referrals received as a result of the awareness campaign.

It was voted upon and:

**RESOLVED:**

- (1) That the Councils work to combat fraud in 2020/21 be noted; and
- (2) That the performance of SAFS in meeting its KPIs in 2020/21 be noted.

**REASON FOR DECISIONS:** To enable the Finance, Audit and Risk Committee to review the Council's work to combat fraud in 2020/21 and the performance of SAFS in meeting its KPIs in 2020/21.

## 19 ANNUAL GOVERNANCE STATEMENT 2020/21

*Audio Recording – 13 Minutes 30 Seconds*

The Policy and Community Engagement Manager presented the report entitled Annual Governance Statement 2020/21 as well as Appendix A and drew Members' attention to the following items within the report:

- The Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015/234 placed a requirement on the Council to undertake an annual review of the effectiveness of the system of internal controls and prepare an Annual Governance Statement (AGS);
- The AGS must be considered by Members of the Finance, Audit and Risk Committee and the AGS approved under Regulation 6(4)(a) AAR 2015;
- The draft AGS had been prepared following an in-depth review/ input and scoring of arrangements by the Leadership against the Framework 2016; and

- The final AGS needed to be approved and accompany the Statement of Accounts. By presenting the draft AGS to this Committee before the audit of the accounts had concluded, the Committee would have time to raise any points that may need to be addressed. The Council had been notified by Ernst and Young that the audit of the Council's Statement of Accounts would not commence until at least November.

The Policy and Community Engagement Manager advised Members that Appendix A was not the entire Annual Governance Statement but a shorter more meaningful communication of the key areas that were being reported on.

It was:

**RESOLVED:** That the draft AGS Action Plan be noted in order for it to be finalised for approval as soon as possible after the Council's External Audit has been completed.

**REASON FOR DECISION:** The Committee is the legal body with responsibility for approval of the AGS. Reporting the draft AGS and Action Plan at this stage provides an opportunity for the Committee to assess and comment on the draft, before it is finalised and brought back for approval after the External Audit has been completed.

## 20 **SIAS REVIEW OF THE EFFECTIVENESS OF THE FINANCE, AUDIT AND RISK COMMITTEE 2020-21**

*Audio Recording – 16 Minutes 50 Seconds*

The Service Director – Resources presented the report entitled SIAS review of the effectiveness of the Finance, Audit and Risk Committee 2020-21, including:

- The Committee had operated well and legally in 2020/21;
- To move things forward, he would be speaking to the Service Director – Legal and Community in relation to having an independent member sit on the Committee;
- Members were encouraged to suggest topics for future meetings; and
- Members were requested to complete the training matrix if they had not already done so.

The following Members asked questions:

- Councillor Terry Hone; and
- Councillor Sean Prendergast.

In response to questions raised, the Service Director – Resources advised that only two skill assessment matrixes had been completed and returned.

The Service Director – Resources affirmed that he would send the matrix to Councillor Sean Prendergast who had joined the Committee.

It was voted upon and:

**RESOLVED:** That the SIAS Review of the Effectiveness of the Finance, Audit and Risk Committee 2020-21 be noted.

**REASON FOR DECISION:** To allow the Committee to consider the conclusions reached by the review and comment on the recommendations made.



**21 POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS**

*Audio Recording – 21 Minutes 30 Seconds*

It was agreed that the CIPFA Financial Management Code be an agenda item at the next meeting of the Finance, Audit and Risk Committee scheduled to take place on 15 September 2021.

The Chair welcomed Members to contact him in order to suggest possible agenda items for future meetings.

The meeting closed at 7.53 pm

Chair

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# Shared Internal Audit Service

## Annual Report 2020/21

## Annual Report Contents

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**WELWYN  
HATFIELD**  
BOROUGH COUNCIL



### Introduction

Welcome to the Shared Internal Audit Service (SIAS) Annual Report for 2020/21.

I was reading my introduction to last year's Annual Report as part of ordering my thoughts on the journey travelled this past 12 months and struck with an acute sense of déjà vu that my paragraphs on the Covid-19 pandemic could so easily be replicated. They remain as true today as when they were written as we emerged from the first pandemic lockdown seemingly a lifetime ago.

Our reserves of resilience, patience and courage have been sorely tested by the marathon experience and challenges to our wellbeing during the intervening year. I remain hopeful and optimistic though as we emerge from the most recent period of lockdown, isolation and restricted movement, buoyed by the spirit and boundless energy of friends and colleagues who have achieved so much so quickly transforming services and throwing themselves into the fray. I was amazed by the 'festival atmosphere' at the vaccination centre when I got my first jab, thrilled to again indulge my love of food and laughter in the company of close friends and family, and nearly reduced to tears when my eight year old son hugged me and told me he missed his 'work buddy' as he returned to the classroom.

Professionally, I grappled with the possibility that our internal audit work be suspended, paused or deferred to reduce the pressure on our partners as a result of the considerable impact of the Covid-19 pandemic on the delivery of critical public services and the focus on the Covid-19 response and recovery. This gave rise to the risk that I might have to consider whether I could still issue the annual assurance opinion for each of our partners or whether I would need to consider a limitation of scope. I am rightly proud of the SIAS team, our strong relationships and co-operation with officers at all our partners and the recognition of the importance of good governance, risk management and control in the midst of the pandemic, that allowed SIAS to deliver sufficient assurance from internal audit and other forms of assurance to issue annual assurance opinions in accordance with the professional standards.

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

As we move into the new audit year, I look forward to further embedding flexible and hybrid working practices and seeing colleagues and team members again. I will be leading the implementation of actions arising from our recent External Quality Assessment and making sure that we are suitably equipped to meet the challenges of the future. For further highlights and reflections, I invite you to delve into the Annual Report itself. As ever, I enjoy the engagement, dialogue and feedback the report fosters.

**Chris Wood - Head of Assurance**

**June 2021**



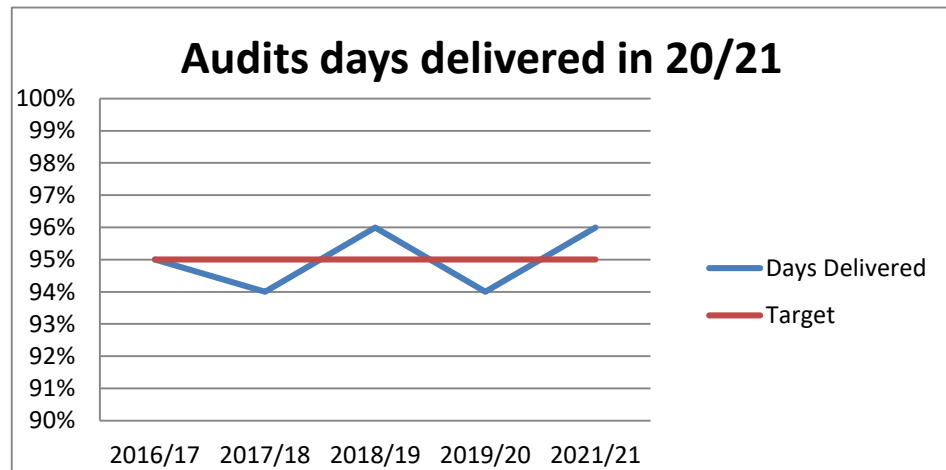
## Levels of delivery

2020/21 brought unprecedented challenges to SIAS in relation to delivering audits plans against a backdrop of our clients focusing resources on COVID-19 response and recovery activities, adapting our audit approach to meet social distancing requirements and the impact of the pandemic on our own staff.

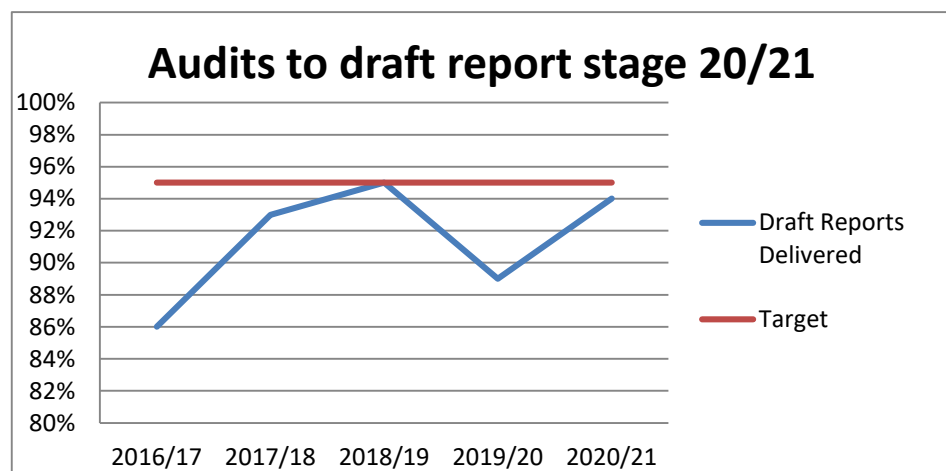
Despite such challenges SIAS managed to exceed the 95% target for delivering days commissioned by clients, with a final outturn of 96%. Whilst our delivery of audit reviews to draft report stage by the close of the year fell 1% short of the target of 95%, we believe the end of year outcomes pay testament to the hard work and resilience of the SIAS Team.

With our key objective being to complete enough work to allow an annual assurance opinion to be provided for each SIAS Partner, we are pleased to report that this was achieved.

**Figure 1: Percentage of audits days delivered**



**Figure 2: Percentage of audits to draft stage**



*Achieved its overall targets despite the challenges created by the COVID-19 Pandemic...*

## Shared learning - the power of partnership

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

During 2020/21, we issued our annual shared learning paper that summarises significant recommendations made from the work we undertook across the partnership during the previous year. Key areas included managing the risks of the financial resilience of suppliers, compliance with GDPR, the importance of maintaining audit trails, good practice in relation to safe recruitment and effective facilities management.

Whilst our annual shared learning workshop was deferred during 2020/21 in light of the COVID-19 pandemic, we nevertheless sought to share good practice to all SIAS Board Members from our wider networks such as 'Audit Together', a strategic alliance of similar internal audit partnerships, our audit delivery partners (BDO) and an array of contacts through bodies such as the Local Authority Chief Auditors Network (LACAN) and Home Counties Chief Internal Auditors Group (HCCIAG) for our partners and other stakeholders.

During 2020/21, our staff, partners and Audit Committee members have continued to support our cycle of continuous development with helpful challenges and comments, these being particularly critical in a time that presents an opportunity to re-look at all aspects of the delivery of the Service post pandemic.

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



## Managing the challenges of auditing during a pandemic

As we entered 2020/21, the Covid-19 pandemic brought fundamental challenges to our partners, which in turn meant that we needed to carefully consider how we could respond.

Dialogue was held throughout the year with all partners to ensure that we could continue support our partners by releasing staff for re-deployment to support key response activities, provide a reactive service and be in a position to provide an annual assurance opinion to support our partners annual governance statements.

*Approximately  
75% of our staff  
performed  
redeployment  
activities for our  
partners...*

Approximately 75% of our staff performed redeployment activities for our partners of varying lengths during the first quarter of 2020/21. Within Hertfordshire County Council, two of our team members performed important roles within the Operational Shield project, this being a critical project for supporting vulnerable citizens during the first period of lockdown. We received extremely positive feedback from clients on the work performed by our staff to support these response activities.

In respect of our audit plans, we worked with Clients to ensure that these mirrored the needs of our partners, with a COVID-19 assurance theme added to the plans of three partners to provide assurance over governance, risk management and audit trails for key response and recovery activities. For all partners we ensure that our audit work during the year considered the impact of the pandemic on key objectives, and internal control and governance frameworks.

In relation to audit delivery, we embraced the use of mobile technology to allow our work to continue with the use of Microsoft Teams being a fundamental tool for meetings and audit testing.

As the year progressed it was of critical importance that we were able to provide advice and support to our partners on how to maintain effective internal control and governance where changes were required to key systems and processes during the pandemic.

Whilst 2020/21 proved to be a challenging year, we achieved our key goal of completing a programme of work for all our partners to support an annual opinion on the robustness of internal control arrangements. This is a fantastic achievement for the Service, given that some other Local Authority Internal Audit Services had to pause their work during 2020/21.



## Developing our people and processes

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

At the core of our service are our team members, and we have invested in the delivery of core learning and coaching for all members of staff. This included external refresher training on the principles of risk and internal control, and the provision of opportunities for our Senior Auditors to undertake more supervisory and review activities during the year.

Despite the challenges of holding a recruitment drive during the pandemic, we were pleased to appoint to our vacant Senior Auditor position during the year and the successful applicant is now fully in post.

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

We have continued to provide our staff with support for professional training, either through apprenticeships or directly through the relevant awarding body. Such opportunities have been made available to several of our team members during the year. We have also improved how learning from our quality review processes is used to support training and development, with an improved focus on feedback to Auditors post audit and clearer links between the review process and an individual's annual Personal Development and training Plan.

A hot topic during 2020/21 has been data analytics, with organisations seeing increasing digitalisation of their operations. Data analytics is now becoming a powerful tool which can be incorporated into the audit process and enhances the ability to carry out whole population testing and continuous auditing. This in turn can enhance the assurance provided on the management of risk and controls. We began work in late 2020/21 to evaluate the value of data analytics to SIAS partners, and on producing a potential strategy for acquiring the required skillsets, thinking and methodologies.

***Exploring the use of data analytics to provide more insightful and robust assurance***

Technology is a key enabler of modern smart and agile working, as has continued to be demonstrated by the Covid-19 pandemic. The roll-out of Microsoft Teams was fundamental during 2020/21 and has allowed our staff to continue to perform audit work, despite the social distancing requirements that were put in place. We will be looking to permanently embrace many aspects of these new ways of working.

As part of our preparation for our PSIAS external quality assessment, we have taken the opportunity to review and update our Internal Audit Manual. This is a comprehensive set of working documents designed to inform, direct, guide and train internal auditors within the team, and includes things such as our vision, structure charts, policies, audit methodology, quality control arrangements and working paper and report templates.



## First class customer service

In order to monitor our effectiveness and improve our service, at the end of each assignment we request the completion of a short satisfaction survey. We have been given and have acted upon invaluable improvement ideas, and we are proud of the fact that in 2020/21 we have received 95% satisfactory or higher feedback rating from our customers.

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

• “I am happy as ever with the service from SIAS - they are helpful and approachable and carry out a professional service.”

- “The service received was excellent. The context was set very clearly, with structured and clear questions with good explanations for each section. Extremely professional and helpful in terms of explaining what would happen next. The PMO is a relatively new team so the audit was invaluable as a checkpoint to show us how far we had progressed and for us to identify areas where we can improve the service.”
- “The auditors always provide a professional and friendly service. The audits themselves provide the relevant service unit with an important indicator of the effectiveness and performance of service delivery in the assessed areas and helps to flag up areas of concern and improvement to the wider business.”
- “Excellent. The Auditor was great to work with and I think we managed to cover important aspects to inform simple ways to improve performance management.”
- “A valuable and professional audit. I felt the Auditor understood the challenges of internet and email security and added value to this audit.”
- “Service was good. This was the first time performing an internal audit, remotely. The process was efficient and effective and the use of SharePoint to store and exchange data was an excellent idea.”
- “I am happy as ever with the service from SIAS - they are helpful and approachable and carry out a professional service.”
- “Very useful audit. The opportunity to discuss findings and reports issued/ findings associated with other local authority companies was helpful, this highlighted the differences in approach and shaped the recommendations which were immediately implemented.”
- “The whole process was handled extremely well, and I thank the SIAS team for being understanding that the pandemic has put extra work demands on the finance functions within the school “

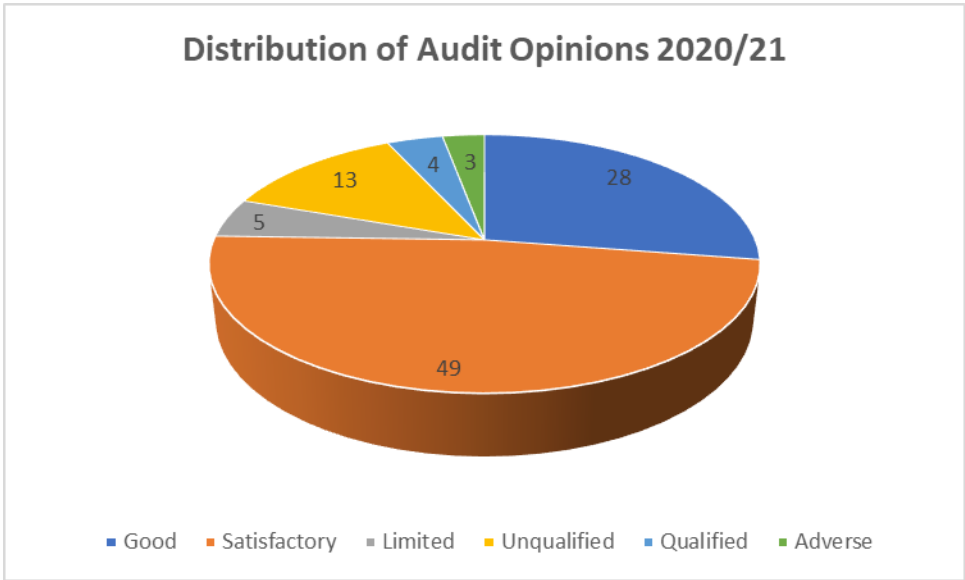


Performance - outcomes

SIAS completed 237 assurance and other projects to final report stage, giving the assurance opinions and recommendations detailed in the charts below.

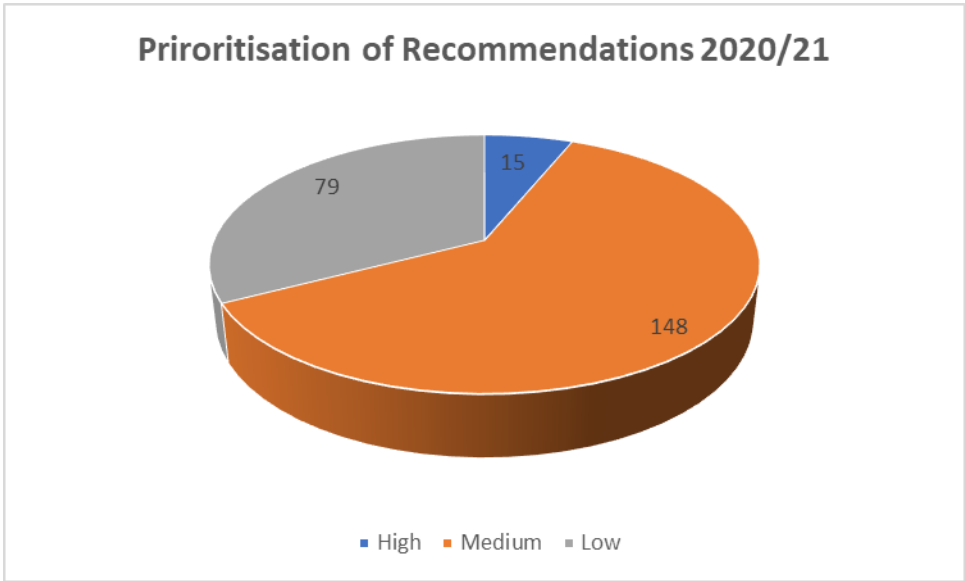
For those pieces which resulted in a formal assurance opinion, the distribution of opinions is set out in figure 3 below:

Figure 3: Distribution of Audit Opinions 2020/21



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

Figure 4: Prioritisation of Recommendations 2020/21



237 assurance and other projects identifying 329 recommendations

## Performance indicators

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

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

**Table 1: SIAS Business Performance**

Indicator	Target	Actual as at 31 March 2020	Actual as at 31 March 2021
Progress against plan: actual days delivered as a percentage of planned days.	95%	94%	96%
Progress against plan: audits issued in draft by 31 March	95%	89%	94%
Client satisfaction	100% client satisfaction questionnaires returned at 'satisfactory overall' level or above	100%	95%

## Financial performance of SIAS

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

Appendix A sets out the summary financial position at 31 March 2021. The partners determined that the service should aim to build a reasonable surplus and to consider the financial position of the service on a three-year rolling basis.

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

## Future developments



The intervention of the Covid-19 pandemic has naturally posed some challenges to overcome during 2020/21. A key part of the upcoming year will be to embed new ways of working and return the service to a form of business as usual, while ensuring that we do not lose the many of the benefits that have accrued implemented during the pandemic.

Given the longer-term impacts of the pandemic on Council's, businesses and the general public, it is important that we continue to work with our partners to maintain dynamic audit plans. This will ensure that we can focus on any new or emerging risks that arise during the year.

The Public Sector Internal Audit Standards (PSIAS) require SIAS to have an external quality assessment (EQA) at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The fieldwork for this assessment has been completed in June 2021. It will be important that our service plan focuses on the findings and insights provided from the assessment team to ensure that we can continue to provide an effective audit service for our partners.

From a training, development and professional practice perspective, we will continue to support those members of our service that are striving to attain professional qualifications, supporting this through a more robust in-house training programme. In addition, we will continue to embed our changes to our quality review processes to ensure that these support our staff in continuing to develop their skills and capabilities.

***embed new ways of working... ensuring that we do not lose the many of the benefits that have accrued implemented during the pandemic...***

## Our board members

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

In 2020/21, our Board members were as follows:

Name	Title	Partner
Clare Fletcher	Strategic Director (S151)	Stevenage Borough Council
Matthew Bunyon	Head of Finance and Business Services	Hertsmere Borough Council
Steven Pilsworth	Assistant Director Finance	Hertfordshire County Council
Ian Couper	Service Director (Resources)	North Hertfordshire District Council
Richard Baker	Head of Resources	Welwyn Hatfield Borough Council
Steven Linnett	Head of Strategic Finance and Property	East Herts Council
Alison Scott	Director of Finance	Watford Borough Council and Three Rivers District Council
Chris Wood	Head of Assurance	SIAS

SIAS cost centre: budget against outturn 2020/21		
	<u>Budget</u>	<u>Outturn</u>
	<u>£</u>	<u>£</u>
Salaries & Salary Related	1,089,856	941,497
Partner / Consultancy Costs	99,000	176,203
Transport	7,500	184
Supplies	17,833	6,182
Office Accommodation Cost	17,005	17,005
Total expenditure	<u>1,231,194</u>	<u>1,141,071</u>
Income	<u>-1,240,418</u>	<u>-1,238,690</u>
Net (surplus) / deficit	(9,224)	(97,619)



## Appendix B: Definitions of Assurance Levels and Priority of Recommendations

Assurance Level		Definition
<b>Good</b>		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.
<b>Satisfactory</b>		The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
<b>Limited</b>		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.
<b>No</b>		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
<b>Corporate</b>	<b>Critical</b>	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.
	<b>High</b>	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.
<b>Service</b>	<b>Medium</b>	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.
	<b>Low / Advisory</b>	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.





# **INTERNAL AUDIT PROGRESS REPORT**

## **NORTH HERTS DISTRICT COUNCIL**

FINANCE, AUDIT AND RISK COMMITTEE  
SEPTEMBER 2021

### **RECOMMENDATIONS**

- Note the SIAS Progress Report for the period to 27 August 2021,
- Note the plan amendments to the 2021/22 Annual Audit Plan

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- A Progress against the 2021/22 Audit Plan
- B 2021/22 Audit Plan Start Dates Agreed with Management
- C Assurance and Finding Definitions 2021/22

# 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 2021/22 as at 27 August 2021.
  - b) In-Year Audit Plan review and proposed plan amendments
  - c) An update on performance indicators as at 27 August 2021.

## Background

- 1.2 The 2021/22 Internal Audit Plan was approved by the Finance, Audit and Risk Committee (the FAR Committee) on 8 March 2021.
- 1.3 The Committee receives periodic updates of progress against the Annual Internal Audit Plan. This is the second report giving an update on the delivery of the 2021/22 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 27 August 2021, 40% of the 2021/22 Audit Plan days had been delivered.
- 2.2 The following final reports have been issued since 4 June 2021 (cut-off date for the SIAS Update Report for 23 June 2021 FAR Committee):

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
<b>2020/21 Audit Plan</b>			
Trade Waste	June 2021	Substantial	1 Low
Climate Change and Sustainability	June 2021	Reasonable	2 Medium
<b>2021/22 Audit Plan</b>			
Review of the Effectiveness of FAR Committee	July 2021	Not Assessed	N/a

Discretionary Housing Payments and Test and Trace Support Payment	July 2021	Reasonable	1 Medium
Cloud Computing	August 2021	Reasonable	1 Medium, 1 Low
Covid-19 Recovery – Phase 1	August 2021	Reasonable	1 Medium, 2 Low

### 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 There were no high priority recommendations made as a result of work undertaken in the audits detailed in paragraph 2.2 above.

### Proposed Amendments

- 2.5 During the annual planning process in January 2021, SIAS agreed with management that the Annual Audit Plan would be set in two phases, the first six months being fixed and then a series of interim planning discussions would take place in August to finalise the final six months of the year. The outcome of these discussions are detailed in following paragraphs.
- 2.6 The following projects have been removed from the Annual Audit Plan:
- a) **Climate Emergency (15 days)** – the Climate Change and Sustainability 20/21 audit has recently concluded (June 2021) and it is considered that a review in this year's audit plan does not allow sufficient time to address any points from the previous review, therefore this will be considered for inclusion in the 2022/23 Annual Audit Plan.
  - b) **Partnerships (15 days)** – this is not currently deemed to be a priority for audit purposes as the added projects are considered to be higher risk, however this will be considered for inclusion in the 2022/23 Annual Audit Plan.
  - c) **Anti-Social Behaviour (10 days)** – the coronavirus pandemic has reduced the reports of ASB. Therefore, it is considered that the timing is not appropriate for this review and this topic will be considered for inclusion in the 2022/23 Annual Audit Plan.
- 2.7 The following projects have been added to the Annual Audit Plan:
- a) **Health and Safety of Lone Workers - EH and Housing (10 days)** - With the increasing use of out of hours workers in Environmental Health and

Housing, this audit will seek to provide assurance that there are sufficient and robust arrangements in place to manage the risks associated with the health and safety of officers working out of hours.

- b) **Trade Waste – Whitespace Integration (10 days)** - To provide assurance that an appropriate internal control environment is in place to manage the invoicing of trade waste customers through whitespace, including the interface with the Council's financial management system.
- c) **Future Ways of Working (15 days)** - To provide assurance that governance structures, including policies and procedures, are in place to support the future ways of working of the Council. This audit will also consider the Council response to the loss of the informal controls that were in place when office working was the preferred option.

2.8 The following audits have been subject to budget changes:

- a) **Grants Administration** - Additional 2 days added to the budget, total budget 10 days. Additional time added to reflect the volume of grants and to allow greater testing of grant administration.
- b) **Covid-19 Recovery Phase 2** - Removed 2 days from the budget, total budget 8 days. The phase 1 work completed has provided a good starting position for this audit, therefore it is anticipated that less days are now required for this phase.
- c) **Shaping our Future** - Removed 5 days from the budget, total budget 10 days. There has been a need for this project to adapt to the outcomes of Covid-19 and the developing Council Plan. Progress has therefore been focused on developing an understanding of the Council's current position and the strategy moving forward. This audit will therefore have more of a strategic focus, and is expected to require fewer audit days.
- d) **Review of the Effectiveness of FAR Committee** - Added 1 day to the budget, total budget 6 days. The additional day has been added to reflect the actual time used on this project.
- e) **Customer Services Strategy** - Added 2 days to the budget, total budget 12 days. The above change is required to accommodate the widening of the audit scope to cover a recent amendment to the strategy following the revision of Council objectives after the May elections.

2.9 Following these changes, the contingency budget is 2.5 days.

#### Performance Management: Reporting of Audit Plan Delivery Progress

2.10 To help the Committee assess the current situation in terms of progress against the projects in the Audit Plan, we have provided an overall progress update 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 (28)	Profile
Draft / Final Report Issued	6	32%	(9/28)
In Fieldwork / Quality Review	5	18%	(5/28)
Terms of Reference Issued / In Planning	3	0%	(0/28)
Not Yet Started	14	50%	(14/28)

- 2.11 Annual performance indicators and associated targets were approved by the SIAS Board in March 2020. As at 27 August 2021, 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 27 August 2021	Actual to 27 August 2021
<b>1. Planned Days</b> – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	45% (120 / 266.5 days)	40% (108.5 / 267.5 days)
<b>2. Planned Projects</b> – percentage of actual completed projects to draft report stage against planned completed projects	95%	32% (9 / 28 projects)	21% (6 / 28 projects)
<b>3. Client Satisfaction with Conduct of the Audit</b> – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	None received in this reporting period
<b>4. Number of High Priority Audit Recommendations agreed</b>	95%	95%	No high priority recommendations

- 2.12 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2021/22 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 2021/22 AUDIT PLAN AS AT 27 August 2021

### 2021/22 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									
Grant Administration						10	SIAS	0	Allocated
Discretionary Housing Payments	Reasonable	0	0	1	0	8	SIAS	8	Final Report Issued
Resilience in Revs and Bens						8	SIAS	2.5	In Fieldwork
Integra Automation						8	SIAS	0	Allocated
Non-UK Purchases						6	SIAS	0	Allocated
Investments						6	SIAS	0	Allocated
Corporate Audits									
Covid-19 Response						15	SIAS	2.5	In Planning
Covid-19 Recovery – Phase 1	Reasonable	0	0	1	2	10	SIAS	10	Final Report Issued
Covid-19 Recovery – Phase 2						8	SIAS	0	Allocated
Shaping Our Future						10	SIAS	0	Allocated
Climate Emergency						0		0	Cancelled
Operational Audits									
Breathing Space (Debt Recovery)						10	SIAS	2	In Fieldwork
Income Generation (Selling our Services)						10	SIAS	9.5	Draft Report Issued
Customer Services Strategy						12	SIAS	11	Draft Report Issued
Health and Safety of Lone Workers (EH and Housing)						10	SIAS	0	Allocated
Trade Waste – Whitespace Integration						10		0	Allocated

## APPENDIX A – PROGRESS AGAINST THE 2021/22 AUDIT PLAN AS AT 27 August 2021

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
Anti-Social Behaviour						0		0	Cancelled
Partnerships						0		0	Cancelled
Community Engagement						3	BDO	0	Allocated
Financial Resilience of Suppliers Follow Up						2	SIAS	0	Allocated
Development Management Follow Up						2	SIAS	1.5	In Fieldwork
LA Track and Trace Grant						2	SIAS	0.5	In Planning
Energy Improvement to Park Homes Grant						2	SIAS	0.5	In Planning
Review of FAR	Not Assessed	0	0	0	0	6	SIAS	6	Final Report Issued
King George V Playing Fields						1	SIAS	0	Allocated
Workman's Hall						1	SIAS	0	Allocated
<b>Contract Audits</b>									
Leisure Contract						15	SIAS	14	Quality Review
<b>Corporate Governance</b>									
Ways of Working						15	SIAS	0	Allocated
<b>IT Audits</b>									
Data Breaches						10	BDO	0	Allocated
Cloud Computing	Reasonable	0	0	1	1	10	BDO	10	Final Report Issued
Freedom of Information and Subject Access Requests						10	BDO	7	In Fieldwork
<b>Shared Learning and Joint Reviews</b>									
Joint Reviews						3	N/A	0	Through Year



## APPENDIX A – PROGRESS AGAINST THE 2021/22 AUDIT PLAN AS AT 27 August 2021

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
Shared Learning						2	N/A	0	Through Year
<b>Contingency</b>									
Contingency						3.5	N/A	0	Through Year
<b>Client Management - Strategic Support</b>									
Head of Internal Audit Opinion 2020/21						3	SIAS	3	Complete
Audit Committee						6	SIAS	3	Through Year
Client Meetings						6	SIAS	3	Through Year
Progress Monitoring						10	SIAS	5	Through Year
SIAS Development						5	SIAS	5	Through Year
2022/23 Audit Planning						10	SIAS	2.5	Through Year
Completion of outstanding 2020/21 projects						2.5	SIAS	2	In Progress
<b>Total - North Herts D.C.</b>		<b>0</b>	<b>0</b>	<b>3</b>	<b>3</b>	<b>270</b>		<b>108.5</b>	

### Key

Not Assessed = No assurance opinion provide as the project was either consultancy based or validation for compliance

C = Critical Priority, H = High Priority, M = Medium Priority, L = Low Priority

BDO = SIAS Audit Partner

N/a = Not Applicable





## APPENDIX B – 2021/22 AUDIT PLAN START DATES AGREED WITH MANAGEMENT

Quarter 1	Quarter 2	Quarter 3	Quarter 4
Discretionary Housing Payments <b>Final Report Issued</b>	Resilience in Revenues and Benefits <b>In Fieldwork</b>	Grant Administration <b>Allocated</b>	Investments (Moved from Q3) <b>Allocated</b>
Income Generation (Selling our Services) <b>Draft Report Issued</b>	Freedom of Information and Subject Access Requests <b>In Fieldwork</b>	Integra Automation <b>Allocated</b>	Workman's Hall and King George V Playing Fields <b>Allocated</b>
Customer Services Strategy <b>Draft Report Issued</b>	COVID-19 Response <b>In Planning</b>	Non-UK Purchases <b>Allocated</b>	COVID-19 Recovery <b>Allocated</b>
Cloud Computing <b>Final Report Issued</b>	Development Management F/U <b>In Fieldwork</b>	Trade Waste – Whitespace Integration (Added) <b>Allocated</b>	Health and Safety of Lone Workers (Added) <b>Allocated</b>
COVID-19 Recovery Planning <b>Final Report Issued</b>	Breathing Space (Debt Recovery) <b>In Fieldwork</b>	Data Breaches <b>Allocated</b>	Ways of Working (Added) <b>Allocated</b>
Leisure Contract <b>Quality Review</b>	LA Track and Trace Grant (Added) <b>In Planning</b>	Shaping Our Future <b>Allocated</b>	Financial Resilience of Suppliers F/U (Moved from Q2) <b>Allocated</b>
Review of the Finance, Audit and Risk Committee <b>Final Report Issued</b>	Energy Improvement in Park Homes Grant (Added) <b>In Planning</b>	Community Engagement (Added) <b>Allocated</b>	
2020/21 Projects Requiring Completion			

The above table does not show cancelled audits as part of the interim planning cycle (see paragraph 2.6).

## APPENDIX C – ASSURANCE AND FINDINGS DEFINITIONS 2021/22

Assurance Level	Definition
<b>Substantial</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Priority Level			Definition
Corporate	<b>Critical</b>		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.
	<b>High</b>		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	<b>Medium</b>		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.
	<b>Low</b>		Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.

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<b>FINANCE AUDIT AND RISK COMMITTEE</b> <b>15 September 2021</b>
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<b>*PART 1 – PUBLIC DOCUMENT</b>
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**TITLE OF REPORT: RISK MANAGEMENT UPDATE**

REPORT OF: 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 any proposed changes to these risks.

**2. RECOMMENDATIONS**

2.1. That the Committee notes the update on the Corporate Risks for the quarter, namely

- There were no formal reviews of Corporate Risks in the last quarter.
- The Discussion at Risk Management Group (RMG) relating to the Delivery of the Waste Collection and Street Cleansing Services Contract Corporate risk, with no change to the risk score.
- The reviews of the Planning Corporate risks are to be delayed pending receipt of the Planning Inspectors report.
- The proposal to archive the Delivering the NHDC Climate Change Strategy service risk.

**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 Leadership Team 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 30 April 2021.

## **7. BACKGROUND**

- 7.1 At the June meeting, the Committee noted
- The Review of the Cyber risks with no change to the Current risk score of 8 and a Target risk score of 6
  - The review of the Brexit (EU Transition) Risk with a decrease in the Current risk score from a 7 to a 5, and a Target risk score of 3.
- 7.2 The Committee also noted The Annual report on Risk Management which was subsequently referred to Cabinet and Full Council.  
The FARC recommended the changes, and these were referred on to Cabinet and approved.
- 7.3 At the FARC meeting in June, a query was raised in relation to the Delivery of the Waste Collection and Street Cleansing Services contract. It was subsequently discussed at the next meeting of the RMG and is covered in section 8.2 of this report.

## **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 • Impact of Anti-Social Behaviour on Council Facilities (07.05.21) • Income Generation (10.05.21) • Increased Homelessness (17.05.21) • National and Regional Planning Issues (17.06.21) ↔	9 • Local Plan (17.06.21) ↔ • Managing the Council's Finances (07.05.21) • Novel Coronavirus (Covid-19) (25.05.21) ↔ • Covid-19 - Leisure Management Contracts (26.07.21) ↔
	2 Medium	2	5 • Brexit (EU Transition) (08.04.21)	8 • Cyber Risks (26.07.21) ↔ • Delivery of the Waste Collection and Street Cleansing Services Contract (23.07.21) ↔ • Sustainable Development - Neighbouring Authorities (17.06.21) ↔
	1 Low	1	3	6 • External Factors Affecting the Future Provision of Waste Services (23.07.21) ↔
		1 Low	2 Medium	3 High
		Impact		

8.1 No Corporate Risks were formally reviewed in the last quarter.

8.2 The RMG discussed the query raised at FARC in June. FARC had queried the Delivery of the Waste Collection and Street Cleansing Services Contract, why it had a risk score of 8 and why the risk was still on the Risk Register. The RMG agreed that the risk should be kept under review and that although it related to the Council's biggest contract, ongoing consideration should also be given to the need to retain the risk. It could be influenced by preparation for the next contract renewal, although this could be covered by a separate risk entry if required. Since the FARC meeting in June, the risk has been

updated to reflect the current issues of driver shortages and the consideration of possible response options. It was felt that this demonstrated the need to retain the risk entry with the existing score of 8, until the next review is due in October 2021.

8.3 At the last meeting of the RMG in May 2021, the Group had requested a review of the, Local Plan, National and Regional Planning Issues and the Neighbouring Authorities Corporate Risks. However, as the Service area is still awaiting the issue of the Inspectors report, which is currently expected in the Autumn, it was decided that it would be more appropriate for the review to take place once this has been received. When the Local Plan progresses, the related risks will fundamentally change.

8.4 The RMG received an update on the service risk Delivering the NHDC Climate Change Strategy. The Group discussed what the risk entry was helping us to achieve, the need to balance the Risk Management Framework and political requirements, and whether there needed to be a related risk on the Risk Register. Whilst the risk entry enables the RMG to challenge progress and ask appropriate questions, that is not actually the role of the RMG. The relevant service areas will monitor the outcome from individual projects and the Climate Change Implementation Group will do this from an overarching perspective, focussing on the achievement of overall objectives. The Group agreed to archive the risk, as there were alternative monitoring arrangements giving assurance of adequate oversight, and progress is being made in line with the strategy. Although service risks are not generally reported to FARC, it is felt appropriate to flag up the decision and the reasons, to give FARC the opportunity to comment.

## **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 and Income Generation.

## **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.

### **16. APPENDICES**

- 16.1. Appendix A – Delivering the NHDC Climate Change Strategy

### **17. CONTACT OFFICERS**

- 17.1. Rachel Cooper, Controls, Risk & Performance Manager  
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Ian Couper, Service Director – Resources  
[ian.couper@north-herts.gov.uk](mailto:ian.couper@north-herts.gov.uk) ext. 4243

### **18. BACKGROUND PAPERS**

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

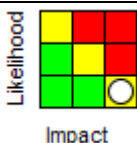
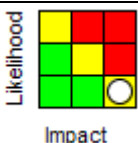
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# Delivering the NHDC Climate Change Strategy

Generated on: 28 July 2021



<b>Risk Code</b>	RR570	<b>Risk Title</b>	Delivering the NHDC Climate Change Strategy
<b>Risk Owner</b>	Jeanette Thompson	<b>Updated By</b>	Reuben Ayavoo
<b>Year Identified</b>	2020	<b>Council Objective</b>	Respond to challenges to the environment
<b>Risk Description</b>	<p>On 21 May 2019, Council passed a motion to declare a Climate Emergency, pledging its commitment to do everything within its power to make North Hertfordshire carbon zero by 2030. As one of the first council's in the UK to pass this motion, NHDC is leading the way for climate action.</p> <p>Building on previous strategies and initiatives, on 28 January 2020, Cabinet approved the NHDC Climate Change Strategy 2020-25, which set out how the Council aimed to do this. The strategy identified three strategic priorities, with related actions, to reduce the organisation's impact on the environment. On 16 March 2021, Cabinet approved a revised Climate Change Strategy 2021-26, which contained revisions to the previous objectives and proposed actions.</p> <p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>- A lack of available funding, e.g. diminishing capital receipts, a continuing reduction in government support and the concentration of capital receipts on schemes to reduce revenue costs or generate income.</li> <li>- The need to prioritise actions, in terms of the extent to which they can be delivered and the timing of delivery, to ensure that the overall programme is affordable within the Council's available resources.</li> <li>- The evaluation of individual business cases, in terms of cost, benefit and risk.</li> <li>- A lack of available staff resources.</li> <li>- A lack of engagement with local people, businesses and partners.</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>- The Council fails to deliver the proposed actions and to achieve the aims of the strategy, i.e. net zero carbon emissions by 2030.</li> </ul>		
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>- Effective leadership and partnership working within North Hertfordshire to address Climate Change.</li> <li>- Improvement to or reduced negative impact on the local environment.</li> <li>- Increased awareness and action by local people, businesses and partners, e.g. voluntary and community groups.</li> </ul>		
<b>Consequences</b>	<ul style="list-style-type: none"> <li>- NHDC does not reduce its impact on the local environment to the expected level.</li> <li>- Council services are unable to adapt or respond to changes linked to Climate Change, e.g. adverse weather conditions/events.</li> <li>- Services become less resilient.</li> <li>- Damage to the Council's reputation.</li> <li>- Local people, businesses and partners do not reduce their own carbon impact.</li> </ul>		
<b>Work Completed</b>	<ul style="list-style-type: none"> <li>- Cabinet Panel on the Environment (advisory panel) established, with community participation encouraged.</li> <li>- Climate Change Implementation Group formed to co-ordinate and formulate Climate Change actions and to make recommendations in relation to policy development.</li> <li>- New objective of 'Respond to challenges to the environment' introduced in the Council Plan.</li> <li>- Cabinet (28 January 2020) resolved 'That the Strategy and Appendices be kept under review and updated as required.'</li> <li>- Proposed actions (agreed by SMT and Executive Members) included in both the Council Plan and Climate Change Strategy.</li> <li>- First meeting of the Climate Change Implementation Group held on 27 February 2020.</li> </ul>		

	<ul style="list-style-type: none"> <li>- Monitoring arrangements in place for the Climate Change Implementation Group, with Service Directors providing updates on activities in the action tracker, which support the broader aims of the strategy.</li> <li>- Introduced 'Environmental Implications' into the committee report template.</li> <li>- Related items now included in the quarterly performance and key projects reports to O&amp;S.</li> <li>- Revised Climate Change Strategy (2021-26) was approved at Cabinet (16 March 2021). This strategy contained revisions to the objectives and proposed actions that were agreed by the Leadership Team, Executive Members, Service Managers and Political Liaison Board (PLB). The revised objectives are: <ul style="list-style-type: none"> <li>• Achieve Carbon Neutrality for the Council's own operations by 2030 (at least Scope 1 and Scope 2);</li> <li>• Ensure all operations and services are resilient to the impacts of climate change;</li> <li>• Achieve a Net Zero Carbon district by 2040; and</li> <li>• Become a district that is resilient to unavoidable impacts of climate change.</li> </ul> </li> <li>- A SIAS audit took place to review the Council's Climate Change Strategy and Action Plan, in addition to its monitoring and implementation of climate change projects to determine if the Council is on track to meet its 2030 goal of becoming carbon neutral.</li> <li>- Climate Change and Sustainability audit report received in June 2021 (Reasonable assurance – two Medium Priority recommendations (Cabinet Panel for the Environment Action Tracker and Strategy and Action Plan Monitoring)).</li> </ul>		
<b>Ongoing Work</b>	<p><u>Business-as-Usual</u></p> <ul style="list-style-type: none"> <li>- Continue to refine monitoring and measuring arrangements on an ongoing basis.</li> <li>- Ongoing evaluation of individual actions (costs involved, anticipated benefits and associated opportunities/risks) to determine the most effective way of implementing them.</li> <li>- Regular meetings of the Climate Change Implementation Group - service area activity reviewed at each meeting.</li> <li>- Annual review of the related items to be included in corporate monitoring reports, i.e. quarterly performance and key projects reports (currently developing the key milestones for the 2021/22 reports).</li> </ul> <p><u>Specific (SMART) Actions</u></p> <ul style="list-style-type: none"> <li>- Implementing the Cabinet Panel for the Environment Action Tracker audit recommendation (January 2022).</li> </ul>		
<b>Current Overall Risk Score</b>	6		
<b>Current Impact Score</b>	3	<b>Current Likelihood Score</b>	1
<b>Current Risk Matrix</b>		<b>Target Risk Matrix</b>	
<b>Date Reviewed</b>	14-Jul-2021	<b>Next Review Date</b>	14-Jan-2022
<b>Latest Notes</b>	<p>14-Jul-2021 Risk reviewed with Reuben Ayavoo on 14 July 2021. The current assessment is that NHDC is still likely to deliver the aims of the strategy. This is supported by the findings of the related SIAS audit report, which was received in June 2021. The impact of Climate Change remains a priority and monitoring arrangements relating to implementation of the strategy are undertaken at the highest level. However, it is acknowledged that due to Covid-19, the progress of some projects has been hampered and there remains uncertainty regarding future available funding/resources. No change made to the risk score.</p>		
	<p>13-Apr-2021 Risk reviewed by Reuben Ayavoo on 8 April 2021. Updated to reflect Cabinet's approval of a revised Climate Change Strategy (2021-26) on 16 March 2021. No change made to the risk score.</p>		

	<p>05-Nov-2020 Risk reviewed with Reuben Ayavoo on 5 November 2020. The current assessment is that NHDC is likely to deliver the aims of the strategy. The impact of Climate Change remains a priority and monitoring arrangements relating to implementation of the strategy are undertaken at the highest level. However, due to Covid-19, there is increasing uncertainty regarding available funding and the situation will be kept under review. The current risk score is at the same level as the target risk score, both of which align with the Risk Management Group's scoring suggestion.</p>
	<p>21-May-2020 Risk entry discussed at the Risk Management Group meeting held on 18 May 2020. There were concerns that the Original Risk Score of 3 was too low. Following the meeting, these concerns were raised with Reuben Ayavoo. Having reviewed the risk again, Reuben was happy to increase the Current Risk Score to 6 in line with the Risk Management Group's suggestion, as delivery of the strategy could prove to be challenging in the current circumstances. However, it should also be acknowledged that our collective impact on the environment will have reduced in the current COVID-19 lockdown.</p>

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<b>CABINET</b> <b>21 September 2021</b>
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<b>PART 1 – PUBLIC DOCUMENT</b>
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**TITLE OF REPORT: REVENUE BUDGET OUTTURN 2020/21**

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: BE A MORE WELCOMING, INCLUSIVE AND EFFICIENT COUNCIL

**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 2021/22, as at the end of the first quarter. The forecast variance is a £560k increase on the net working budget of £18.801million, with an ongoing impact in future years of a £175k increase and requests to carry forward budget totalling £51k to fund specific projects in 2022/23. Within these summary totals there are a number of budget areas with more significant variances, which are detailed and explained in table 3.
- 1.2. The forecasts in the report are based on a prudent assessment of the continuing impacts of Covid-19. The position relating to support for our leisure centres is being kept under monthly review. Current forecasts are that spend will be within the support budget that has been set, but historically the summer period does see a drop in income and usage. Therefore, at this stage no variance has been reported. The full-year parking income forecasts (as detailed in table 5) are very prudent and reflect the uncertainty over ongoing Town Centre recovery.

**2. RECOMMENDATIONS**

- 2.1. That Cabinet note this report.
- 2.2. That Cabinet approves the changes to the 2021/22 General Fund budget, as identified in table 3 and paragraph 8.2, a £560k increase in net expenditure.
- 2.3. That Cabinet notes the changes to the 2022/23 General Fund budget, as identified in table 3 and paragraph 8.2, a total £226k increase in net expenditure. These will be incorporated in the draft revenue budget for 2022/23.
- 2.4. That Cabinet delegates to the Service Director: Resources (in consultation with the Executive Member for Finance and IT) authority to enter in to a Business Rate Pooling arrangement (if available) if it is estimated that it will be in the financial interests of the Council.

### 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 22<sup>nd</sup> June 2021.

### 7. BACKGROUND

- 7.1. Council approved the revenue budget for 2021/22 of £18.441million in February 2021. As at the end of Quarter One, the working budget has increased to £18.801million. Table 1 below details the approved changes to this budget to get to the current working budget:

**Table 1 - Current Working Budget**

	£k
Original Revenue Budget for 2021/22 approved by Full Council	18,441
Quarter 3 2020/21 Revenue Budget Monitoring report – 2021/22 budget changes approved by Cabinet (March 2021)	(17)
2020/21 Revenue Budget Outturn Report – 2021/22 budget changes approved by Cabinet (June 2021)	377
<b>Current Working Budget</b>	<b>18,801</b>

- 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 original budget allocations approved by Council in February 2021.

**Table 2 – Service Directorate Budget Allocations**

	Original Budget 2021/22	Changes approved at Q3 2020/21	Changes approved at Outturn 2020/21	Other Budget Transfers	Current Net Direct Working Budget
Service Directorate	£k	£k	£k	£k	£k
Managing Director	1,910	0	324	0	2,234
Commercialisation	(285)	6	12	0	(267)
Customers	3,831	0	45	21	3,897
Legal & Community	2,201	38	4	(11)	2,232
Place	6,981	(81)	(8)	0	6,892
Regulatory Services	1,186	20	0	(10)	1,196



Resources	2,617	0	0	0	2,617
<b>TOTAL</b>	<b>18,441</b>	<b>(17)</b>	<b>377</b>	<b>0</b>	<b>18,801</b>

- 7.3. The Council's accounts for 2020/21 remain subject to review by External Audit. Subsequent to the presentation of the Revenue Outturn 2020/21 report to Cabinet in June, several relatively minor adjustments were identified prior to the publication of the NHDC Draft Statement of Accounts for 2020/21 at the end of July. The outcome of those adjustments was a revised General Fund balance at the end of the 2020/21 financial year of £8.865m, a reduction of £28k from the closing balance of £8.883m published in the Outturn Report. In addition, the net contribution to Earmarked Reserves was reduced by £50k from £11.464m, as detailed in the Outturn Report, to £11.414m. This followed subsequent notification from Government of a change to the formula for the calculation of the eligible NNDR Income Guarantee amount for 20/21 (reducing the income amount transferred to reserve by £27k) and notification from Herts County Council of the £23k levy contribution required to the Business Rates Pool for 2020/21 (transferred from reserve to fund the accrued cost). The Council's External Auditors have communicated that they plan to commence the Final Accounts audit in November. Further changes to the General Fund balance may therefore arise as a result of the audit.

## 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 columns detail if there is expected to be an impact on next year's (2022/23) budget:

**Table 3 - Summary of significant variances**

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2022/23 £k
Investments Interest Income	(103)	(40)	+63	It was necessary to seek approval from Cabinet on the procurement process to be followed in relation to the planned investment in Property / Multi-Asset Funds. It is now anticipated that the investment will be made around the end of the current financial year. The Investment Strategy (Capital and Treasury), upon which the income budget is based, had estimated associated interest returns from the start of 2021/22. Given this is a long-term investment the focus has to be on long-term returns and getting the right investments. The resulting variance has been partially offset by cash balances available for investment being higher than originally anticipated, primarily due to the reprofiling of planned capital expenditure.	0	0

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2022/23 £k
Hitchin Town Hall Community Facility Net Cost	173	198	+25	The forecast net variance represents the additional losses incurred for the first quarter only. Hitchin Town Hall was unable to open for large events until 19th July, due to Covid-19 restrictions, and as a venue that predominantly hosts larger events, this had a major impact on income. Even prior to this, fitness classes and smaller meetings were not able to take place until 17th May, which meant much of the first two months of trading in this financial year were lost entirely. There is still expected to be a lag in demand while events resume and public confidence in leisure and hospitality is restored. There have been some corresponding savings on expenditure, with less bar stock and other costs associated with running events not required.	0	0
Artificial Intelligence (AI) Software Licenses	35	24	(11)	The approved revenue investment allocation of £35k for AI software was carried forward at the end of 2020/21. The first year's software licenses have now been procured at a cost of £24k and a carry forward of £11k is requested to contribute to the second year's license fee.	11	0
Temporary Accommodation Net Cost	60	220	+160	The forecast outturn indicates the cost of nightly paid placements for homeless households. The focus on 'move-on' and resettlement has reduced the number of homeless household nightly placements, which are mostly in hotels, from a peak of 67 in May to 28 at the end of June. As most of the homeless households qualify for housing benefit, much of the additional cost to the Council relates to the estimated shortfall in Housing Benefit Subsidy, with housing benefit payments in respect of temporary accommodation not eligible for full reimbursement through the subsidy.	0	0
Domestic Waste & Recycling and Street Cleansing Contract Expenditure	5,161	5,337	+176	Overspend variance follows the calculation of the contract indexation for 2021/22. The budget for 21/22 assumed a contract indexation of 0.4%, based on the respective indices at that time. Due to subsequent increases in the fuel price index and the Consumer Price Inflation index, the calculation of the actual indexation rate for 21/22, as defined in the terms of the contract, has resulted in an increase to contract prices of 3.8%.	0	176

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2022/23 £k
Commercial Waste and Recycling Services				Following the easing of COVID restrictions most customers have begun trading again, however some have ceased trading. Of those customers who have resubscribed to the service, there has been a rationalisation of the services used, such as reduced frequency of collections, reduction in the number of bins and / or bin sizes. The estimated income impact is partially offset by a projected reduction in tipping charges, from the lower levels of waste collected, and lower contract costs from the lower level of activity.		
Tipping Charges	326	314	(12)		0	(12)
Contract Expenditure	153	137	(16)		0	(16)
Income from Customers	(1,134)	(1,074)	+60		0	60
<b>Net Total</b>	<b>(655)</b>	<b>(623)</b>	<b>+32</b>		<b>0</b>	<b>32</b>
Waste Awareness and Minimisation (AFM Funded)				Based on in-year forecasts provided by Herts County Council, no income receipt for recycling performance in 20/21 was anticipated at the time of setting the revenue budget, due to the impact of Covid-19 on consumption trends and associated volumes of waste collected. Hertfordshire County Council was however subsequently able to make some savings in residual waste disposal, which have been distributed to collection authorities based on their recycling performance. Following notification of the eligible receipt in July, the additional income has been earmarked for raising further awareness and the promotion of recycling and food waste reduction.		
Expenditure	78	112	+34		0	0
Income	0	(34)	(34)		0	0
<b>Net Total:</b>	<b>78</b>	<b>78</b>	<b>0</b>		<b>0</b>	<b>0</b>
Active Communities Service	80	48	(32)	Reduction in outturn follows the reorganisation of the Leisure and Active Communities Team, with the deletion of the Active Communities Manager post. The Covid-19 pandemic limited the ability of the service to both deliver activities, due to lockdown restrictions, and to secure external funding to finance projects and initiatives. Responsibility for delivering ongoing tasks and activities has been absorbed within the Leisure Manager and Leisure Officer posts.	0	(32)
Transport User Forum	47	7	(40)	This budget is for the costs of facilitating the User Forum, such as venue costs and consultant advice. The forums are currently held virtually due to the pandemic, which has reduced costs. There are no plans to change this in the current year, so it is anticipated that most of the budget will not be spent. A carry forward is requested to fund the costs of the User Forum in the next financial year.	40	0

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2022/23 £k
Car Parking Fees Income	(1,975)	(1,873)	+102	While increasing month on month, overall ticket sales in Quarter 1 were at approximately 70% of the level observed prior to the Covid-19 pandemic. Restrictions on social activities, such as indoor dining and visiting cinemas, remained in place throughout the quarter. Activity has continued to increase in the second quarter, with income achieved in July closer to 80% of that anticipated in the budget.	0	0
Car Park Season Ticket Income	(317)	(256)	+61	While income from season ticket sales in the first quarter was double that achieved in the final quarter of 20/21, it remained around half that generated prior to the Covid-19 pandemic. This reduction is attributed to greater levels of home working adopted in response to the pandemic, as government advice during the first quarter remained for people to work from home if they were able to.	0	0
Shared Internal Audit Service	105	84	(21)	The underspend variance follows the agreed reduction of 50 days to the audit plan from 2021/22. The efficiency proposal approved by Council in February had assumed a reduction of 15 days for this year and a further reduction of 15 days from 2022/23. With no further reduction now anticipated in 2022/23, the ongoing impact has been adjusted accordingly.	0	(16)
<b>Total of explained variances</b>	<b>2,689</b>	<b>3,204</b>	<b>+515</b>		<b>51</b>	<b>160</b>
Other minor balances	16,112	16,157	+45		0	15
<b>Overall Total</b>	<b>18,801</b>	<b>19,361</b>	<b>+560</b>		<b>51</b>	<b>175</b>

8.2. Cabinet are asked to approve the differences highlighted in the table above (a £560k increase in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to note the estimated impact on the 2022/23 budget (£226k increase in budget, which includes the request to carry forward £51k of budget from 2021/22 to 2022/23), which will be incorporated in to the 2022/23 budget setting process (recommendation 2.3).

8.3. The original approved budget for 2021/22 (and therefore working budget) included efficiencies totalling £286k, which were agreed by Council in February 2021. Any under or over delivery of efficiencies will be picked up by any budget variances (table 3 above). However, there can be off-setting variances which mean that it is unclear whether the efficiency has been delivered. Where this is the case, this will be highlighted. The current forecast at the end of Quarter One is an overachievement of £21k. This relates to the reduction in audit days delivered by the Shared Internal Audit Service in this year being greater than originally proposed, as highlighted and explained in table three above.

- 8.4. The working budget for 2021/22 includes budgets totalling £719k 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 2020/21 but was delayed into 2021/22. At Quarter One, it is forecast that £51k of the total carried forward will not be spent in 2021/22. The unspent total relates to the carry forwards in respect of the Artificial Intelligence software (£11k) and the Transport User Forum (£40k), both of which are highlighted and explained in table 3 above. All the unspent budget is requested to be carried forward again into the next financial year 2022/23.
- 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.
- 8.6. At the end of Quarter One, three of the indicators are green and one of the indicators is red. Explanation for the red indicator in respect of parking fees income is included in table 3 above. The projected overachievement of Land Charges income follows a review of the financial position of the Land Charges service, with a new fee structure implemented in May 2021. The forecast income variance is based on the revised fees and an estimated number of requests for searches. The income variance has however been offset by an anticipated corresponding increase in the spend on searches undertaken by third parties (both variances are included within the 'other minor variances total' in table 3).

**Table 4 - Corporate financial health indicators**

Indicator	Status	Original Budget	Actual to Date	Projected Outturn	Variance
		£k	£k	£k	£k
Planning Application Fees (including fees for pre-application advice)	Green	(953)	(585)	(953)	0
Land Charges	Green	(164)	(41)	(176)	(12)
Car Parking Fees	Red	(1,975)	(352)	(1,873)	102
Parking Penalty Charge Notices	Green	(573)	(140)	(573)	0

## **FUNDING, RISK AND GENERAL FUND BALANCE**

- 8.7. The Council's revenue budget is funded primarily from Council Tax and Retained Business Rates income. The Council was notified by Central Government in February 2021 of the amount of New Homes Bonus, Lower Tier Services Grant and Covid-19 Emergency Grant Funding it could also expect to receive in 2021/22 and planned accordingly.
- 8.8. 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 2020/21 there was a deficit on the NHDC share of the Council Tax Collection Fund of £313k and a deficit on the Business Rates Collection Fund of £10.39m.

- 8.9. Statute requires that Collection Fund income amounts chargeable to the General Fund in 2021/22 are those estimates prepared around the time of setting the budget for the year (January 2021). The projected funding outturn in table 6 below has therefore been updated for the Council's estimate of Business Rates income in 21/22, as declared to central government in January. This has increased the funding total by £13k, as the budget expectation was based on the Council's business rates funding baseline need, as published annually by central government in the Local Government Finance Settlement, which is approximately the minimum that the Council can expect to retain.
- 8.10. The Council must repay in this year its share of the Council Tax and Business Rates Collection Fund deficits for the prior year, as estimated in January 2021. As reported previously, this means a contribution from the General Fund of £77k to the Council Tax Collection Fund and £7.9m to the Business Rates Collection Fund. As detailed and explained in the Revenue Outturn report 2020/21, the difference between these amounts and the final position will affect the calculation of funding available in future years, with the Council ultimately repaying the final deficit amounts recorded for 2020/21.
- 8.11. The Council is also subject to a business rates levy from Central Government as NHDC collects more in business rates than the baseline need determined by Central Government. In 2021/22 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. In 2020/21 the Council benefited from a 'pooling gain' (reduction to levy contribution) of £54k. As outlined in the Business Rates Pooling 2021/22 report presented to Cabinet in October, there are a range of potential outcomes for the current year, which depend on the actual level of rates collected by both North Herts as well as the other collection authorities in the Pool. The Council's contribution to the pool in 2021/22 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.
- 8.12. It is expected that the proposed changes to funding for Councils will not be implemented in 2022/23. This creates the possibility that Councils will again be invited to form Business Rate pools. In previous years this invite has come in early Autumn. Recommendation 2.4 seeks delegated approval (to the Service Director: Resources in consultation with the Executive Member for Finance and IT) for the Council to be part of a pool if the option is available and it is estimated to be in the financial interests of the Council.
- 8.13. 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. NHDC has received a total grant allocation of £1.794m for reliefs in 2021/22, which includes an amount of £142k received as compensation for the Government's decision to freeze the business rates multiplier for 2021/22. The multiplier compensation is included in the funding total in table 6 below. The rest of the grant received will be held in reserve to fund the repayment of business rate collection fund deficits recorded. Some of the amount held in reserve will therefore be used to fund the £7.9m deficit repayment required in this year.
- 8.14. The Council will receive from government non-ringfenced emergency grant funding in 2021/22 of £558k and a Council Tax Support Grant of £230k to help mitigate the financial impact of the Covid-19 pandemic. In addition, the MHCLG scheme inviting Local Authorities to apply for compensation for loss of sales, fees and charges income due to the impact of Covid-19 affecting demand has been extended to the end of the

first quarter of 2021/22. At the time of setting the budget, it was estimated that the first quarter income compensation would total £140k. It is now estimated to total £185k, primarily due to the recovery in car parking activity being slower than anticipated.

- 8.15. The most significant financial impact of the pandemic in 2021/22 relates to the financial support required for SLL to maintain operations at the Council's Leisure Centres during the year. Estimated support was determined and approved by Council in January, with additional expenditure provision of £2m included in the revenue budget for 2021/22.
- 8.16. The original revenue budget was not adjusted for ongoing financial impacts in other service areas, with the risk instead reflected in the calculation of the minimum General Fund balance required at the start of the year. Table 5 below itemises those other service areas where the impact of Covid-19 in 2021/22 is significant and compares the relevant budget changes recommended in this report with the full year forecast declared to Government in the latest monthly Covid-19 monitoring return.

**Table 5 – COVID-19 Financial Impact on General Fund**

Budget Area	Revenue Budget Impact reported at Q1	Full Year Forecast Impact as reported to Government	Covered by Income guarantee *	Estimated Sales, Fees and Charges (SFC) Contribution	Balance not covered by SFC contribution
	£k	£k		£k	£k
Homeless Accommodation	160	160	No	0	160
Hitchin Town Hall	25	98	Yes	11	87
Car Parking Fees Income	102	437	Yes	16	421
Car Park Season Ticket Income	61	155	Yes	34	121
Trade Waste and Recycling	32	32	Yes	0**	32
<b>Total</b>	<b>380</b>	<b>882</b>		<b>61</b>	<b>821</b>

\* Support from Government covers 75% of relevant losses that are in excess of 5% of the original budget up to the end of June 2021.

\*\* Loss to end of June less than 5% of budget.

- 8.17. Table 5 indicates that the net impact of Covid-19 on the General Fund balance in 2021/22 from these service areas is forecast to be £821k, which is £441k greater than the total of the Covid-19 related variances included in table 3. To avoid understating the impact on the estimated year end position, only £117k of the un-ringfenced emergency grant funding (£558k less £441k) is shown in table 6 below. It should be noted that the parking fees estimate is based on the July parking fees income, which was about 80% of the budget expectation. This income could continue to recover towards budgeted levels or could be significantly affected by any further periods of restrictions.
- 8.18. Table 6 below summarises the impact on the General Fund balance of the position at Quarter One detailed in this report.

**Table 6 – General Fund impact**

	Working Budget	Projected Outturn	Difference
	£k	£k	£k
<b>Brought Forward balance (1<sup>st</sup> April 2021)</b>	<b>(8,865)</b>	<b>(8,865)</b>	<b>-</b>
Net Expenditure	18,801	19,361	560

Funding (Council Tax, Business Rates, NHB, Lower Tier Services Grant)	(15,122)	(15,135)	(13)
Contribution from Funding Equalisation Reserve	(398)	(398)	0
Contribution to Collection Fund	7,911	7,911	0
Funding from Reserves (including Business Rate Relief Grant)	(9,904)	(9,904)	0
Covid-19 un-ringfenced government grant funding (projection = applied at Q1)	(558)	(117)	441
Covid-19 related income losses compensation to June 2021	(140)	(185)	(45)
Covid-19 Council Tax Support Grant	(230)	(230)	0
<b>Carried Forward balance (31<sup>st</sup> March 2022)</b>	<b>(8,505)</b>	<b>(7,562)</b>	<b>943</b>

8.19. 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 £2,101k, and at the end of the first quarter a total of £882k has come to fruition. The identified risks realised in the first quarter relates to

- Usage of bed and breakfast accommodation for homeless households (as highlighted in table 3 above) - £160k.
- Lower income generated from Hitchin Town Hall as the demand for bookings takes time to fully recover following the lifting of Covid-19 pandemic restrictions (as highlighted in table 3 above) - £25k.
- Income from Trade Refuse adversely affected by economic downturn (as highlighted in table 3 above) - £32k.

**Table 8 – Known financial risks**

	<b>£'000</b>
<b>Original allowance for known financial risks</b>	<b>2,101</b>
Known financial risks realised in Quarter 1	(217)
<b>Remaining allowance for known financial risks</b>	<b>1,884</b>

## 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  
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**18. BACKGROUND PAPERS**

- 18.1. None.

**CABINET**  
**21 September 2021**

**\*PART 1 – PUBLIC DOCUMENT**

**TITLE OF REPORT: FIRST QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2021/22**

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T.

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 2021/22, as at the end of June 2021.
- 1.2 To update Cabinet on the impact upon the approved capital programme for 2021/22 – 2030/31. The current estimate is a decrease in spend in 2021/22 of £0.149million and an increase in spend in future years of £0.312million. The most significant individual changes relate to £0.130M Car Park Resurfacing and £0.107M Lairage Car Park Structural Repairs. These are being reprofiled into 2022/23.
- 1.3 To inform Cabinet of the Treasury Management activities in the first three months of 2021/22. The current forecast is that the amount of investment interest expected to be generated during the year is £0.040million. This is a reduction of £0.063million on the original estimate.

**2. RECOMMENDATIONS**

- 2.1 That Cabinet notes the forecast expenditure of £16.144million in 2021/22 on the capital programme, paragraph 8.3 refers.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2021/22 onwards as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2022/23 by £0.312million.
- 2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 4 paragraph 8.6 and the requirement to keep the capital programme under review for affordability.

- |     |   |
|-----|---|
| 2.4 | Cabinet is asked to note the position of Treasury Management activity as at the end of June 2021. |
|-----|---|

### **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 22nd June 2021.

### **7. BACKGROUND**

- 7.1 In February 2021, Council approved the Integrated Capital and Treasury Strategy for 2021/22 to 2030/31. To be consistent with the strategy, the monitoring reports for Capital and Treasury are also integrated.
- 7.2 The Medium Term Financial Strategy for 2021 to 2026 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 £129.0 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 2021/22

- 8.2 The full capital programme is detailed in Appendix A and shows the revised costs to date, together with the expected spend from 2021/22 to 2030/31 and the funding source for each capital scheme.
- 8.3 Capital expenditure for 2021/22 is estimated to be **£16.144million**. This is a reduction of **£0.149million** on the forecast in the 2021/22 Investment Strategy (Capital and Treasury) Outturn report (reported to Cabinet on 29th June 2021). The decrease in spend in 2021/22 is largely due to the reprofiling of projects into 22/23. Table 1 below details changes to capital programme.

**Table 1- Current Capital Estimates**

	2021/22 £M	2022/23 £M	2023/24 to 2030/31 £M
<b>Original Estimates approved by Full Council February 2021</b>	<b>14.718</b>	<b>7.919</b>	<b>21.114</b>
<b>Changes approved by Cabinet in 3rd Qrt 2020/21</b>	1.102	0.537	0
<b>Changes approved by Cabinet in 2020/21 Capital Outturn report</b>	0.473	0	0
<b>Revised Capital estimates at start of 2021/22</b>	<b>16.293</b>	<b>8.456</b>	<b>21.114</b>
<b>Executive Member – Finance and I.T. approved additional Expenditure – Financial System upgrade</b>	0.082	0	0
<b>Executive Member – Finance and I.T. approved additional Expenditure – Installation of high-definition cameras in the Council Chamber</b>	0.018	0	0
<b>Changes at Q1</b>	-0.249	0.312	0
<b>Current Capital Estimates</b>	<b>16.144</b>	<b>8.768</b>	<b>21.114</b>

- 8.4 Table 2 lists the schemes in the 2021/22 Capital Programme that will start or continue in 2022/23:

**Table 2: Scheme Timetable Revision:**

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

<b>Scheme</b>	<b>2021/22 Working Budget £'000</b>	<b>2021/22 Forecast £'000</b>	<b>Difference £'000</b>	<b>Reason for Difference</b>	<b>Estimated impact on 2022/23 onwards £'000</b>
Off Street Car Park Resurfacing	180	50	-130	Not all the original proposed projects will be completed this financial year due to an assessment of need and prioritising other work.	130
Lairage Multi Storey Structural Repairs	117	10	-107	The building is being monitored following drainage repairs and as a result structural repairs will not be undertaken this financial year.	107
Lairage Multi Storey Decorate and Replace windows and doors in stairwells	75	0	-75	Due to reprioritising of workloads this project will be deferred to next year.	75
<b>Total Revision to Budget Profile</b>			<b>-312</b>		<b>312</b>

- 8.5 There are also changes to the overall costs of schemes in 2021/22. These changes total a net increase of £0.065million and are detailed in Table 3

**Table 3: Changes to Capital Schemes Commencing in 2021/22:**

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

<b>Scheme</b>	<b>2021/22 Working Budget £'000</b>	<b>2021/22 Forecast Spend £'000</b>	<b>Difference £'000</b>	<b>Comments</b>
Laptops for Officers	55	90	35	Due to the high numbers of interest shown from the staff surveys, Members are requested to approve an increase in budget to purchase more devices than first expected. This is combined with an increase in costs for Laptops, Monitors, Docking Stations from vendors due to the pandemic and so many businesses going down the laptop route to support home workers the demand has certainly seen a large increase in costs for the hardware mentioned above.
S106 Projects	0	30	30	To date, a total of £29k of S106 funds have been released for community schemes.
<b>Other minor changes</b>			<b>0</b>	
<b>Total revision to scheme spend</b>			<b>75</b>	

- 8.6 Table 4 below shows how the Council will fund the 2020/21 capital programme.

**Table 4: Funding the Capital Programme:**

	<b>2021/22 Balance at start of year £M</b>	<b>2021/22 Forecast Additions £M</b>	<b>2021/22 Forecast Funding Used £M</b>	<b>2021/22 Balance at end of year £M</b>
Useable Capital Receipts and Set-aside Receipts	6.229	4.973	(9.934)	1.268
S106 receipts			(0.030)	
Other third party grants and contributions			(0.897)	
IT Reserve			(0.035)	
Planned Borrowing			(5.248)	
<b>Total</b>			<b>(16.144)</b>	

- 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 31<sup>st</sup> March 2021 was negative £5.18 million. Based on current forecasts it will turn positive during 2021/22 if the Capital Programme is fully spent. This means that the Council will have to borrow to fund capital expenditure and will result in a Minimum Revenue Provision (MRP) being charged to Revenue. Of the £16.1m of planned capital spend, £8m relates to the property acquisition and development strategy and £2.75m relates to the development of housing for market rental. The progress on these is dependent on there being opportunities available and general economic conditions. If/ when it becomes clear that a specific opportunity will be progressed then a borrowing strategy will be developed.

### **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 three months, the Council had an average investment balance of £52.9 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.
- 8.10 During the quarter the Council has had higher than usual 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



in 2020/21. 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 the level in short-term investments with the Debt Management Office has remained high.

8.11 The Council generated £0.015M of interest during the first three months of 2021/22. The average interest rate on all outstanding investments at the 30th June was 0.13%. Interest rates have continued to remain low so consequently any new investments are yielding significantly less than the average interest rate on all outstanding investments at the 31st March which was 0.41%. 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 £0.040 million of interest over the whole of 2021/22. The investment strategy allows for investments in a Property Fund and Multi-Asset Fund. In July, Cabinet approved the use of a procurement waiver in relation to the selection of these funds. This selection process is now progressing with our treasury advisers.

8.12 As at 30 June 2021 the split of investments was as shown in the table below. There were no investments with non-UK banks during the quarter due to the high Country rating that we have set international investments.

Banks	13%
Building Societies	21%
Government	26%
Local Authorities	34%
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 30 June 2021. The most risky investment has a historic risk of default of 0.031%. 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.

<b>Borrower</b>	<b>Principal Invested £M</b>	<b>Interest Rate %</b>	<b>Credit Rating</b>	<b>Days to Maturity at 30 June</b>	<b>Historic Risk of Default %</b>
DMO (Government)	4.0	0.01	AA-	1	0
Bank of Scotland	1.0	0.03	A+	Call	0.004
Lloyds	1.0	0.05	A+	Call	0.012
Public Sector Deposit Fund (MMF)	3.0	0.13	AAA	Call	0
Derbyshire County Council	3.0	0.10	AA-	5	0
DMO (Government)	10.0	0.01	AA-	6	0
Darlington Bldg Soc	1.0	0.35	*	8	0.010
Leeds Bldg Soc	2.0	0.07	A-	13	0.002

Barclays Bank	2.0	0.01	A	14	0.002
Nationwide Bldg Soc	1.0	0.05	A	19	0.002
North Lanarkshire Council	3.0	0.30	AA-	19	0.001
Marsden Bldg Soc	1.5	0.30	*	21	0.008
London Borough of Southwark	2.0	0.20	AA-	36	0.002
Santander UK	1.0	0.06	A+	37	0.005
Santander UK	1.0	0.06	A+	49	0.006
Newcastle Bldg Soc	1.0	0.2	*	58	0.022
Surrey Heath Borough Council	2.0	0.04	AA-	62	0.004
Principality Bldg Soc	2.0	0.07	BBB+	79	0.031
Santander UK	1.0	0.09	A+	121	0.016
Nationwide Bldg Soc	2.0	0.07	A	139	0.018
Ashford Borough Council	3.0	0.04	AA-	147	0.009
Leeds Bldg Soc	1.0	0.14	A-	153	0.020
Blackpool Council	2.0	0.32	AA-	166	0.011
Slough Borough Council	2.0	0.1	AA-	244	0.016
Slough Borough Council	1.0	0.1	AA-	244	0.016
	53.5	0.13			

\* 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 £4.150million higher than the budgeted £46.026million.
- 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 2021 was negative £5.18million. This will turn positive this year if the capital programme is fully spent.
- 10.4 The Council also aims to ensure that the level of planned capital spending in any one year matches the capacity of the organisation to deliver the schemes to ensure that the impact on the revenue budget of loss of cash-flow investment income is minimised.

## **11. RISK IMPLICATIONS**

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

## **12. EQUALITIES IMPLICATIONS**

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

### **13. SOCIAL VALUE IMPLICATIONS**

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

### **14. ENVIRONMENTAL IMPLICATIONS**

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

### **15. HUMAN RESOURCE IMPLICATIONS**

- 15.1 There are no direct human resource implications.

### **16. APPENDICES**

- 16.1 Appendix A, Capital Programme Detail including Funding 2021/22 onwards.  
Appendix B, Treasury Management Update.

### **17. CONTACT OFFICERS**

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### **18. BACKGROUND PAPERS**

- 18.1 Investment Strategy (Integrated Capital and Treasury Strategy)  
<https://democracy.north-herts.gov.uk/documents/b8344/Items%20Referred%20from%20Other%20Committees%20-%206b%20-%20Investment%20Strategy%20Capital%20and%20Treasury%2011th-Feb-202.pdf?T=9>

[illegible]

		Spend / Forecast Spend						Funding				
Project	Service Directorate	2021/22 Funding £	2022/23 Funding £	2023/24 Funding £	2024/25 Funding £	2025/26 Funding £	2026/27 - 2030/31 Funding £	Funded from Other Grants	Funded from Government Grant	Funded from s106 contributions	Funded from Revenue / IT Reserve	Balance funded from Capital Receipts/ Set-aside receipts/ Borrowing
Howard Gardens Splashpad	Place	0	35,000	0	0	0	0	0	0	0	0	35,000
Ickneild Way Cemetery Footpaths	Place	50,000	0	0	0	0	0	0	0	0	0	50,000
Infrastructure Hardware	Customers	2,200	28,000	0	278,000	25,000	348,000	0	0	0	0	681,200
Installation of trial on-street charging (GAF)	Regulatory	50,000	0	0	0	0	0	0	50,000	0	0	0
Integra - Centros Upgrade	Resources	81,900	0	0	0	0	0	0	0	0	0	81,900
Ivel Springs Footpaths	Place	0	10,000	0	0	0	0	0	0	0	0	10,000
John Barker Place, Hitchin	Regulatory	0	1,096,000	0	0	0	0	0	0	270,400	0	825,600
Lairage Multi-Storey Car Par - Structural wall repairs	Resources	10,000	107,200	0	0	0	0	0	0	0	0	117,200
Laptop Purchases for Officers	Customers	90,000	0	0	55,000	0	110,000	0	0	0	35,000	220,000
Laptops - Refresh Programme	Customers	46,900	7,000	7,000	80,000	5,000	70,000	0	0	0	0	215,900
Leisure Condition Survey Enhancements	Place	82,000	0	107,000	0	0	0	0	0	0	0	189,000
Letchworth Multi-storey Car Park - parapet walls, soffit & decoration	Resources	129,000	0	0	0	0	0	0	0	0	0	129,000
Letchworth multi-storey car park - lighting	Resources	13,600	0	0	0	0	0	0	0	0	0	13,600
Letchworth Outdoor Pool Boiler Replacement	Place	40,000	0	40,000	0	0	0	0	0	0	0	80,000
Match funding for Electric Vehicle charging	Regulatory	100,000	0	0	0	0	0	0	50,000	0	0	50,000
Members Laptops Refresh Programme	Customers	0	0	60,000	0	0	120,000	0	0	0	0	180,000
Microsoft Enterprise Software Assurance	Customers	0	390,000	0	0	426,000	462,000	0	0	0	0	1,278,000
Mrs Howard Hall Replacement Boiler & Windows	Resources	63,000	0	0	0	0	0	0	0	0	0	63,000
Museum Storage Solution	Commercial	1,192,700	0	0	0	0	0	0	0	0	0	1,192,700
Newmarket Road Royston Skatepark & Access	Place	0	0	90,000	0	0	0	0	0	0	0	90,000
NH Museum & Community Facility	Commercial	48,300	0	0	0	0	0	48,300	0	0	0	0
NH Museum Platform Lift Solutions	Commercial	40,000	0	0	0	0	0	0	0	0	0	40,000
NHLC Boiler Replacement	Place	0	200,000	0	0	0	0	0	0	0	0	200,000
NHLC Dryside Changing Area	Place	0	100,000	0	0	0	0	0	0	0	0	100,000
NHLC Interactive Water Feature	Place	0	0	0	0	0	120,000	0	0	0	0	120,000
NHLC Pool Flume Replacement	Place	0	0	0	0	0	150,000	0	0	0	0	150,000
NHLC Reception Toilet Refurbishment	Place	0	30,000	0	0	0	0	0	0	0	0	30,000
NHLC Refurbish Gym Floor	Place	3,200	0	0	0	0	0	0	0	0	0	3,200
NHLC Replacement of Sport Hall heating system	Place	30,000	0	0	0	0	0	0	0	0	0	30,000
NHLC Sauna Steam Refurbishment	Place	0	0	250,000	0	0	0	0	0	0	0	250,000
Northern Transfer Station	Place	0	0	0	1,600,000	0	0	0	0	0	0	1,600,000
Norton Common Footpaths	Place	0	0	10,000	0	0	0	0	0	0	0	10,000
Off Street Car Parks resurfacing and enhancement	Resources	50,000	185,500	8,000	0	0	0	0	0	0	0	243,500
Oughtonhead Common Footpaths	Place	0	0	20,000	0	0	0	0	0	0	0	20,000
Park Recycling Litter Bins	Place	25,000	0	0	0	0	0	0	0	0	0	25,000
Parking Charging, Payments & Management	Regulatory	235,000	0	0	0	0	0	0	0	0	0	235,000
Parking Machines Replacement	Regulatory	0	0	0	0	150,000	150,000	0	0	0	0	300,000
Parking Machines Upgrade - Contactless Payment Facility Installation	Regulatory	36,000	20,000	0	0	0	0	0	43,000	0	0	13,000
PC's - Refresh Programme	Customers	13,000	8,000	7,000	13,000	7,000	34,000	0	0	0	0	82,000
Playground Renovation District Wide	Place	180,000	180,000	180,000	180,000	180,000	900,000	0	0	0	0	1,800,000
Polling Booths for Elections	Legal and Community	27,000	0	0	0	0	0	0	0	0	0	27,000
Private Sector Grants	Regulatory	90,600	60,000	60,000	60,000	60,000	300,000	0	0	0	0	630,600
Provide housing at market rents.	Commercial	2,751,800	0	0	0	0	0	0	0	0	0	2,751,800
Ransoms Rec Footpaths, Gates and Railing	Place	0	10,000	20,000	0	0	0	0	0	0	0	30,000

Project	Service Directorate	Spend / Forecast Spend						Funding				
		2021/22 Funding £	2022/23 Funding £	2023/24 Funding £	2024/25 Funding £	2025/26 Funding £	2026/27 - 2030/31 Funding £	Funded from Other Grants	Funded from Government Grant	Funded from s106 contributions	Funded from Revenue / IT Reserve	Balance funded from Capital Receipts/ Set- aside receipts/ Borrowing
Refurbishment and improvement of community facilities	Legal and Community	265,300	0	0	0	0	0	0	0	0	0	265,300
Refurbishment of lifts at Lairage Car Park	Resources	353,300	0	0	0	0	0	0	0	0	0	353,300
Renovate play area Howard Park, Letchworth	Place	75,000	0	0	0	0	0	0	0	0	0	75,000
Replace and enhance lighting at St Mary's Car Park	Resources	60,000	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	10,000
Replace items of play equipment Wilbury Recreation Ground, Letchworth	Place	10,000	0	0	0	0	0	0	0	0	0	10,000
Replacement of Newark Close, Royston	Commercial	65,000	0	0	0	0	0	0	0	0	0	65,000
Resurface Lairage Car Park	Resources	350,000	0	0	0	0	0	0	0	0	0	350,000
Royston Leisure Centre extension	Place	0	1,000,000	0	0	0	0	0	0	0	0	1,000,000
Royston Leisure Centre Changing Village Refurbishment	Place	0	225,000	0	0	0	0	0	0	0	0	225,000
Royston Leisure Centre Dry Side Toilet Refurbishment	Place	0	30,000	0	0	0	0	0	0	0	0	30,000
Royston Leisure Centre Future Refurbishment	Place	0	0	0	0	0	300,000	0	0	0	0	300,000
Royston Leisure Centre Members Changing Refurbishment	Place	0	0	0	150,000	0	0	0	0	0	0	150,000
Royston Leisure Centre Solar Thermal Installation	Place	50,000	0	0	0	0	0	0	0	0	0	50,000
S106 Projects	Various	30,000	0	0	0	0	0	0	0	30,000	0	0
Security - Firewalls	Customers	10,800	14,000	0	16,000	0	36,000	0	0	0	0	76,800
St Johns Cemetery Footpath	Place	0	0	0	40,000	0	0	0	0	0	0	40,000
Tablets - Android Devices	Customers	18,900	18,000	12,000	17,000	17,000	56,000	0	0	0	0	138,900
Telephony system	Customers	10,600	0	0	0	0	0	0	0	0	0	10,600
Thomas Bellamy House, Hitchin	Commercial	65,000	0	0	0	0	0	0	0	0	0	65,000
Transport Plans implementation (GAF)	Regulatory	250,000	0	0	0	0	0	0	250,000	0	0	0
Voice Recorders Careline	Customers	6,600	0	0	0	0	0	0	0	0	0	6,600
Walsworth Common Pavilion - contribution to scheme	Place	0	300,000	0	0	0	0	250,000	0	37,000	0	13,000
Waste and Street Cleansing Vehicles	Place	0	0	0	0	4,000,000	0	0	0	0	4,000,000	0
Weston Hills LNR Footpath Renovation	Place	0	20,000	0	0	0	0	0	0	0	0	20,000
Wilbury Hills Cemetery Footpaths	Place	14,400	0	10,000	10,000	0	30,000	0	0	0	0	64,400
WiFi Upgrade	Customers	0	0	0	0	40,000	0	0	0	0	0	40,000
		16,143,900	8,767,900	5,143,000	6,788,000	5,224,000	3,959,000	298,300	856,000	337,400	4,035,200	40,498,900

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# Treasury Management Update

Quarter Ended 30th June 2021

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.

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# Treasury Management Update

## Quarter Ended 30th June 2021

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 24 June Monetary Policy Committee meeting** voted unanimously to keep Bank Rate unchanged at 0.10%. They voted by a majority of 8-1 to continue unchanged the existing programme of UK government bond purchases of £875bn which is due to end by the end of this year. In the press release, it was noted that:-

*“Since May, developments in global GDP growth have been somewhat stronger than anticipated, particularly in advanced economies. Global price pressures have picked up further, reflecting strong demand for goods, rising commodity prices, supply-side constraints and transportation bottlenecks, and these have started to become apparent in consumer price inflation in some advanced economies. Financial market measures of inflation expectations suggest that the near-term strength in inflation is expected to be transitory”.*

The MPC noted the developing upside risks in the UK to both activity and inflation. It said that the news on activity “had predominately been to the upside” and that Bank staff had “revised up their expectations for 2021 Q2 GDP growth to 5½% from 4¼%”. For the first time, the policy statement noted that “there are increasing signs of recruitment difficulties for some businesses” and the minutes said, “it was possible that the near-term upward pressure on prices could prove somewhat larger than expected”. Indeed, by saying that inflation “is likely to exceed 3% for a temporary period” the MPC admitted the Governor will have to write to the Chancellor later this year explaining why inflation is more than 1% above the 2% target.

But the key point is that the MPC still appears willing to ride out the **inevitable spike in inflation** over the next six months as it thinks it will be short-lived and caused by one-off reopening price rises and supply shortages relative to demand - boosted by consumers having built up huge savings of around £145bn during lockdown. These spikes will drop out of the CPI calculation over the next twelve months. The forward guidance in the policy statement designed to demonstrate the MPC’s patience was left intact, and the emphasis remained on “the medium-term prospects for inflation” rather than factors that are “likely to be transient”. The minutes said the MPC should “ensure that the recovery was not undermined by a premature tightening in monetary conditions”. It also repeated that it will not raise Bank Rate until the 2% inflation target has been attained sustainably i.e. the mere fact that it is forecasting inflation to be over 2% during 2021 and 2022 is not in itself sufficient to justify an increase in Bank Rate in the near future. The MPC indicated in the minutes that some members would prefer to wait for a clearer picture of the underlying pace of the recovery once the furlough scheme expires at the end of September, before making any judgement on medium-term inflationary pressures. This implies that the MPC may be unlikely to be in a position to consider a change in policy until early in 2022 at the earliest.

In addition, the Bank is undertaking a review of its stated current policy to raise Bank Rate first before **unwinding quantitative easing** (QE) purchases of gilts. Indeed, it now appears to be likely that the Bank could unwind QE first before raising Bank Rate as it sees QE as a very useful quick acting weapon to use to combat any sudden dysfunction in financial markets, as happened in March 2020. However, it is currently nearly maxed out on the total level of QE. Unwinding QE first would cause short term gilt yields to remain anchored at low levels and medium and long term gilt yields to steepen. Money markets are currently expecting Bank Rate to start rising in mid-2022 but they are probably being too heavily influenced by looking across the Atlantic where inflationary pressures are much stronger than in the UK and building up further under a major boost from huge Federal government stimulus packages. Overall, there could be only a minimal increase in **Bank Rate** in 2023 or possibly no increases before 2024.

**GDP.** The Bank revised up its expectations for the level of UK GDP in 2021 Q2 by around 1½% since the May Report due to the easing of restrictions on economic activity; this now leaves total GDP in June only around 2½% below its pre-Covid 2019 Q4 level. UK GDP grew by 1.5% in the three months to April 2021: this was the first expansion since the three months to December 2020. Forward looking monthly business surveys are running at exceptionally high levels indicating that we are heading into a strong economic recovery. Capital Economics do not think that the UK economy will suffer major scarring from the lockdowns. The one month

delay to the final easing of restrictions in July is unlikely to have much effect on the progress of recovery with GDP getting back to pre-Covid levels during August.

**CPI.** The annual inflation rate in the United Kingdom rose to 2.1% y/y in May from 1.5% y/y in April: this is the first time that the measure has been above the Bank of England's 2% target since July 2019.

**COVID-19 vaccines.** These have been the game changer which have enormously boosted confidence that **life in the UK could largely return to normal during the second half of 2021** after a third wave of the virus threatened to overwhelm hospitals in Q1 this year. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The UK has made fast progress, giving both jabs to nearly half of the total population and one jab to two thirds, (84% of all adults). This programme should be completed in the second half of the year. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

**US.** Since the Democrats won the elections in late 2020 and gained control of both Congress and the Senate, (although power is more limited in the latter), they have passed a \$1.9trn (8.8% of GDP) stimulus package in March 2021 on top of the \$900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also now negotiating to pass a \$1trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.

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 had actually been under-shooting the 2% target significantly for most of the last decade, so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after that meeting. There is now some expectation that where the Fed has led in changing its policy towards implementing its inflation and full employment mandate, other major central banks will follow by allowing inflation to run higher for longer, even if they do not call it a policy of average inflation targeting as such.

In the **Fed's June meeting**, it stuck to its line that it expects strong economic growth this year to have only a transitory impact on inflation which is being temporarily boosted by base effects, spikes in reopening inflation and supply shortages. The big surprise was the extent of the upward shift in the "dot plot" of interest rate projections: having previously expected no hikes until 2024 at the earliest, most officials now anticipate two in 2023, with 7 out of 18 expecting to raise rates next year. This was a first indication that there was rising concern about the risks around inflationary pressures building up on a more ongoing basis and is somewhat hard to reconcile to the words around inflation pressures being only transitory.

**Treasury yields in the US** ought to rise much more strongly than gilt yields in the UK due to the divergence in the levels of inflationary pressures and the levels of surplus capacity currently in both economies, (the US is much nearer full capacity than the UK). Bond investor sentiment could lean in the direction that even if central banks refrain from raising central rates in the short term, all they are doing is setting up sharper increases further down the line. This is likely to cause increases in longer-term bond yields without any actual increases in central rates. There will then be a question as to how strong an influence rising treasury yields will have on gilt yields. Due to the divergence between the US and UK economies, it is expected that the Fed rate will need to increase first before Bank Rate and that there could be a significant delay before the Bank of England follows suit.

**EU.** Both the roll out and take up of vaccines was disappointingly slow in the EU in the first few months of 2021 but has since been rapidly catching up. This delay will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. After contracting by another 0.3% in Q1 of 2021, recovery will now be delayed until Q3 of 2021. At its June meeting, the ECB forecast strong economic recovery with growth of 4.6% and 4.7% in 2021 and 2022 respectively.

Inflation is likely to rise sharply to around 2.5% during 2021 for a short period, but as this will be transitory, due to one-off factors, it will cause the ECB little concern. 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 2020 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 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 maintains this level of support. The March ECB meeting also took action to suppress the rise in long bond yields by stepping up its monthly PEPP purchases. Meetings in April and June confirmed these policies so monetary policy will remain highly accommodative with no sign yet of tapering of asset purchases.

**China.** After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of 2020; this enabled China to recover all the contraction in Q1 2021. 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. After making a rapid recovery in 2020/21, growth is likely to be tepid in 2021/22.

**Japan.** A third round of fiscal stimulus in December 2020 took total fresh fiscal spending in 2020 in response to the virus close to 12% of pre-virus GDP. That is huge by past standards, and one of the largest national fiscal responses. The resurgence of Covid in Q1 2021, coupled with a slow roll out of vaccines, has pushed back economic recovery. However, quickening of vaccinations in the second half of 2021 will lead to a strong economic recovery to get back to pre-virus levels by the end of 2021 – around the same time as the US and sooner than the Eurozone.

**World growth.** World growth was in recession in 2020 but should recover during 2021. Inflation is unlikely to be a significant problem in most countries for some years due to the creation of excess production capacity and depressed demand during the coronavirus crisis.

**Impact on gilt yields and PwLB rates in 2021.** Since the start of 2021 gilt yields and PwLB rates have risen sharply. What has unsettled financial markets has been a \$1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic, in addition to the \$900bn support package passed in December. Financial markets have been concerned that the two packages, on top of the Fed already stimulating the economy by cutting the Fed rate to near zero and unleashing massive QE, could cause an excess of demand in the economy which **unleashes strong inflationary pressures**; these could then force the FOMC to take much earlier action to start increasing the Fed rate from near zero, despite their stated policy being to target average inflation and saying that increases were unlikely in the next few years.

A further concern in financial markets is **when will the Fed end quantitative easing (QE) purchases of treasuries** and how they will gradually wind it down. These ongoing monthly purchases are currently acting as downward pressure on treasury yields. Nonetheless, during late February and in March, yields rose sharply. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards there will invariably impact and influence financial markets in other countries. It is noticeable that gilt yields moved higher after the MPC meeting in early February as a result of both developments in the US, and financial markets also expecting a **similarly rapid recovery of the UK economy as in the US**; both countries were expected to make similarly rapid progress with vaccinating their citizens and easing Covid restrictions. They are, therefore, expecting inflation to also increase more quickly in the UK and cause the MPC to respond by raising Bank Rate more quickly than had previously been expected.

**Deglobalisation.** Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. In March 2021, western democracies implemented limited sanctions against a few officials in charge of government policy on the Uighurs in Xinjiang; this led to a much bigger retaliation by China which caused considerable consternation in western countries. After the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products and vice versa. This is likely to reduce world growth rates from rates in prior decades.

**Central banks' monetary policy.** During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is, therefore, very important that bond yields stay low while debt to GDP ratios slowly subside under

the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. The Fed has changed its policy on inflation to targeting an average level of inflation. Greater emphasis will also be placed on hitting subsidiary targets e.g. full employment, before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

## 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. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest and previous forecasts on 10<sup>th</sup> May and 8<sup>th</sup> March respectively, are shown below. A comparison of these forecasts shows that PWLB rates have increased marginally and there is also now a first increase in Bank Rate from 0.10% to 0.25% in quarter 2 of 2023/24.

Link Group Interest Rate View 10.5.21		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	0.25	0.25	0.25
3 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings		0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB		1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB		1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB		2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB		2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

Link Group Interest Rate 8.3.21		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
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
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
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
5 yr PWLB		1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB		1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB		2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB		1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30

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 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings, although some forecasters had suggested that a cut into negative territory could have happened prior to more recent months when strong recovery started kicking in. However, the minutes of the Monetary Policy Committee in February 2021 made it clear that commercial banks could not implement negative rates within six months; by that time the economy would be expected to be recovering strongly and so there would be no requirement for negative rates. As shown in the forecast table above, one tentative increase in Bank Rate from 0.10% to 0.25% has now been pencilled in for quarter 2 of 2023/24 as an indication that the Bank of England will be moving towards some form of monetary tightening around this time. However, it could well opt for reducing its stock of quantitative easing purchases of gilts as a first measure to use before increasing Bank Rate so it is quite possible that we will not see any increase in Bank Rate in the three-year forecast period shown.

### Significant risks to the forecasts

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The lockdowns cause major long-term scarring of the economy.
- The Government implements an austerity programme that suppresses GDP growth.



- The MPC raises tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market sell-offs on the general economy.
- Geo-political risks are widespread e.g. German general election in September 2021 produces an unstable minority government and a void in high-profile leadership in the EU when Angela Merkel steps down as Chancellor of Germany; on-going global power influence struggles between Russia/China/US.

**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 resulted in many bond yields up to 10 years turning negative in the Eurozone. In addition, there was, at times, an inversion of bond yields in the US whereby 10 year yields fell 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 2020. After gilt yields initially spiked upwards in March, yields fell 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 was 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 start of 2021, all gilt yields from 1 to 8 years were negative: however, since then all gilt yields have become positive and have risen sharply, especially in medium and longer-term periods. The main driver of these increases has been investors becoming progressively more concerned at the way that inflation has risen sharply in major western economies during 2021, and further increases in inflation are expected. **There is also much investor concern that the US Fed is taking a too laid back view that this inflation is purely transitory and that it will subside without the need for the Fed to take any action to tighten monetary policy; this could mean that rates will need to rise faster and sharper if inflation were to get out of control.**

- The current PWLB rates are set as margins over gilt yields 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 the Bank of England is not expected to raise Bank Rate above 0.25% during that period as inflation is not expected to be sustainably over 2%.

### 3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by the Council on 11th February 2021. 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 have only risen weakly since Bank Rate was cut to 0.10% in March 2020. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before the second half of 2023, investment returns are expected to remain low.

#### **Creditworthiness.**

Significant levels of downgrades to Short and Long Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

#### **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 at the outset of the pandemic in 2020, they have subsequently returned to near pre-pandemic levels. **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 **£52.9m**. 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 **£20m** core cash balances for investment purposes (i.e. funds available for more than one year). The investment portfolio yield for the first three months of the year was 0.12%. This is the weighted average rate of interest earned on investments held by the Council between 1 April and 30 June. The 0.13% average interest rate shown in the table below is the weighted average rate of interest on outstanding investments on 30 June.



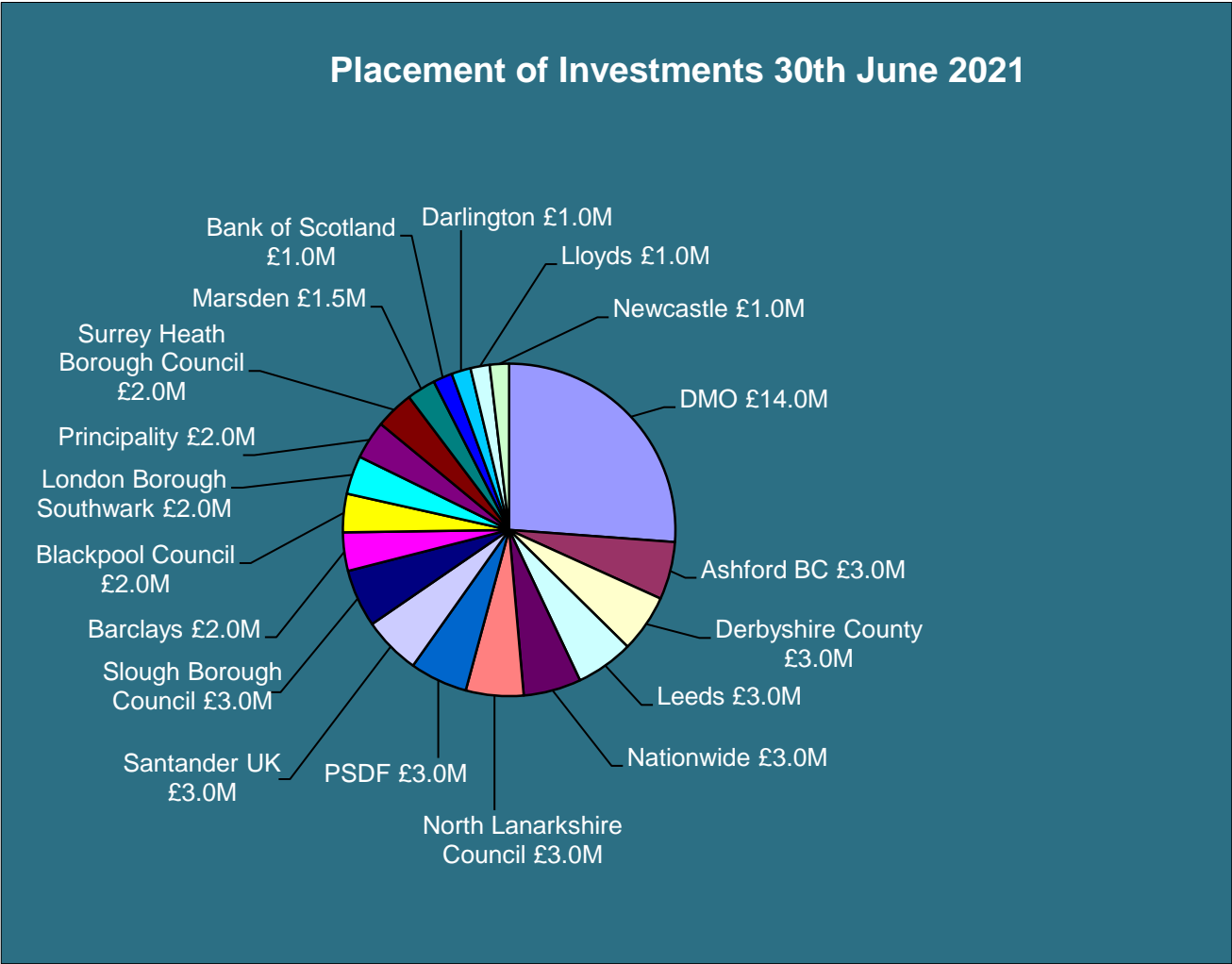
	Amount	Average
	£	Interest Rate %
<b>Managed By NHDC</b>		
Banks	7,000,000	0.06
Building Societies	8,000,000	0.07
Local Authorities	18,000,000	0.13
Money Market Fund	3,000,000	0.13
Government	14,000,000	0.01
<b>NHDC Total</b>	<b>50,000,000</b>	<b>0.11</b>
<b>Managed by Tradition</b>		
Building Societies	3,500,000	0.27
<b>Tradition Total</b>	<b>3,500,000</b>	<b>0.27</b>
<b>TOTAL</b>	<b>53,500,000</b>	<b>0.13</b>

In percentage terms, this equates to:

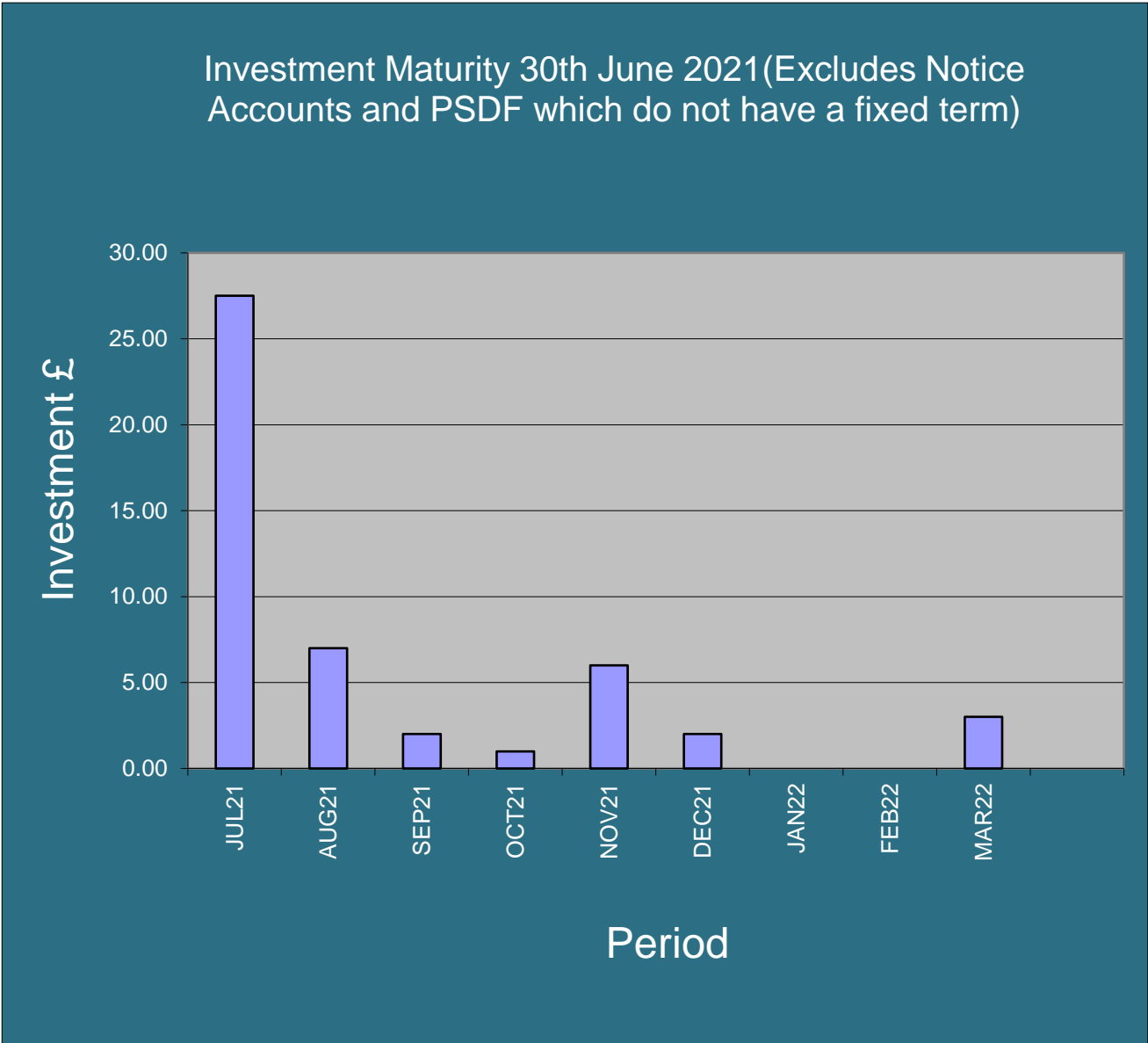
	Percentage
Money Market Fund	6
Government	26
Banks	13
Building Societies	21
Local Authorities	34

The approved 21/22 strategy is that no more than 60% of investments should be placed with Building Societies and Property Funds with a maximum value of £17M. The value at 30 June was £11.5M.

The pie chart below shows the spread of investment balances as at 30 June 2021. This is a snapshot in time that demonstrates the diversification of investments.

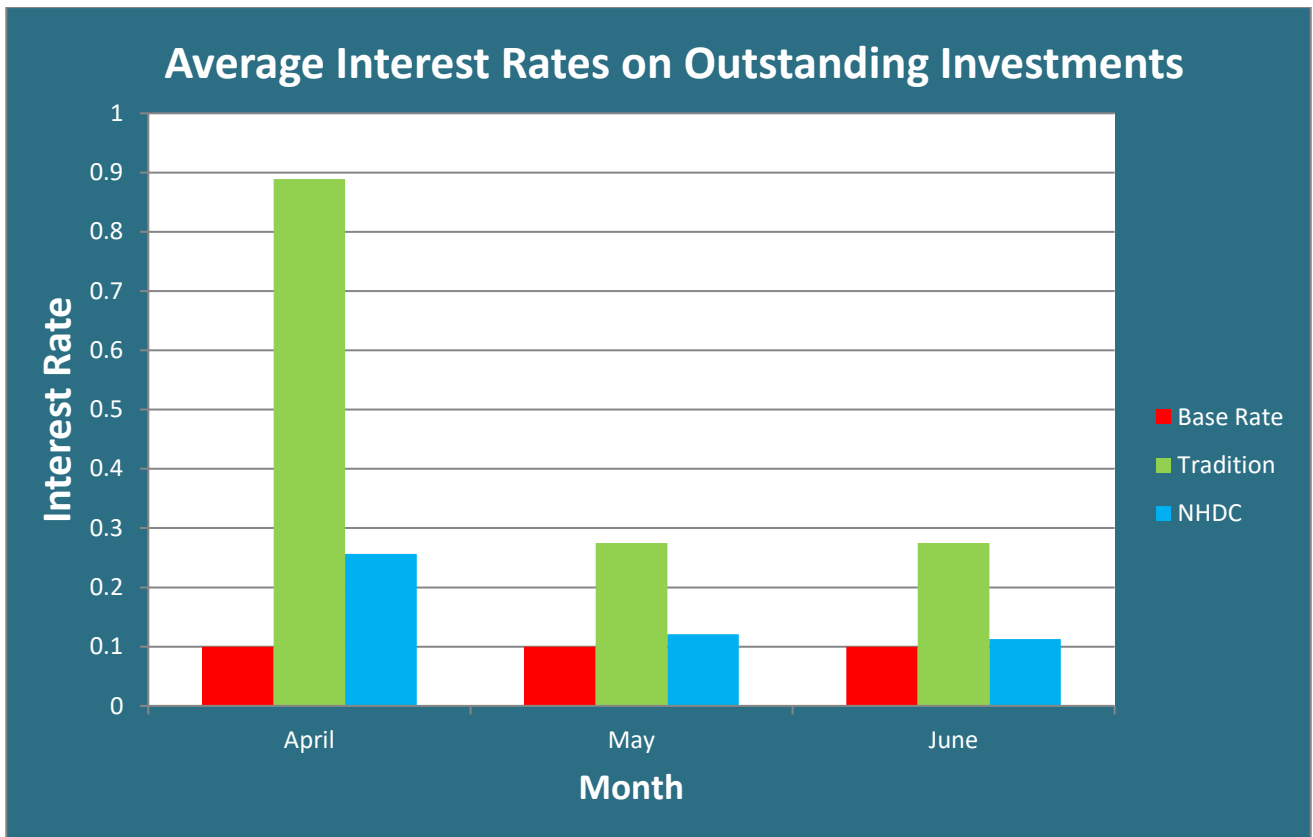


The chart below shows the Council's investment maturity profile. This does not include the £3.0M held in the Public Sector Deposit Fund Money Market account nor the £2.0M held in a Notice Accounts.



The Council's Original budgeted investment return for 2021/22 was £0.103M. Based on current investments and cashflow forecasts this is expected to reduce to £0.040M of interest.

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



The higher rates achieved through Tradition reflect that these are longer-term investments 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. There are two Tradition deals totalling £2.5M.

#### Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2021.

## 4. Borrowing

No borrowing was undertaken during the quarter ended 30th June 2021.

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

Based on 1st quarter estimates for capital expenditure, the Council's capital financing requirement (CFR) for 2021/22 is expected to be £4.918M (-£5.182M at the end of 20/21). This assumes all capital budgets will be spent in 21/22 which will require external borrowing to fund the spend. 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 30 June 2021:

	Amount	Average Interest Rate
	£	%
Public Works Loans Board	£405k	9.96

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 <sup>st</sup> March 2022 (Forecast)	5.635	1.119	6.754	7.9	12
31 <sup>st</sup> March 2023 (Forecast)	5.353	0.616	5.969	7.1	11
31 <sup>st</sup> March 2024 (Forecast)	6.450	0.113	6.563	7.4	12
31 <sup>st</sup> March 2025 (Forecast)	12.720	0	12.720	13.6	18
31 <sup>st</sup> March 2026 (Forecast)	13.261	0	13.261	14.2	19

\* 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	100
10 years to 20 years	0	100
20 years and above	0	100

The Council will need to borrow this year if the Capital Programme is fully spent so will have 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
2021/22	0.040	19.377	0.206
2022/23	0.275	15.696	1.753
2023/24	0.335	15.634	2.144
2024/25	0.631	15.415	4.095
2025/26	0.686	14.847	4.623

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
2021/22	0.040	0.040	0.000	19.377	0.000
2022/23	0.275	0.102	0.173	15.696	1.103
2023/24	0.335	0.097	0.238	15.634	1.526
2024/25	0.631	0.096	0.535	15.415	3.471
2025/26	0.686	0.092	0.594	14.847	4.004

## 5. Debt Rescheduling

No debt rescheduling was undertaken during the quarter.

## 6. Compliance with Treasury and Prudential Limits

The prudential and treasury Indicators are shown below in Appendix 1.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 30th June 2021, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2021/22

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices

## APPENDIX 1: Prudential and Treasury Indicators for 2021-22 as at 30th June 2021

Treasury Indicators	2021/22 Budget £'000	30.06.21 Actual £'000
Authorised limit for external debt	12,000	405
Operational boundary for external debt	7,900	405
Gross external debt	5,248	405
Investments	23,200	53,500
Net borrowing	17,952	-53,095

Maturity structure of fixed rate borrowing		
Under 12 months	18	18
12 months to 2 years	282	19
2 years to 5 years	1,291	62
5 years to 10 years	4,126	55

Upper limit for principal sums invested over 365 days	11,000 Max	0
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Prudential Indicators	2021/22 Budget £'000	31.3.21 Actual £'000
Capital expenditure	16,293	242
Capital Financing Requirement (CFR)	5,100	-5,052
In year borrowing requirement	5,248	0
Ratio of financing costs to net revenue stream	0.71%	-0.08%



<b>FINANCE, AUDIT AND RISK COMMITTEE</b> <b>15 SEPTEMBER 2021</b>
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<b>*PART 1 – PUBLIC DOCUMENT</b>
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**TITLE OF REPORT: MEDIUM TERM FINANCIAL STRATEGY**

REPORT OF: *Service Director- Resources*

EXECUTIVE MEMBER: *Finance and IT*

COUNCIL PRIORITY: BE A 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**

This report recommends the Medium Term Financial Strategy (MTFS) for 2022/23 to 2026/27 to guide and inform the Council's Business Planning Process. The focus is primarily on setting a budget for 2022/23, as well as determining the actions that will be necessary in setting a longer term budget following on from that. It reflects on the many uncertainties that the Council faces, including impacts of Covid-19. Whilst it recommends a five year budget strategy, there is likely to be a need to amend the strategy over time as further information becomes available.

The MTFS supports and is supported by the Council Plan. This reflects that the Council can only deliver priorities and projects that it can afford and should prioritise its spending around delivering its priorities.

**2. RECOMMENDATIONS**

- 2.1. That Finance, Audit and Risk Committee note and comment on the Medium Term Financial Strategy.
- 2.2. That Finance, Audit and Risk Committee recommend to Cabinet that they recommend to Full Council the adoption of the Medium Term Financial Strategy 2022-27 as attached at Appendix A.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1 Adoption of a MTFS and communication of its contents will assist in the process of forward planning the use of Council resources and in budget setting for 2022/2023 to 2026/2027, culminating in the setting of the Council Tax precept for 2022/23 in February 2022. This will (alongside the Council Plan) support the Council in setting a budget that is affordable and aligned to Council priorities.

**4. ALTERNATIVE OPTIONS CONSIDERED**

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

4.2 In line with the Financial Management Code (published by the Chartered Institute of Public Finance and Accountancy), the Council aspires to set a longer-term financial strategy (e.g. 10 years) that considers the various risks and plans scenarios to deal with them. However this MTFS deliberately takes a shorter-term view, which reflects the significant uncertainty faced in relation to the continued response to, and recovery from, Covid-19.

## **5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

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

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

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

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

## **6. FORWARD PLAN**

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

## **7. BACKGROUND**

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

## **8. RELEVANT CONSIDERATIONS**

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

## **9. LEGAL IMPLICATIONS**

9.1 Cabinet's terms of reference include at 5.6.38 the power, by recommendation "to advise the Council in the formulation of those policies within the Council's terms of

reference". Council's terms of reference include at 4.4.1(b) "approving or adopting the budget". The MTFS is part of the budget setting process.

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

## **10. FINANCIAL IMPLICATIONS**

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

## **11. RISK IMPLICATIONS**

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

## **12. EQUALITIES IMPLICATIONS**

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 The MTFS attempts to align resources to the delivery of the Council Plan, which sets the corporate objectives. Through its corporate objectives the Council is seeking to address equality implications in the services it provides and through the remainder of the Corporate Business Planning Process will carry out Equalities Impact Assessments for relevant Efficiency or Investment options.

## **13. SOCIAL VALUE IMPLICATIONS**

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

## **14. ENVIRONMENTAL IMPLICATIONS**

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

## **15. HUMAN RESOURCE IMPLICATIONS**

- 15.1 The MTFS makes assumptions in relation to pay inflation. As the actual rate of inflation will be subject to national pay bargaining, the actual costs will depend on the results of those negotiations. The budget also makes assumptions around funding for increments. The budget does not make any allowance for pay increases above inflation. This means that there will be no improvement to the Council's ability to attract staff in relation to pay, which will particularly impact on difficult to fill posts. The Human Resources Team and the Leadership Team continually try to identify staff benefits that are not related to pay, and therefore more affordable.
- 14.2 The delivery of projects to deliver council objectives depends on having adequate people resources with the requisite skills.
- 14.3 The development of budget proposals will take up staff time. As they are developed these budget proposals will identify the ongoing impact on staff.

## **16. APPENDICES**

- 16.1 Appendix A- Medium Term Financial Strategy

## **17. CONTACT OFFICERS**

- 17.1 Ian Couper, Service Director: Resources [ian.couper@north-herts.gov.uk](mailto:ian.couper@north-herts.gov.uk); ext 4243
- 17.2 Jo Keshishian, HR Services Manager [jo.keshishian@north-herts.gov.uk](mailto:jo.keshishian@north-herts.gov.uk), ext 4314
- 17.3 Reuben Ayavoo, Policy and Community Engagement Manager, [reuben.ayavoo@north-herts.gov.uk](mailto:reuben.ayavoo@north-herts.gov.uk), ext 4212
- 14.4 Isabelle Alajooz, Legal Commercial Team Manager and Deputy Monitoring Officer, [Isabelle.alajooz@north-herts.gov.uk](mailto:Isabelle.alajooz@north-herts.gov.uk), ext 4346

## **18. BACKGROUND PAPERS**

- 18.1 *None*

North Hertfordshire Council  
Medium Term Financial Strategy  
2022-27

[cover page that is the same as or similar to the Council Plan]

**Purpose of the Strategy**

This strategy sits alongside the Council Plan for the same period. It sets out our financial forecasts over the next 5 years and how we will manage the funding that we think we will have available to deliver as much as we can in line with our priorities.

The strategy is heavily affected by Covid-19. The impact that we have had to fund so far has reduced the level of our reserves. We have to consider the impact on our costs and income in the future. We also have to face the continued uncertainty over our future funding. All this means that we are likely to have less time to react as the financial outlook becomes clearer.

We have also needed to consider this strategy when setting our Council Plan, as we can't promise to deliver things that we can't afford. The detailed projects contained within the Council Plan have been incorporated in to our forecasts.

**Delivering our Vision and Priorities**

Our vision and priorities are set out in detail in our Council Plan.

Our vision is to put people first, delivering sustainable outputs, as we look to a brighter future together. Our priorities therefore focus on: People First, Sustainability and a Brighter Future Together.

Most of the money that the Council spends is on delivering statutory services. We will always look to deliver these services in line with our priorities. Even as our funding has continued to reduce, we have tried to maintain our ability to offer discretionary services that are linked to our priorities. Our forecasts are that we will need to further reduce our costs in the future. This will mean that difficult decisions may need to be taken. We will make those decisions in line with our priorities.

Some of what we might like to achieve uses up resources (such as money, staff time or energy). We will look to be creative in identifying opportunities that deliver our priorities without using up resources.

**Looking forward**

We would like to use this document to provide a long-term (10 year) overview of our future funding, and risks and opportunities in relation to our spending and income. Unfortunately, we are faced with such significant uncertainty in the short to medium term in relation to our future funding from Government, Brexit impacts and recovery from Covid-19, that our focus has to be on that. That means that this strategy is focused on the next 5 years, with a particular focus on the next 2-3 years.

Over the last few years, we had taken the opportunity to increase the level of our general fund reserves. The plan was that they would be used to soften the impact of expected future funding reductions. We have been using these reserves to respond to Covid-19 and expect that this need will continue. If our financial recovery from Covid-19 is fairly quick, then some of the reserves may still be available for their initial purpose.

This strategy is based on significant uncertainty and as better information becomes available then this will be used. The budget that we set in February will be focused on 2022/23, but will also consider the medium term impact.

## Our current budget position

Our budget for this year (2021/22) was set at a meeting of Council in February 2021. This also set indicative budgets for future years. In June 2021 we reported our end of year position for 2020/21. This report also detailed spend that had not taken place in 2020/21, that would now take place during 2021/22. The numbers below also reflect our forecasts for 2021/22 as reported at the end of the first quarter of the year (up to end of June).

	£ millions
General Fund balance at the end of 2020/21	8.87
Less: How much we plan to spend during 2021/22	(19.36)
Add: Our expected funding during 2021/22	15.14
Add: other reserves that we plan to use to fund our expenditure *	2.91
Equals: General Fund balance at the end of 2021/22 (start of 2022/23)	7.56

\* We can only use our reserves once. The use of reserves in response to Covid-19 is exceptional and can not form part of a sustainable strategy.

We also have a Special Reserve which was set-aside for a number of purposes, including the delivery of transformation projects and if contract prices go up by a significant amount when they are re-let. The balance on this reserve at the end of 2020/21 was £0.74m. It is being used to fund a team that is looking at how technology can be used to automate processes and improve the ways that residents can contact us. It is also being used for Covid-19 community support grants, although the majority of these are now being funded from some grant money that we have secured. The total expected spend this year is £0.09m. That will leave a remaining balance of £0.65m. This balance will be transferred into the General Fund in 2022/23.

We also have a Business Rates grant reserve. Government provide business with various Business Rate reliefs and provide us with funding to cover them. Due to the way that Business Rate income is dealt with, we often receive the funding earlier than the actual impact on our accounts. So, the funding is put in to a reserve until it is needed. In the past we have also gained from Business Rate pooling arrangements, and have put these gains in to the reserve to protect us from future risks. The total balance on the reserve as at the end of 2020/21 was £14.35m. We know that we will need to use around £10.4m over the three years (2021/22 through to 2023/24) to cover the Covid-19 impact on Business Rates from 2020/21. We will also use £2.5m of the accumulated pooling gains to help balance the budget in 2021/22 and 2022/23. We will review the remaining balance as part of the budget-setting process to see if more can be released in to our General Fund balance.

The following sections consider the significant factors that impact on us setting a budget for the next 5 years, including the assumptions made and the impact of those on setting a balanced budget.

## Covid-19 impacts

We made the following assumptions when setting the budget for 2021/22:

- £2m of support to Stevenage Leisure to enable our leisure centres to reopen as Government restrictions were lifted
- We would not receive any payment from Hertfordshire County Council in relation to the Waste Alternative Financial Model (AFM). The AFM provides a financial reward to Districts for encouraging recycling and minimising residual waste. The reward is paid a year behind, so the reward we receive in 2021/22 will be based on performance in 2020/21.
- We increased the minimum General Fund balance by £0.5m to reflect the expected (but unknown) risk to other areas of our budget. This includes the cost of homelessness provision, income from parking, the net cost of disposing of recyclable materials, income from Trade Waste and income from bookings and events at Hitchin Town Hall.

- We assumed that the number of residents eligible for the Council Tax Reduction Scheme would continue to be high and off-set any growth in the overall number of properties. Previously we had assumed at least 1% per year growth in the number of properties in the District, and a net 1% increase in Council Tax income.

Our income levels have started to improve as lockdown restrictions have eased. In July 2021, car parking income was up to about 80% of the level in 2019/20. Stevenage Leisure Limited have seen increases in gym and swimming lesson memberships. Whilst events are now taking place at Hitchin Town Hall, the speed and extent of recovery is very uncertain. The recovery in these areas is only likely to continue if there are no further periods of restrictions. They may also never return to pre-pandemic levels.

For those areas of spend and income that have a more direct link to economic recovery and changes to the way business operates (e.g. trade waste, homeless provision and car park season tickets) there is even more uncertainty.

The net cost of disposing of recyclable materials is also very uncertain. This is dependent on global markets and even before the pandemic these could be very volatile.

The receipt of AFM payments will depend on general changes in waste volumes (e.g. a general move to working from home may mean an ongoing increase in residential waste) and how much of it our residents recycle. We will assume a gradual transition back to pre-pandemic levels.

It would not be sensible to try and forecast future year impacts for individual budgets, but it does seem prudent to set an overall provision for recovery across the next two years (in 2022/23 and 2023/24). This will be instead of increasing the level of the minimum General Fund balance. The basis for setting the provision in each year is set out below:

Type of spend/ income	Normal budget (£m)	Basis of provision for 2022/23	Amount of provision in 2022/23 (£m)	Basis of provision for 2023/24	Amount of provision in 2023/24 (£m)
Leisure Centre management fee income	0.82	25% of management fee	0.21	10% of management fee	0.08
Pay as you use parking income	2.02	5% of annual income	0.10	2.5% of annual income	0.05
Hitchin Town Hall	0.23	20% of annual income	0.05	10% of annual income	0.02
Trade Waste income	1.01	10% of annual income	0.10	5% of annual income	0.05
Homeless costs	0.08	100% increase	0.08	50% increase	0.04
Car park season tickets	0.32	20% of annual income	0.06	10% of annual income	0.03
Recyclable materials	0.29	100% increase	0.29	50% increase	0.15
AFM income	0.42	50% of annual income	0.21	25% of annual income	0.10
			<b>1.10</b>		<b>0.52</b>

The number of our residents that continue to be eligible for the Council Tax Reduction Scheme is likely to be linked to the general economic recovery. There could be a further increase in eligibility when the furlough scheme comes to an end. There will also be an increase if there are further periods of restrictions. The Council Tax Base is also affected by the building of new properties. On the assumption that the Local Plan is adopted during 2021/22, that should start to have an impact on the number of properties being built. For budget planning purposes, the previous assumption (of zero tax base growth over 5 years) will be revised upwards to 0.5% growth per year from 2023/24.



## Pay costs

The pay claim for 2021/22 is still outstanding. The final offer from the employers is being considered by the Unions and is due to be voted on by Union members. The amounts offered are 2.75% for grade 1, 1.5% for Grades 13 upwards (Service Directors and Managing Director) and 1.75% for all other grades. The average increase of this offer across our staff is around 1.7%. If this pay claim is agreed then it will just be for one year. We increased our assumptions around future pay increases (from 2% to 2.75%) last year to reflect the Government push to increase the National Living Wage. There are two reasons to change this assumption back down, (1) the Government policy direction seems likely to change in light of general economic conditions and the pay increases that Government are offering, and (2) increases in the grades affected by Living Wage changes can be achieved without offering the same increase to all grades. We are therefore assuming a 2% inflationary pay increase for each year from 2022/23. We will also continue to make a separate estimate relating to our staff eligible for incremental increases in their pay.

As the allowances above reflect national pay bargaining, they have no impact on our pay compared with other Councils. This means that where we have posts that are difficult to recruit to, this position is unlikely to improve in terms of salary. However we will continue to promote the other advantages of working for us. We could carry out a more fundamental review of our pay scales, but is likely to be a very significant cost and the actual impact on being able to recruit would still be uncertain.

Our employees are eligible to join the Local Government Pension Scheme (LGPS), which is a defined benefit scheme. We make annual contributions to the scheme based on a percentage of payroll costs and a lump sum. The lump sum is to cover past service costs. Our budget assumes that the percentage rates will remain unchanged and the lump sum will increase with inflation. This may need to change after the next actuarial review, which will be undertaken in 2022/23 and the outcome will determine annual contributions for the following three financial years (2023/24 – 2025/26).

## Waste costs

Prior to Covid-19, HCC had already informed us of planned reductions in the pot of money that would be available to be distributed as part of the AFM. The impact of this reduction has been built in to the budget. There is a risk that HCC will seek to make further reductions to this payment.

Government have consulted on a series of proposals in relation to waste collection. These include:

- Introduce consistent waste collection across all areas of the Country (e.g. same materials in the same types of bins) and being stopped from charging for garden waste collections.
- Introduction of a Deposit Return Scheme, which would have an impact on what we collect at the kerbside. It is likely to mean that the higher value recycling materials would be taken to deposit return locations, leaving us to collect the remainder. This would affect the net costs of disposal for recycling materials.
- Extended Producer Responsibility- places the financial burden for waste on those that are producing it at source.

It is not yet known which of the above will be adopted. Where they are adopted we should expect to receive New Burdens Funding, but we don't know how this will be calculated and allocated.

A number of the factors described above and in the Covid-19 impact section (e.g. waste volumes, types and frequencies of collections) are likely to affect the cost of the waste contract when it is due for renewal in May 2025.

As there are so many uncertainties above (both in terms of costs and funding) we have not assumed any specific financial impact at this stage. But we will have to review this as more information becomes available and have to consider that the impact could be significant.

As there may be a change to what we can charge for garden waste, we will retain the annual charges at their current levels. We will also continue to offer a discount for our residents who are on lower incomes.

## Car parking income

To support our Town Centres during the pandemic we chose not to increase parking charges in 2020/21. We also delayed the increase in 2021/22 to October. This will be a double increase to cover both years.

In line with declaring a climate emergency we will continue to increase car parking charges by 2%, to encourage alternative forms of transport.

We will gradually move the month when car parking charges are increased to bring it back to the start of the Summer. In 2022/23 the increase will be applied from September, August in 2023/24, July in 2024/25 and June from 2025/26 onwards.

## Delivering our priorities

As well as setting out our vision and priorities for 2022-27, our Council Plan details some of the projects that will contribute towards delivering those priorities.

The table below shows the status of each of these in terms of resources:

Project	Resources
Charnwood House refurbishment	Level of any capital contribution unknown, to be added to budget if required
Royston Town Hall Annex	Expected that could generate a capital receipt or income, not included in budget forecasts yet
Town Centre Strategies	Funding sources identified, including using specific reserves
Interactive Playground equipment	Within existing capital budget forecasts
New Green Space Management Strategy	Expected to deliver cost savings, to contribute towards 2022/23 savings target
Leisure Centre refurbishments	Within existing capital budget forecasts
Solar Thermal Technology at Royston Leisure Centre	Within existing capital budget forecasts
Sustainable recycling and waste service	See comments in section above. Uncertain financial impact at the moment so not factored in to the budget
New website	In progress and resources identified
Online customer portal	In progress and resources identified
Enabling cash payments at convenient locations	In progress and resources identified
Community engagement	Ongoing work to be delivered from existing resources

## Future funding from Government

Our funding is controlled by Government in the following ways:

- If we want to increase our Council Tax by more than a certain amount, then we must hold a referendum. Government set this the limit each year and in recent years it has been the greater of 1.99% or £5 on a band D property (with the other bands increased in proportion).
- They set how much of the Business Rates that we collect that we can retain.
- They determine how funding from New Homes Bonus works. This is a reward to Council's for encouraging the building of new homes.
- They can allocate other general funding and grants.

There was supposed to be a significant change to the way that we and other Local Authorities were funded. This would have included a new funding formula and a change to how much of the Business Rates that we collect we could retain. It is now expected that the earliest that this change will be introduced will be 2023/24.

We had been told that in 2019/20 our funding from Business Rates would be cut by over £1m. This had become known as negative RSG (Revenue Support Grant). This cut in funding has not yet taken place. When a new funding formula is introduced, we are working on the assumption that it will be broadly in line with the formula that determined we should have a negative RSG imposed upon us.

We currently provide our Parish, Town and Community Councils with a total of £39k of funding, in addition to what they raise through their precepts. This was initially linked to the localisation of Council Tax support (CTRS). Our policy has been that this support should reduce in line with the funding that we receive from Government. The amount that each Council receives is very small and could be covered by a small increase in their precept.

There has been a consultation on New Homes Bonus, which made several proposals on how it might be changed in future years. There has not yet been any indication of what might be adopted.

For 2022/23, the forecast is made on the following assumptions:

- Negative RSG will **not** be applied.
- We will receive New Homes Bonus funding of £131k. This is based on previous estimates of what we would receive as the old scheme is withdrawn.

For 2023/24 onwards, these assumptions are used:

- Negative RSG (or the equivalent of) will be applied.
- A replacement New Homes Bonus Scheme will be introduced. On the assumption that the Local Plan will be adopted and that we will see more significant housing growth, then estimate that this will generate rewards of at least £150k per year from 2024/25.
- There is the potential that we will also be able to gain from the Business Rates that we collect being above whatever baseline level is set. However, at this stage, this is not included in the forecasts.
- When Negative RSG is applied, we will cease to provide funding to Parish, Town and Community Councils relating to Council Tax support.

## Council Tax

As detailed previously we will assume that our Council Tax base will grow by a net 0.5% per year from 2023/24. The actual growth is expected to be higher, but some of the additional income will be needed to provide services to the new properties (e.g. waste collection).

We are assuming that Government will continue to allow Council Tax increases by up to the higher 2% or £5 for a band D property (with the other bands increased in proportion), without the need for a local referendum. In calculating the funding that is available, Government assume that Councils will increase their Council Tax by the maximum available. To do as much as we can to maintain our service provision we will

increase our Council Tax by the maximum possible, without the need for a referendum. For a band D property this increase will be around £5 per year, or 10p per week.

### Our reserves

We are required to make sure that we have a certain level of reserves when we set our budget. This is to provide protection against known and unknown risks. This includes us being able to react to changes in demand and any emergencies that may arise. Our allowance of known risks is based on estimating the monetary impact of an event happening and applying a percentage to this based on the likelihood of it happening (high, medium or low). Our allowance for unknown risks is based on 5% of net expenditure and 3% of budgeted income (excluding Housing Benefit). For 2021/22 this gave a minimum balance of £3.35m. In 2021/22 we further increased this by £0.5m to reflect the ongoing risks in relation to Covid-19. As detailed previously we have changed the ways that we will reflect these Covid-19 risks in 2022/23 and 2023/24.

We are forecasting that our General Fund reserves at the start of 2022/23 will be £8.57m. We expect that we will need to use some of these reserves in recovering from Covid-19 and in adjusting to new funding levels. In planning our future budgets we need to make sure that we stay above the minimum General Fund level.

### Our future forecasts and savings required

Based on all the assumptions detailed in the previous sections (and the additional assumptions detailed in Annex A), we are forecasting the following budget position over the next 5 years.:

£ millions	2022/23	2023/24	2024/25	2025/26	2026/27
General Fund balance at the start of the year	7.56	7.10	5.36	4.53	4.21
Less: How much we plan to spend during the year on existing services	(15.96)	(16.18)	(16.39)	(16.29)	(16.26)
Less: provision for additional Covid-19 costs	(1.10)	(0.52)	0	0	0
Add: Our expected funding during the year	15.21	14.46	14.86	15.22	15.59
Add: other reserves that we plan to use to fund our expenditure	1.19	0	0	0	0
Add: additional net savings that we need to deliver *	0.20	0.40	0.40	0.40	0.40
Equals: General Fund balance at the end of the year	7.10	5.36	4.53	4.21	4.19

\* These are the additional savings that need to be delivered in each year. Over the 5 year period the cumulative annual savings that will be required are £1.8 million.

### Addressing our funding gap

The table above shows savings that we need to deliver to achieve a balanced budget by 2026/27. That means that by that year our funding will equal our expenditure. Savings could mean any of the following:

- Being able to deliver our existing services at a lower cost. The use of technology and automation may enable to do this in some areas. But generally the savings that we have delivered across a number of years have been through efficiencies, meaning that there are few opportunities left.

- Being able to generate additional income from services that we are able to charge for, less any costs in providing that additional level of service.
- Being able to generate income from commercial activities. The opportunities to do this are limited by economic conditions. We also need to make sure that these activities are in line with our priorities.
- Reducing the level of services that we provide, or ceasing the provision of services that we are not required to provide. Whilst we would always want to avoid this, we have to consider the overall sustainability of our Council.

They are also shown as net savings. This means that there is some scope for adding in new costs to meet our priorities, but this needs to be off-set by increases in the savings that we deliver.

As we are forecasting that we will need to address a significant budget shortfall, we have set up a budget challenge process. This process is aiming to:

- Review all the Council's budgets to understand what they deliver and how they align to the Council priorities
- Review opportunities for making savings on those budgets, when those savings could be achieved and the implications of making those savings
- When there is greater clarity over our future funding, come up with a list of savings to consult with our residents and other stakeholders on. Before then we will continue to deliver savings where there is a time constraint on when they can be delivered (e.g. contract renewal) or we don't think there will be a significant impact on the services that we offer.
- Use the feedback to set an action plan for what savings will be taken forward and monitoring the delivery of those savings.
- To receive regular updates on future budget and funding forecasts, and take more urgent action if it is clear that there is a risk to our financial sustainability.

### **Capital budgets**

We are currently able to fund our capital expenditure (spend on assets that have a useful life of more than one year) from our capital reserves. This means that the revenue cost of our capital investments is minimal. Over the next 5 years we may run out of capital reserves and will need to borrow to fund our capital spend. That will add to our revenue costs as we will have to fund borrowing charges and Minimum Revenue Provision. Therefore all discretionary capital spend will be assessed on the assumption that funding costs will be incurred.

We are also aware that there is significant inflation on construction and material costs at the moment. As this might continue for some time, the potential for cost increases will be assessed when considering options for new capital spend.

**ANNEX 1      Other Budget Assumptions**

- Investment income is based on cashflow projections and a 0.1% return. This is significantly affected by the timing of expenditure in the capital programme.
- Contract inflation in accordance with the individual contract terms.
- No allowance is made for general inflation on remaining expenditure. Although after allowing for salary and contractual inflation, the remaining amount is insignificant.
- Discretionary fees and charges income will be increased by CPI (Consumer Price Index) at September, plus 2%. This will be where it is legally possible and subject to a market impact assessment. This excludes parking (which is assumed to increase at 2%) and garden waste (no increase).
- An assumed 99% collection rate for the purposes of calculating the Council tax base.
- An assumed 97% collection rate for Business Rates
- Any future changes to the local Council Tax Reduction Scheme will aim to have a cost neutral impact.
- A vacancy factor set at approximately 2.5% of salary budget to yield in the region of £300k is included in the base budget in each year.
- The Council will not subsidise areas which are the responsibility of another precepting body other than through a one-off match-funding arrangement where this is in the interests of the local Council tax payers.
- The potential impacts of Brexit are not reflected. The impacts of Covid-19 are only reflected to the extent mentioned.
- All assumptions are subject to further refinement during the budget process as more certain information becomes available.

<b>FINANCE, AUDIT AND RISK COMMITTEE</b> <b>15 September 2021</b>
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<b>*PART 1 – PUBLIC DOCUMENT</b>
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**TITLE OF REPORT: Financial Regulations Review**

REPORT OF: *Service Director: Resources*

EXECUTIVE MEMBER: *Finance and IT*

COUNCIL PRIORITY: BE A MORE WELCOMING, INCLUSIVE AND EFFICIENT COUNCIL

**1. EXECUTIVE SUMMARY**

This report recommends a number of changes to the Council's Financial Regulations, as part of a regular review. There are no substantial changes to the rules. The changes fall in to four main categories:

- Changes to processes to be implemented
- Significant changes to content, mainly adding in a section relating to the Shared Anti-Fraud Service
- Changes to processes that have already been implemented as they were compliant with the previous regulations
- Corrections to spelling and grammar, or to add clarity.

**2. RECOMMENDATIONS**

- 2.1. That the Finance, Audit and Risk Committee notes and comments on the proposed changes to the Financial Regulations, and recommends them to Council for adoption.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1. *The constitution requires that the Financial Regulations are kept under review. Minor changes can be approved by the Chief Finance Officer, but more significant changes are approved by Council.*

**4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1. *None. Whilst minor changes have been made more recently, the last full review was in January 2018.*

**5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1. *This report seeks comments from members of the Finance, Audit and Risk Committee prior to consideration by Council.*

## **6. FORWARD PLAN**

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

## **7. BACKGROUND**

- 7.1. The Council's Financial Regulations form part of the Council's Constitution. They cover the rules in relation to financial matters. They are reviewed on a regular basis, with a substantial review every 2-3 years. The last substantial review was in January 2018.

## **8. RELEVANT CONSIDERATIONS**

- 8.1 This report recommends a number of changes to the Council's Financial Regulations, as part of a regular review. There are no substantial changes to the rules. The changes fall in to four main categories:

1. Changes to processes to be implemented
2. Significant changes to content, mainly adding in a section relating to the Shared Anti-Fraud Service
3. Changes to processes that have already been implemented as they were compliant with the previous regulations
4. Corrections to spelling and grammar, or to add clarity.

- 8.2 Appendix A details these changes to the Regulations by category (categories 1 and 2 have been combined). For each change struck through text has been used to show text that will be deleted, and new text is shown in red. This is therefore a tracked changes version of the regulations for those parts that have changed. Appendix B is a copy of the proposed new Financial Regulations.

## **9. LEGAL IMPLICATIONS**

- 9.1 The Local Government Act 1972 requires the Council to have a written constitution. The Constitution at 4.4.1 (p) provides that only the Full Council will exercise the function of: "agreeing procedure rules, standing orders and financial regulations.
- 9.2 The Finance, Audit and Risk Committee "maintain an overview of the Council's Constitution in respect of Contract Procurement Rules and Financial Regulations, consider any major changes and make recommendations to Council for approval" (Constitution 10.15 (g)).
- 9.3 The Chief Finance Officer is responsible for keeping the Financial Regulations under review (Constitution 2.6). This role is carried out by the Service Director: Resources (Constitution 12.1.2).

## **10. FINANCIAL IMPLICATIONS**



- 10.1 There are no direct financial implications arising from this report. Overall, the Financial Regulations contribute to effective financial management.

## **11. RISK IMPLICATIONS**

- 11.1 Adoption of the proposed amendments will contribute to the Council's internal control environment and the management of risk

## **12. EQUALITIES IMPLICATIONS**

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

- 12.2. There are no equalities implications arising from this report.

## **13. SOCIAL VALUE IMPLICATIONS**

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

## **14. ENVIRONMENTAL IMPLICATIONS**

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

## **15. HUMAN RESOURCE IMPLICATIONS**

- 15.1 There are no significant HR implications arising from this report. Some of the changes may be perceived as creating additional work for the Accountancy Services team (e.g. lowering the threshold for explaining budget variances) but actually make the overall process more efficient.

## **16. APPENDICES**

- 16.1 *Appendix A: Explanation of proposed changes to Financial Regulations*

- 16.2 Appendix B: Proposed new Financial Regulations

## **17. CONTACT OFFICERS**

- 17.1 Ian Couper, Service Director: Resources [ian.couper@north-herts.gov.uk](mailto:ian.couper@north-herts.gov.uk); ext 4243
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## 18. BACKGROUND PAPERS

- 18.1 *Current Financial Regulations* [https://www.north-herts.gov.uk/sites/default/files/Section%2019%20Financial%20Regulations%209.7.2020\\_0.pdf](https://www.north-herts.gov.uk/sites/default/files/Section%2019%20Financial%20Regulations%209.7.2020_0.pdf)

## **Financial Regulations Review- Proposed Changes**

### **1) Significant changes to content or changes to processes**

**Throughout the Regulations- Reason for change:** The Council previously had a group known as the Senior Management Team. This has been replaced by the (Officer) Leadership Team. References to Senior Management Team to be changed to Leadership Team.

**Paragraph 5.4- Reason for change:** To simplify when explanations for capital spend variances will be obtained. Will slightly increase the number of explanations that are needed, but the level of detail will be proportionate to the overall scheme value and level of variance

Where the underspend or overspend for a project is greater than ~~£10,000~~ 25,000 or 10% of the annual budget (whichever is the lower, but subject to a minimum of £10,000) then this will be recorded by Accountancy Services, alongside the explanation that is provided by the Budget Holder.

**Paragraph 5.7- Reason for change:** to clarify that the Executive Member can only approve new projects and this provision does not override the provisions in paragraph 5.6. Also reduce the limit due to reducing capital balances

If an urgent or unanticipated capital need arises, this will be dealt with under the urgency powers delegated to the Managing Director and the proposal then referred to the Cabinet, and then Full Council, at the earliest opportunity. However the Executive Member for Finance and IT can approve in year changes to the Capital Programme up to a limit of ~~£100~~ 50,000 per project for new projects. Any requests for use of this approval should be made via the Chief Finance Officer.

**Paragraph 12.3- Reason:** a more proportionate requirement in relation to when the loss should be notified

The loss of any keys that could result in a risk of damage to or loss of property must be reported to the Service Director – Resources as soon as their loss is noticed.

**Paragraph 12.4- Reason:** clarify what will be recorded, clarify that the CFO does not have to talk to the SD Resources about the form and extent, as it is the same person.

The Service Director- Resources will maintain an inventory of office furniture such as desks, chairs and other significant items kitchen contents. The form and extent of the records will be as agreed by the Chief Finance Officer. Where practical possible all assets will also be marked as belonging to the Council.

**Paragraph 12.8 (bullet point)- Reason:** sometimes (as per example this year) an auction may not be the best route, so allowing that

If the value is estimated to be more than £5,000 then, unless it can be justified that an alternative method would provide better value (as agreed by the Chief Finance Officer), the disposal must ~~should~~ be via a public auction (except land assets which are covered by the Contract Procurement Rules).

**Section 14. Reason:** expand the scope to include Fraud Prevention. Change the title of the section Internal Control, and Audit and Fraud prevention

**Paragraph 14.4- Reason:** SIAS should have access to the Monitoring Officer to raise any concerns or as part of their work. Change fifth bullet point

Have direct access to the Managing Director, Monitoring Officer and the Chairs of the Overview & Scrutiny Committee and the Finance, Audit & Risk Committee.

**Paragraph 14.7- Reason: To allow the Chief Finance Officer to determine when it is appropriate to report when Officers do not respond to draft audit reports**

Any failure to do this will be reported to the Chief Finance Officer and, where relevant, to the Finance Audit and Risk Committee.

**Paragraphs 14.11 to 14.14. Reason: Previous versions of the Financial Regulations have not made reference to Fraud Prevention or the Shared Anti-Fraud Service (SAFS). Add in paragraphs to explain the role of SAFS and define the powers and responsibilities in relation to SAFS (similar to content for SIAS). Add the following paragraphs (and renumber the existing paragraphs 14.10 and 14.11 to 14.15 and 14.16):**

- 14.11 The Council's Anti-Fraud function is provided by the Shared Anti-Fraud Service (SAFS), which is hosted by Hertfordshire County Council. They provide the following services and support:
- Support in developing controls to prevent fraud
  - Advice and training for Officers on fraud awareness, prevention and detection
  - Use of data from various sources to identify potential fraud
  - Processes for reporting fraud, for Officers and the public
  - Fraud investigation
  - Money Laundering Reporting Officer
- 14.12 To assist them in their work, the **Chief Finance Officer** and any approved representative(s) have authority to:
- Enter at all reasonable times any Council premises or land, subject to any statutory or contractual restrictions that might apply;
  - Access all records, documents, correspondence and data relating to the business of the Council, including those of a contractor acting on the Council's behalf and to remove any such records as is necessary for the purpose of their work;
  - Require and receive such explanations from any **Officer, Councillor** or contractor acting as an employee of the Council as are necessary concerning any matter under examination;
  - Require any **Officer** to produce cash, stocks or any other Council property under their control; and
  - Have direct access to the **Managing Director, Monitoring Officer** and the **Chairs of the Overview & Scrutiny Committee** and the **Finance, Audit & Risk Committee**.
- 14.13 The **Heads of SAFS** is responsible for the preparation and maintenance of an annual risk-based anti-fraud plan. This plan is reviewed by the **Chief Finance Officer** and the **Service Director Customers** and contains details of the work to be undertaken in a financial year. The plan is approved by the **Finance, Audit and Risk Committee**.
- 14.14 The **Head of SAFS** will provide regular updates to the **Finance, Audit and Risk Committee** that cover:
- Progress against the plan and agreed key performance indicators
  - Examples of fraud that has been detected or investigated
  - Any other matters that they wish to bring to the attention of the Committee.

**Paragraph 15.5- Reason: to cover this eventuality that sometimes arises**

Add: The Council sometimes has small negative balances on customer accounts (e.g. overpayments), where it is not practical to return these amounts then they will be written off. These write-offs will be approved by the Chief Finance Officer.

- 2) Changes that reflect how we have adapted to do things differently (either adheres to existing rules or has been subject to relevant approval)

**Paragraph 3.7- Reason for change: To reflect that in practice, an explanation is obtained for all variances over £10k**

Where the underspend or overspend for a reporting area is greater than ~~£10,000~~ 5% of the budget for that area (subject to a minimum of £10,000) then this will be recorded by Accountancy Services, alongside the explanation that is provided by the Budget Holder.

**Paragraph 4.2- Reason for change: As recommended by the CIPFA Financial Management Code we now estimate capital spend over a 10 year period**

The Chief Finance Officer, in consultation with the Senior Management Team, is responsible for producing a Capital Expenditure forecast. This is produced annually and is a ~~four~~ten-year forward assessment of the forecast spend on existing and new projects.

**Paragraph 4.3, as above**

Service Directors are responsible for providing estimates of project spend for the following ~~four~~ten years.

**Paragraph 11.2- Reason for change: to reflect attendees of RMG**

The Risk Management Group seeks to focus and co-ordinate risk management activities throughout the Council to facilitate the identification, evaluation and management of all key risks. The group comprises of the Service Director Resources, ~~the Performance and Risk Officer, the Controls, Risk and Performance Manager,~~ key Service representatives, the Health and Safety Officer, ~~the Shared Insurance Manager, the SIAS Client Audit Manager,~~ the Executive Member for Finance and IT and a standing invite for any member of the Finance, Audit and Risk Committee that wishes to attend.

**Paragraph 11.3- Reason for change: to reflect that now have a Risk Management Framework**

The Council's Risk & Opportunities Management Strategy ~~Framework~~ aims to ensure that for each Council function, activity, operation or service the level of risk is known, recorded, monitored and mitigated. In each case, a conscious decision must be taken on how to manage that risk whether through controlling it, transferring it or living with it. The ~~Strategy~~ Framework is updated on an annual basis.

**Paragraph 14.5- Reason: In practise the Client Audit Manager is responsible for this task. The Audit Charter between SIAS and the Council will define who formally carries out the Chief Internal Auditor role**

The ~~Chief Internal Auditor~~ SIAS Head of Assurance (in consultation with members of the Senior Management Team and the External Auditor) is responsible for the preparation and maintenance of an annual risk-based audit plan. This plan is reviewed by the Chief Finance Officer and contains details of the work to be undertaken in a financial year and includes a contingency for unseen responsive work. The plan is approved by the Finance, Audit and Risk Committee.

**Paragraph 14.6- Reason- as above**

The ~~Chief Internal Auditor~~ SIAS Audit Manager is responsible for planning ahead and documenting as many known risks to the Council as possible.

**Paragraph 14.10 (new)- Reason- as above (14.5 and 14.6)**

The ~~Chief Internal Auditor~~ SIAS Head of Assurance or SIAS Audit Manager will ~~ensure the~~ provide ~~provision of~~ quarterly updates to the Finance, Audit and Risk Committee...

**Paragraph 14.10 (new)- Reason: to reflect the reporting that has been agreed with Finance, Audit and Risk Committee. Change bullet point**

Audits completed during the previous period and any ~~medium (summary explanation) or high or critical (detailed explanation)~~ priority recommendations

**Paragraph 16.15- Add title and paragraph on requirements for orders to be goods receipted**

Add: **Officers are required to record goods or services have been received by raising an official goods receipt on the Financial Management System. By recording the goods receipt against the order, Officers are confirming that a payment of that value can be made to the Supplier. Goods or services should be recorded as received as soon as possible after receipt from the Supplier.**

Renumbering of paragraphs from 16.15 onwards.

**Paragraph 16.17 (new)- Reason: To add the requirement to attach a copy of the invoice to the transaction on the Financial Management System. Amend the bullet point in the list.**

The invoice **is attached to the transaction**, received is VAT compliant (if applicable), has been calculated correctly and any discounts and credits have been applied.

**Paragraph 16.17 (new)- Reason: To add the requirement that if the invoice value is different to what was ordered then this must be justified. Amend the bullet point in the list.**

The relevant expenditure has been properly incurred and is within the relevant budget provision **Any variation to the original order value is justified.**

**Paragraph 16.21 (new)- Reason: to reflect the process that now uses the Financial Management System, rather than manual submission.**

Payment in advance and/ or without an invoice should be avoided. Where it is required an order should still be raised. **For payments without an invoice, a** An official payment requisition form must be ~~completed~~ **entered** and authorised **using the Councils Financial Management System. The Payment Requisition form should be uploaded to the system and attached to the transaction.** ~~by an appropriate Officer. The payment requisition form and any documents for dispatch with the cheque or BACS remittance should be submitted to Accountancy Services for processing.~~

**Paragraph 16.26 (new)- Reason: to reflect that now use goods receipting.**

Where possible, Service Directors should ensure that there is separation of duties in respect of activities involving payments. There should be at least two authorised officers involved in ordering, receiving and authorising goods, services and works for payment. In all instances the officer authorising the invoice should be different from the officer ~~who checked the invoice and certified it~~ **goods receipted the order**. Where practicable, a different officer from the one who signed **approved** the order should authorise the invoice.

**Paragraph 19.8- Reason: to clarify that these are homeworking expenses (as determined by HMRC) and that a bill as evidence is not applicable. Currently these expenses are not taxable due to Covid-19 but will need to review the tax rules post Covid-19**

For **homeworking expenses** ~~broadband and line rental~~ (applicable to any Officer that works at home **on a regular basis**) **these must be claimed at the rate set out in the employee handbook. They may be claimed on a monthly or an annual basis** ~~claimant should provide evidence from one monthly or quarterly bill, but can claim for up to one year at a time~~ (subject to it being in the correct financial year, 1st April to 31st March). **The payment of these expenses may be subject to income tax deductions in accordance with legislation.**

**Paragraph 19.18- Reason: authorisations are now electronic so specimen signatures are not required for HR approvals**

Service Managers must provide.... the names of officers authorised to sign or authorise electronically payroll documents ~~together with specimen signatures~~ and details of limits of authority and must forward amendment details on the occasion of any change.

**Paragraph 19.9- Reason: (1) to reflect process that must upload a digital copy of receipts and (2) that not all Officers are now required to provide vehicle documents**

Mileage will only be reimbursed if it is incurred whilst carrying out official Council duties. Mileage claims must be accompanied by a relevant VAT fuel receipt, **which must be uploaded into the payroll system as evidence**, in order to comply with current VAT regulations. Officers who use their private vehicle for Council business must have insurance that covers business travel and have complied with **any** the vehicle document verification checks ~~process~~.

**Paragraph 20.2- Reason: to reflect the requirements in relation to IR35 (off-payroll working) rules.**

Additional bullet point in the list stating: **For appointment of temporary workers, ensure that the relevant checks have been completed as to whether the worker falls within the scope of the IR35 rules.**

**Section 21- Reason: correction to job titles**

Replace Head of Finance, Performance and Asset Management with Service Director: Resources Change Group Accountant titles.



### **3) Correction of typing, grammar or to make existing rule clearer**

#### **Paragraph 1.4- Reason for change: only reference to District Council rather than Council**

These Regulations are an integral part of the ~~District~~ Council's control framework.

#### **Paragraph 8.6- Reason for change: to clarify that need to make arrangements**

For specific grants, Budget Managers are responsible for ensuring that grant claims are submitted by the due date. Where the receipt of any money is linked to the submission of the grant claim then the claim should be submitted as soon as possible. If the grant claim requires sign off by the Chief Finance Officer (or another individual e.g. the Chief Internal Auditor) then the Budget Manager should provide sufficient time and information to enable this sign-off to happen. **The Budget Manager must contact the Chief Finance Officer to put in place arrangements for this sign-off as soon as possible.** For any general grants and contributions, the Chief Finance Officer will ensure that claims are submitted by the due date.

#### **Paragraph 10.1- Reason for change: correct a typo**

The Council must decide ~~of~~ **on** an appropriate level of General Fund reserve before it can set the level of Council Tax.

#### **Paragraph 10.2- Reason for change: correct a typo**

The Council can also set aside funds in specific reserves. When the reserves are created they should have a clear purpose, and then only be used for that purpose in terms of adding to and spending from the reserve. Budget Holders and Service Directors should make requests for the creation of specific reserves **to** ~~from~~ the Chief Finance Officer. The creation and movements in reserves need to be formally approved by Full Council, which is incorporated in to Revenue Budget Outturn report.

#### **Paragraph 11.4- Reason for change: to reflect that known as Key Risks not Top Risks**

These risk reports will focus on what have been determined to be ~~Top~~ **Key** Risks.

#### **Paragraph 11.6- Reason for change: correct a typo**

The Senior Management Team are responsible for ensuring that there is **a** risk aware culture throughout the Council...

#### **Paragraph 11.7- Reason: correct typo**

Service Directors are responsible for ensuring that there is effective risk management within their service area. This includes the risks in relation to elements of the service that have been contracted out and this may require that joint risk reviews are carried out with partners. Service Directors are also required to ~~carry produce~~ **provide** an annual assurance statement, at the end of each financial year, of the adequacy of the internal control environment within their service.

#### **Paragraph 14.8 onwards. Reason- duplicated paragraph 14.8 requires renumbering from 14.8 onwards**

#### **Paragraph 15.2 first list- Reason: To clarify that we will publish the rate and category of VAT applicable to our charges, as this will be relevant to some customers.**

Ensure that VAT is charged as appropriate. **If fees are published on the Website, the VAT code should be made clear to the customer, along with the rate at which VAT will be charged if applicable.** (Accountancy Services can provide advice on this).

**Paragraph 15.4- Reason: To clarify that debts are cancelled with a credit note**

Debts can only be cancelled **via credit note** where they have been raised in error.

**Paragraph 19.18- Reason: remove old job title references and superfluous “or an officer nominated by HR”**

**Service Managers** ~~Heads of Service/Corporate Managers~~ must provide Human Resources, ~~or an officer nominated by Human Resources,~~ with the names of officers authorised to sign or authorise electronically payroll documents...

**PART B**

**SECTION 19**

**FINANCIAL REGULATIONS**

## Part B

### Section 19

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## 1. Introduction

- 1.1 To conduct its business efficiently the Council needs to ensure that it has sound financial management policies in place and that they are strictly adhered to. Part of this process is the establishment of financial regulations that set out the financial policies of the Council.
- 1.2 These financial regulations apply to every Member and Officer of the Council, although they place specific requirements on certain individuals, including:
  - Cabinet Members
  - Managing Director (Head of Paid Service)
  - Chief Finance Officer (also known as Section 151 Officer)
  - Monitoring Officer
  - Service Directors
  - Budget Holders
  - Cabinet
  - Full Council
  - Finance, Audit and Risk Committee
  - Overview and Scrutiny Committee
  - Leadership Team- comprising of the Managing Director and Service Directors
- 1.3 These Financial Regulations form part of the Constitution of the Council. They have been written to support all Officers and Members of the Council in fulfilling their duties regarding devolved financial responsibility and should be read in conjunction with the Scheme of Delegation in the Constitution.
- 1.4 These Regulations are an integral part of the Council's control framework. They help ensure that we make financial decisions in a consistent way across the Council. This supports us in our duties to ensure that we are transparent in all our actions and are clearly accountable for all the decisions we make. By ensuring these Regulations are applied, the Council can be confident that economic, efficient and effective financial management supports the achievement of its objectives.
- 1.5 **All Officers** are required to read and be familiar with these Regulations. Contact details are provided at the end if any clarification or advice is required. Training will also be provided when required. Failure to comply with the Regulations can be treated as misconduct under the Council's 'Managing Misconduct' policy.
- 1.6 **All Managers** should ensure that their staff are aware of the existence and content of the Financial Regulations, including any associated documents. They should also ensure that their staff are aware of how the Regulations apply to their role and ensure compliance.
- 1.7 Where applicable, members of the **Leadership Team** should establish a scheme of delegation identifying **Officers** authorised to act on their behalf in respect of responsibilities contained within this document. These arrangements should be contained within a signed scheme of delegation document. Delegated limits and specimen signatures should be supplied to the **Chief Finance Officer**.

## 2. Revenue Budget Setting

2.1 Budgetary control is the monitoring of financial activity against planned budgets to:

- Ensure that money is spent in accordance with the Council's priorities as expressed in the annual budget;
- Ensure that overall expenditure in achieving those priorities is kept within the budget set; and
- Ensure that planned performance (output) has been achieved and is in line with the planned budget (inputs).

Budgets (spending plans), are needed so that the authority can plan, authorise, monitor and control the way money is allocated and spent. The Council has a legal duty to set a balanced budget.

2.2 The **Chief Finance Officer**, in consultation with the **Leadership Team**, is responsible for producing a Medium Term Financial Strategy. This is produced annually and is a five-year forward assessment of all revenue commitments based on present levels of service and reflects any known commitments, changes in service level or resources. It also details the implications for the level of council tax to be levied. This helps to ensure that the authority is always preparing for events in advance.

2.3 All members of the **Leadership Team** are responsible for ensuring that all reports consider financial implications over the medium term. This includes an estimate of the revenue consequences over as long a period as possible, and at least three years.

2.4 **Service Directors** are responsible for providing estimates of their revenue spend for the following year, which should include the impact of any growth, pressures, efficiencies and service changes. The **Chief Finance Officer** will approve the detailed content of these estimates, in line with the general directions of the **Cabinet**. Once collated the estimates will be submitted to the **Leadership Team** and then on to **Cabinet** (with any comments from the **Leadership Team**). This will form the draft budget for the following year.

2.5 **All Officers** should consider how to make best use of resources and value for money. The **Leadership Team** will lead on identifying opportunities to improve economy, efficiency and effectiveness. The **Chief Finance Officer** will act as a champion in this area, and promote good practice in relation to the identification and appraisal of options.

2.6 **All Officers** must ensure that copies of all proposed reports are passed to the **Chief Finance Officer** (or delegated Accountancy Services Officer) in sufficient time for them to adequately consider the budget implications of any proposals.

2.7 The Medium Term Financial Strategy and Budget require approval by **Full Council**.

### 3. Revenue Budget Management

- 3.1 Budget management ensures that once the budget has been approved by **Full Council**, resources allocated are used for their intended purposes and that these resources are properly accounted for. Budgetary control is a continuous process enabling the authority to review and adjust its budget targets during the financial year. It also provides the mechanism that makes **Budget Holders** accountable for their budgets.
- 3.2 Budget management is about managing and balancing spending and service delivery. **Budget Holders** should try to deliver the agreed level of service within the agreed budget. Whilst all efforts should be made to not spend more than the allocated budget, service levels should not be reduced without considering the implications of this and seeking appropriate approval. Similarly, if it is possible to deliver the agreed level of service using less than the agreed budget, then the service level should not be increased without appropriate approval.
- 3.3 **Service Directors** are responsible for ensuring that there is a named **Budget Holder** for all service areas (cost centres). It should be ensured that the **Budget Holder** is only responsible for areas of spend that they can influence.
- 3.4 The **Chief Finance Officer** will ensure that all **Budget Holders** are provided with sufficient information (e.g. spend and income to date, future commitments) and support to enable them to forecast spend for the current year. **Budget Holders** are required to use this and their service knowledge to determine a realistic forecast on a regular basis (at least quarterly).
- 3.5 Where the **Budget Holder** estimates that spend will be different to budget, then this is known as an underspend (where forecast spend is less than budget) or overspend (where forecast spend is more than budget). **Budget Holders** must report forecast underspends and overspends as early as possible in the year.
- 3.6 The **Chief Finance Officer** will determine the divisions of service to be used in budget reporting. This will achieve a balance between transparent reporting and ensuring that there are a manageable number of reporting areas.
- 3.7 Where the underspend or overspend for a reporting area is greater than £10,000 then this will be recorded by **Accountancy Services**, alongside the explanation that is provided by the **Budget Holder**. Where possible they should be addressed by a budget virement (see section 7). Reporting areas will be determined by the **Chief Finance Officer** and will be based on service areas with sub-divisions for larger service areas.
- 3.8 The **Chief Finance Officer** will provide quarterly reports to **Cabinet** (via **Finance, Audit and Risk Committee** for comment) that detail all significant forecast overspends and underspends. This will include all overspends and underspends that are greater than £25,000 in value. The **Chief Finance Officer** will determine whether to report any other overspends and underspends e.g. due to their value, any impacts in future years or service delivery impacts. Where it is not possible to deliver services within the overall budget then this will be referred on to **Full Council**. Due to deadlines for the approval of the statement of accounts and the timing of the Finance, Audit and Risk Committee it may be necessary for the first quarter report to be based on the first two months and only updated for any significant events in the third month. Where this is necessary, it will be agreed by

the **Chief Finance Officer, Executive Member for Finance and IT** and the **Chair of Finance, Audit and Risk Committee**.

- 3.9 Once the quarterly report has been agreed by **Cabinet**, the budget for each service area will be amended in line with the reported overspend or underspend. This is so that they are only reported once and future reports to **Cabinet** will focus on any changes since the previous report.



#### 4. Capital Budget setting

- 4.1 Capital expenditure involves acquiring or enhancing fixed assets with a long-term value to the authority, such as land, buildings and major items of plant and equipment or vehicles. Capital assets shape the way services are delivered for the long-term and create financial commitments for the future in the form of financing costs and revenue running costs. The financing capacity of the authority is governed by the Prudential Code. This means that capital expenditure should form part of an investment strategy, be affordable and should be carefully prioritised in order to maximise the benefit of scarce resources
- 4.2 The **Chief Finance Officer**, in consultation with the **Leadership Team**, is responsible for producing a Capital Expenditure forecast. This is produced annually and is a ten-year forward assessment of the forecast spend on existing and new projects. This should also review the expected funding sources for each scheme and any revenue implications. It should be completed alongside the Medium Term Financial Strategy and annual revenue budget so that any revenue implications can be reflected in these documents.
- 4.3 **Service Directors** are responsible for providing estimates of project spend for the following ten years. The **Chief Finance Officer** will approve the detailed content of these estimates, in line with the general directions of the Cabinet. Once collated the estimates will be submitted to the **Leadership Team** and then on to **Cabinet** (with any comments from the **Leadership Team**). This will form the draft capital programme for the following year.
- 4.4 The Capital Programme requires approval by **Full Council**.
- 4.5 Once approved the Capital Programme gives approval to proceed with projects in the following year up to the amounts allocated for that year. It does not give authority to proceed with projects that have allocations in the years after that.
- 4.6 Leases may involve capital spend, so there should be a consideration of whether they need to be included in the capital programme (see section 6).

## 5. Capital Budget Management

- 5.1 **Service Directors** are responsible for ensuring that there is a named **Budget Holder** for all capital projects.
- 5.2 The **Chief Finance Officer** will ensure that all **Budget Holders** are provided with sufficient information (e.g. spend to date, future commitments) and support to enable them to forecast spend for the current year and future years of the project. **Budget Holders** are required to use this and their project knowledge to determine a realistic forecast on a regular basis (at least quarterly).
- 5.3 Where the **Budget Holder** estimates that spend will be different to budget, then this is known as an underspend (where forecast spend is less than budget) or overspend (where forecast spend is more than budget). **Budget Holders** must report forecast underspends and overspends as early as possible in the year.
- 5.4 Where the underspend or overspend for a project is greater than £10,000 then this will be recorded by **Accountancy Services**, alongside the explanation that is provided by the **Budget Holder**.
- 5.5 The **Chief Finance Officer** will provide quarterly reports to **Cabinet** (via **Finance, Audit and Risk Committee** for comment) that detail all significant forecast overspends and underspends. This will include all underspends and overspends that are greater than £25,000. The **Chief Finance Officer** will determine whether to report any other overspends and underspends e.g. due to their value, any impacts in future years or project delivery impacts. The report will also detail how any increased spend will be financed. Due to deadlines for the approval of the statement of accounts and the timing of the Finance, Audit and Risk Committee it may be necessary for the first quarter report to be based on the first two months and only updated for any significant events in the third month. Where this is necessary, it will be agreed by the **Chief Finance Officer, Executive Member for Finance and IT** and the **Chair of Finance, Audit and Risk Committee**.
- 5.6 If a **Budget Holder** forecasts that a capital scheme will overspend above certain limits, then approval must be sought from Cabinet before continuing. These limits are:

Capital budget	Approval required if overspend is more than:
Up to £60k	£12k
£60k to £250k	20% of budget
£250k to £500k	£50k
£500k to £1,000k	10% of budget
£1,000k to £2,000k	£100k
£2,000k and above	5% of budget

- 5.7 If an urgent or unanticipated capital need arises, this will be dealt with under the urgency powers delegated to the **Managing Director** and the proposal then referred to **the Cabinet**, and then **Full Council**, at the earliest opportunity. However the **Executive Member for Finance and IT** can approve in year changes to the Capital Programme up to a limit of £50,000 for new projects. Any requests for use of this approval should be made via the **Chief Finance Officer**.

## 6. Leases

- 6.1 The Council is able to both lease assets from and lease assets to other organisations and individuals. Depending on the terms of the lease this may need to be treated as a revenue or capital transaction. Any **Officer** considering entering in to a lease arrangement should contact **Accountancy Services** as early as possible. They will be able to provide advice on ensuring value for money and how the transaction will need to be treated. If the transaction involves capital then it will be necessary to make sure that there is sufficient capital budget allocated (see section 4).
- 6.2 All leases for land and buildings should be dealt with by the **Estates Team**.

## 7. Virements

7.1 A virement is where budget is moved from one area to another. It enables **Service Directors** and **Budget Holders** to manage budgets with a degree of flexibility within the overall policy framework determined by the **Full Council**, and therefore optimise the use of resources.

7.2 There are key controls and constraints in relation to virements. **Accountancy Services** will review all virement requests to ensure that they are adhered to.

- There must be a match between the timing of the expenditure and the availability of budget. A one-off virement cannot be used to fund ongoing expenditure, especially if there was a choice as to whether to incur that expenditure.
- They must be at least £1,000 in value. Amounts less than this should be managed by **Budget Holders** ensuring that they remain within their overall budget.
- They should not be used to fund new areas of spend unless the overall benefits of that spend have been fully assessed, and appropriate approval has been obtained. Where possible any unneeded budget should be returned to the General Fund.
- Some budgets are allocated to **Budget Holders** but are also managed centrally (e.g. repairs and maintenance, training). The virement of these budgets for other purposes is not generally permitted, and would require the approval of the central manager (e.g. Property Services, Learning and Development). If used for the intended purpose, the virement of these budgets can be approved by the central manager, without requiring the approvals set out in 7.3 below.
- Salary budgets can only be moved to cover the costs of vacancies being held (e.g. temporary or agency staff spend). If employees decide not to be part of the pension scheme then the employer contribution savings can not be used for other purposes and must be returned to the General Fund.
- Virements are not allowed on non domestic rates budgets.

7.3 The authorisation required for a budget virement is as follows:

Between budgets that are under their	<b>Budget Holder</b>
Between budgets within a Service Area	<b>Service Director</b> after consulting with all affected <b>Budget Holders</b>
Between budget areas that are in different Service Areas	Agreed by the relevant <b>Service Directors</b> (providing and receiving the budget) after consulting with all affected <b>Budget Holders</b> .

7.4 All requests for virements must be on a properly authorised form and should be passed to **Accountancy Services**. Expenditure should not be incurred until notification has been received that the virement has been agreed and actioned.

7.5 There is separate rules in relation to the carrying forward of unspent budgets at year end. See section 9.

## 8. Accounting Processes and Records

- 8.1 The **Chief Finance Officer** is responsible for keeping the principal accounting records of the Council, which will be maintained on a central financial system. No other systems will be used for the keeping of accounting or other records relating to the Council's finances without prior agreement by the **Chief Finance Officer**. This ensures that the Council maintains proper accounting records and demonstrates the stewardship of public resources.
- 8.2 The **Chief Finance Officer** in conjunction with **Service Directors** will ensure that all feeder systems and processes to the principal accounting records of the Council are fully documented with **Officers** trained in their operation. Such systems and processes will incorporate the necessary controls to ensure that the data used to update the principal accounting records is complete, accurate, timely and not duplicated.
- 8.3 **All Officers** must consult the **Chief Finance Officer** before introducing or amending any book, form, record, administrative procedure or system used for the keeping of accounting or other records relating to the finances of the Council and should act on any advice given.
- 8.4 **Budget Managers** are responsible for ensuring that feeder accounting systems and processes include the following. The **Chief Finance Officer** is responsible for ensuring that this is the case, and ensuring that this is in place for the central financial system.
- Transactions, material commitments and other essential accounting information are recorded completely, accurately and on a timely basis.
  - Separation of duties, which means that different individuals carry out the following tasks:
    - Providing information about sums due to or from the authority and calculating, checking and recording these sums
    - Collecting or disbursing these amounts
    - Examining or checking the accounts of cash transactions
  - Maintain adequate records to provide an audit trail leading from the source of income/ expenditure through to the accounting statements.
  - Regular reconciliations to ensure the integrity of embedded systems to ensure transactions are correctly recorded.
  - Secure and safe storage (including backup) of data and records.
  - Procedures are in place to enable accounting records to be reconstituted in the event of a systems failure.
- 8.5 Expenditure must only be authorised by appropriate **Officers**. **Budget Managers** and **Service Directors** should provide details of authorised signatories. The **Chief Finance Officer** will ensure that there is a system in place for recording these authorisations, and ensuring compliance.
- 8.6 For specific grants, **Budget Managers** are responsible for ensuring that grant claims are submitted by the due date. Where the receipt of any money is linked to the submission of the grant claim then the claim should be submitted as soon as possible. If the grant claim requires sign off by the **Chief Finance Officer** (or another individual e.g. the Chief Internal Auditor) then the **Budget Manager** should provide sufficient time and information to enable this sign-off to happen. The Budget Manager must contact the Chief Finance Officer to put in place arrangements for this sign-off as soon as possible.

For any general grants and contributions, the **Chief Finance Officer** will ensure that claims are submitted by the due date.

- 8.7 All **Officers** must ensure that financial records (both physical and electronic) are kept and destroyed in accordance with the data retention schedule and to comply with relevant legislation (e.g. Freedom of Information Act and Data Protection Regulations). **Service Directors** should ensure that systems are in place to facilitate this and that they are adhered to.
- 8.8 The **Managing Director** retains the right to authorise an extended retention period for a specific document or documents in the event of a query, investigation or any other requirement.

## 9. Annual Statement of Accounts

- 9.1 The **Chief Finance Officer** will ensure that the Council prepares its draft Statement of Accounts in accordance with accounting practices by proscribed dates. They will then sign off the draft accounts.
- 9.2 To enable this to happen, the **Chief Finance Officer** will prepare a timetable for the preparation of the statement of the accounts and communicate this to all relevant **Officers**, including **Budget Managers** and **Service Directors**. All **Officers** must comply with this timetable and provide the required information.
- 9.3 The Council must account for its spend on an accruals basis, which means that goods and services are accounted for in the year in which they are received or provided. For revenue projects or one-off items of expenditure this can lead to a mismatch between the year in which the budget is allocated and when the spend is incurred. **Budget Managers** can make a request for a carry forward of unspent budget. This will only be granted where there is a clear link between the budget and a particular project or one-off item of spend, and it can be shown that the project or one-off item has been delayed between years. All requests will initially be reviewed by **Accountancy Services**, and will require approval by **Cabinet**.
- 9.4 The **Chief Finance Officer** will select suitable accounting policies and ensure that they are applied consistently. **All Officers** are required to apply accounting policies, when requested by **Accountancy Services** or the **Chief Finance Officer**.
- 9.5 The **Chief Finance Officer** will make proper arrangements for the audit of the Council's accounts.
- 9.6 Once audited, the **Finance, Audit and Risk Committee** is responsible for approving the Statement of Accounts. The accounts are also signed off by the **Chief Finance Officer** to confirm that they provide a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March.

## **10. Reserves and Balances**

- 10.1 The Council must decide on an appropriate level of General Fund reserve before it can set the level of Council Tax. This should enable the Council to provide for unexpected events should they occur. The **Chief Finance Officer** will advise **Cabinet** and **Full Council** on the appropriate level of this reserve based on guidance, Codes of Practice and advice from the external auditor.
- 10.2 The Council can also set aside funds in specific reserves. When the reserves are created they should have a clear purpose, and then only be used for that purpose in terms of adding to and spending from the reserve. **Budget Holders** and **Service Directors** should make requests for the creation of specific reserves to the **Chief Finance Officer**. The creation and movements in reserves need to be formally approved by **Full Council**, which is incorporated in to Revenue Budget Outturn report.



## 11. Risk Management and Insurance

- 11.1 Risk management is the management of business risk in a manner consistent with the virtues of economy, efficiency and effectiveness. In essence, it is about making the most of opportunities and achieving objectives once those decisions are made. It is about being risk aware, not risk averse. It is important to have a system in place that allows risks and opportunities to be identified and evaluated. This should mean those that know most about the service area are the ones that are carrying out the risk assessments, which means that **All Officers** need to be engaged in it. The **Chief Finance Officer** will ensure that a risk management system is in place and operating effectively.
- 11.2 The **Risk Management Group** seeks to focus and co-ordinate risk management activities throughout the Council to facilitate the identification, evaluation and management of all key risks. The group comprises of the **Service Director-Resources**, the Performance and Risk Officer, the Controls, Risk and Performance Manager, key Service representatives, the **Health and Safety Officer**, the Shared Insurance Manager, the SIAS Client Audit Manager, the **Executive Member for Finance and IT** and a standing invite for any member of the **Finance, Audit and Risk Committee** that wishes to attend.
- 11.3 The Council's Risk Management Framework aims to ensure that for each Council function, activity, operation or service the level of risk is known, recorded, monitored and mitigated. In each case, a conscious decision must be taken on how to manage that risk whether through controlling it, transferring it or living with it. The Framework is updated on an annual basis. It is initially reviewed by the **Risk Management Group** which proposes a version to the **Leadership Team**. Once agreed by the **Leadership Team** it is referred on to the **Finance, Audit and Risk Committee**. The Committee make any recommendations they feel appropriate before it is formally adopted by **Cabinet**.
- 11.4 The **Cabinet** is also responsible for reviewing the effectiveness of the Council's risk management and ensuring that proper insurance exists where appropriate. There are quarterly updates on risk management that follow the following route: **Risk Management Group, Leadership Team, Finance, Audit and Risk Committee** and **Cabinet**. The annual risk report is also referred on to **Full Council**. **Cabinet** will also be updated on major changes to risks as soon as possible, even if this is outside the quarterly reporting cycle. These risk reports will focus on what have been determined to be Key Risks.
- 11.5 The **Service Director- Resources** will ensure that the above reports are produced. They will also ensure that all **Officers** and **Members** are provided with advice on risk as required.
- 11.6 The **Leadership Team** are responsible for ensuring that there is a risk aware culture throughout the Council, cross-cutting risks are identified and analysed, and determining the Council's risk appetite and priorities for action.
- 11.7 **Service Directors** are responsible for ensuring that there is effective risk management within their service area. This includes the risks in relation to elements of the service that have been contracted out and this may require that joint risk reviews are carried out with partners. **Service Directors** are also required to provide an annual assurance statement, at the end of each financial year, of the adequacy of the internal control environment within their service.

- 11.8 The **Shared Internal Audit Service** also plays an important role in Risk Management. The audits they carry out will focus on areas of risk and make recommendations on areas of improvement. They will also carry out regular reviews of the general Risk Management processes that operate in the Council.
- 11.9 Certain risks can be transferred or mitigated through insurance cover. The Council can also protect itself by ensuring that its suppliers and contractors have the appropriate level of insurance. The Council receives its insurance advice through the **Insurance Team** at Hertfordshire County Council (HCC). This arrangement is managed by the **Service Director- Resources**. In general insurance queries should be made directly to HCC.
- 11.10 The **Service Director- Resources** will ensure that the following happen (in general through the **Insurance Team**):
- Arrangement of insurance cover for all risks that are not self-insured. This includes making recommendations on levels of excess. Any significant changes in excess level will be referred to **Cabinet** for approval. **Service Directors** must ensure that the **Insurance Team** are aware of any new risks or assets that should be considered for insurance, as well as any changes to existing risks or assets. This should be done as soon as possible, but the **Insurance Team** will also arrange an annual review with each **Service Director**. The **Insurance Team** will maintain a record of all policies that are in place.
  - Settling insurance claims. **Service Directors** must ensure that the **Insurance Team** is notified of any loss, liability, damage or other event likely to lead to a claim. In instances which suggest that criminal proceedings may be instigated, the **Chief Finance Officer**, **Monitoring Officer** and the **Shared Internal Audit Service** must also be informed. **Service Directors** (or any other **Officer** involved) must respond to any information requested by the **Insurance Team**.
- 11.11 **All Officers** must consult the **Insurance Team** and **Service Director- Legal and Community** on any terms of indemnity that the Council is requested to give.
- 11.12 All suppliers of goods and services to the Council must hold public / products and employers liability insurance cover. Where the Council is seeking professional advice and guidance, professional indemnity insurance is also required. **Service Directors** must ensure that this is stipulated in the specification for the goods or services to be acquired, with the amounts in line with those advised by the **Insurance Team**. **Service Directors** must ensure that the cover is maintained for the duration of the contract and up to date certificates are obtained as evidence. Valid certificates should be uploaded to the Council's E-Tendering system.
- 11.13 All employees of the Council are included in suitable fidelity guarantee insurance. For cover under this policy to apply, two suitable written references must be obtained for all new employees. This can be reduced to one reference from an existing employer if the individual has held their existing job for at least three consecutive years. **All Managers** must ensure that suitable references are obtained for all new starters.

## 12. Assets and Security

12.1 It is important that the Council is aware of what assets it has and the procedures in place to secure those assets.

12.2 **Service Directors** are responsible for maintaining proper security and safeguarding of all buildings, stocks, stores, furniture, plant, equipment, machinery, cash, etc. under their control. This should include contingency plans for the security of assets and continuity of service in the event of disaster or system failure. Any new arrangements (or changes to existing arrangements) should be discussed and agreed by the **Service Director- Resources**. There are specific general requirements in relation to the holding of cash, which are:

- The amount of cash held should be kept to a minimum. Limits will be agreed on how much cash can be held (dependent on where it is stored e.g. safe, locked drawer) and **Officers** should not exceed these.
- **Officers** who collect cash on behalf of the Council must take all reasonable precautions to ensure its safe custody, including following any specific agreed arrangements.

12.3 **Service Directors** are responsible for the maintenance and update of a register of keys for external doors, safes, cash boxes and other secure items. The register should show the list of key holders and an out-of-hours contact number. The register must be kept securely and must not be accessible to unauthorised individuals. All keys must either be with the designated key holder at all times or held in a secure place. Security keys of safes, cash boxes and key cupboards, should not be left on site when the premises are unoccupied by Council Officers, unless expressly approved by **Service Director- Resources**. The loss of any keys that could result in a risk of damage to or loss of property must be reported to the **Service Director – Resources** as soon as their loss is noticed.

12.4 The **Service Director- Resources** will maintain an inventory of office furniture such as desks, chairs and other significant items... Where practical all assets will also be marked as belonging to the Council.

12.5 The **Service Director- Commercial** will maintain a complete inventory of all land and property owned or leased by the Council. The record must include details of the following:

- the purpose for which the land is currently held
- extent and exact plan reference
- purchase details (for acquisitions and where possible for others)
- details of the interest in the property (e.g. freehold, leasehold)
- rents that are payable or receivable, and details of tenancies.

They are also responsible (in conjunction with the **Service Director- Resources**) for the stewardship of the land and property assets. This means ensuring that they are kept in an appropriate condition, with regular condition and compliance surveys. The extent of utilisation (e.g. determining under use) and suitability for use should also be kept under review. The **Service Director- Commercial** will be responsible for any land or property asset that is declared surplus.

12.6 **Service Directors** should maintain a record of all other assets under their control. Appropriate entries must be made at the time of purchase and disposal. They

should ensure that an annual check (or more regularly if appropriate) of all items on the inventory with a purchase value in excess of £1,000 is carried out. These checks should be carried out by someone that is not responsible for the day to day management of these items (if applicable). The **Chief Finance Officer** should be notified of any deficiencies that are found during these annual checks.

12.7 For significant stocks or stores of lower value items (i.e. where the total value is greater than £100) there will also be a need to maintain a record. **Service Directors** should ensure that this record is maintained. The requirements in 12.6 should be followed, with the following variations:

- An annual check (stock take) should be carried on (or close to) the 31<sup>st</sup> March. Additional checks during the year should also be carried out if required.
- Advice from **Accountancy Services** should be sought on how to value the stocks or stores
- Small variations in the number of items do not need to be notified to the **Chief Finance Officer**, unless this highlights concerns over the security of the stock.

12.8 Where assets are no longer required then the relevant **Service Director** should ensure the following process is followed:

- Check with other service areas to see if they have a use for the asset.
- Before disposal, ensure that the asset is owned by the Council.
- For leased assets, ensure any disposal is agreed with the lessor.
- Where the estimated value is less than £2,500, the **Chief Finance Officer** should be notified.
- Where the estimated value is greater than £2,500, approval must be sought be from the **Chief Finance Officer**.
- If the value is estimated to be more than £5,000 then unless it can be justified that an alternative method would provide better value (as agreed by the Chief Finance Officer), the disposal must be via a public auction (except land assets which are covered by the Contract Procurement Rules).
- Income will be accounted for as corporate income (i.e. not service specific income).

12.9 **All Officers** and **Councillors** should note that Council assets should only be used for legitimate Council business. They should only be removed from Council premises in line with the ordinary business of the Council. Any variations to this must be agreed by the relevant **Service Director**.

12.10 **All Officers** receiving visitors are responsible for ensuring that their visitor is signed in and wears the appropriate visitor's badge at all times. They must also ensure that visitors are adequately supervised during their visit, do not have access to confidential Council information and that the security of Council assets is maintained.

12.11 The **Service Director- Customers** must ensure adequate arrangements for maintaining proper security and privacy of computer held information and for ensuring compliance with the Data Protection Act, the Freedom of Information Act and any other relevant legislation. All **Officers** and **Councillors** must adhere to guidance issued.

12.12 All **Officers** and **Councillors** finding lost property on Council premises should pass it to **Property Services**. They will keep an inventory of such items and

ensure their safe keeping. **Officers** and **Councillors** should not accept property for safekeeping by their owner.

- 12.13 If there is a need for moveable private property to be taken into Council custody, an itemised inventory must be prepared by the **Officer** taking possession. Where practicable, the inventory must describe the condition of the property. The relevant entries should be witnessed by two **Officers** and, where known, the owner of the property. The inventory record of these items must be included within the normal inventory maintained by the appropriate **Service Manager**.

### 13. Treasury Management and Banking

- 13.1 The **Chief Finance Officer** will ensure that all Council borrowings and investments are conducted in accordance with regulations, guidance and the Council's adopted Treasury Management Strategy. All decisions in respect of borrowing, investment or financing (that comply with the above) are delegated to the **Chief Finance Officer** (or through sub-delegation to an appropriate **Officer** in **Accountancy Services**).
- 13.2 The **Chief Finance Officer** must prepare an annual Treasury Management Strategy for approval by **Full Council** (February). The strategy will cover borrowing, investment and management of cash flow, approved methods of raising finance and approved sources of borrowing. The **Chief Finance Officer** will also provide an annual review to **Full Council** (July), as well as quarterly reports to **Cabinet**.
- 13.3 The **Chief Finance Officer** will ensure that:
- All borrowings are in the name of the Council.
  - Records are maintained of all monies borrowed by the Council.
  - All trust funds will, wherever possible, be in the name of the Council.
  - All Officers who act as trustees by virtue of their official position, must deposit all securities relating to a trust with the **Service Director- Legal and Community** unless the deed requires otherwise.
  - All securities which are the property of, or are in the name of the Council, or its nominees and title deeds of all property in its ownership or mortgaged to the Council, must be held in the custody of the **Service Director- Legal and Community** and a copy of all such securities shall be held off site.
- 13.4 The **Chief Finance Officer** is responsible for all banking arrangements. No other **Officer** is authorised to open or operate a bank account on the Council's behalf. **Cabinet** will approve the Council's bankers and the accounts used.
- 13.5 The **Chief Finance Officer** is responsible for the ordering and control of all cheques. They will make sufficient arrangements for the safe custody of blank cheques and the control and reconciliation of those issued. Cheques on the Council's main bank accounts will be stored securely by **Accountancy Services** and may only be signed by **Officers** specifically authorised by the **Chief Finance Officer**. The **Chief Finance Officer** will ensure that the Council's bankers are kept informed of authorised signatories.
- 13.6 Only **Officers** authorised by the **Chief Finance Officer** can certify alterations to cheques. Cheques should only be altered where the value is less than £1,000 and the alterations are limited to the removal of a crossing, to the correction of the date, and the correction of a misspelling of the name of the payee. Where an error has been identified on a cheque valued at more than £1,000, the cheque must be replaced.
- 13.7 Cheques for all payments exceeding £1,000 must be counter-signed by one of the employees authorised to do so.
- 13.8 The **Chief Finance Officer** is responsible for ensuring that a monthly reconciliation between the Council's bank account and its income and expenditure records is performed.

## 14. Internal Control, Audit and Fraud Prevention

- 14.1 Internal control refers to the systems of control devised by management to help ensure the Council's objectives are achieved in a manner which promotes economical, efficient and effective use of resources and that the Council's assets and interests are safeguarded.
- 14.2 The **Chief Finance Officer** is responsible for advising on effective systems of internal control, that are compliant with applicable statutes, regulations, and best practice. This includes the provision of a continuous Internal Audit function.
- 14.3 The Council's Internal Audit function is provided by the Shared Internal Audit Service (SIAS), which is hosted by Hertfordshire County Council. They provide assurance to the Council that:
- Internal controls are sound, adequate and appropriately applied
  - Assets and interests are safeguarded against losses arising from inefficient management, poor value for money, waste, theft, fraud, or any other cause
  - Financial and other management data is suitable and reliable
  - Rules, regulations, legislation, policy and procedures are being followed
  - Risk management action is appropriately applied.
- 14.4 To assist them in their work, the **Chief Finance Officer** and any approved representative(s) have authority to:
- Enter at all reasonable times any Council premises or land, subject to any statutory or contractual restrictions that might apply;
  - Access all records, documents, correspondence and data relating to the business of the Council, including those of a contractor acting on the Council's behalf and to remove any such records as is necessary for the purpose of their work;
  - Require and receive such explanations from any **Officer, Councillor** or contractor acting as an employee of the Council as are necessary concerning any matter under examination;
  - Require any **Officer** to produce cash, stocks or any other Council property under their control; and
  - Have direct access to the **Managing Director, Monitoring Officer** and the **Chairs** of the **Overview & Scrutiny Committee** and the **Finance, Audit & Risk Committee**.
- 14.5 The **Chief Internal Auditor** (in consultation with members of the **Leadership Team** and the External Auditor) is responsible for the preparation and maintenance of an annual risk-based audit plan. In practice this plan is produced by the SIAS Client Audit Manager. This plan is reviewed by the **Chief Finance Officer** and contains details of the work to be undertaken in a financial year and includes a contingency for unseen responsive work. The plan is approved by the **Finance, Audit and Risk Committee**.
- 14.6 The **Chief Internal Auditor** is responsible for planning ahead and documenting as many known risks to the Council as possible. This is achieved by maintaining a document which details all auditable areas across the Council along with any relevant risk information. This document is formally updated as part of the annual planning process.
- 14.7 The Shared Internal Audit Service will issue audit reports as a result of work they undertake. These will include an assessment of current control levels and

recommendations for improvements (including a prioritisation). The relevant **Officer** must respond to draft audit reports detailing the actions they will take in response to the recommendations made. This response should be as soon as possible, and in all cases within four weeks. Any failure to do this will be reported to the **Chief Finance Officer** and, where relevant, to the **Finance Audit and Risk Committee**.

14.8 All **Officers** are required to carry out the actions that they have agreed to in an audit report. The actions should be carried out in accordance with the agreed deadline.

14.9 The **Chief Finance Officer** will ensure that the **Leadership Team** receive regular reports on the progress against high and medium priority recommendations.

14.10 The **Chief Internal Auditor** will ensure the provision of quarterly updates to the **Finance, Audit and Risk Committee** that cover:

- Progress against the plan and agreed key performance indicators
- Audits completed during the previous period and any high or critical priority recommendations
- The status of current and previous high priority recommendations
- Any other matters that they wish to bring to the attention of the Committee.

14.11 The Council's Anti-Fraud function is provided by the Shared Anti-Fraud Service (SAFS), which is hosted by Hertfordshire County Council. They provide the following services and support:

- Support in developing controls to prevent fraud
- Advice and training for Officers on fraud awareness, prevention and detection
- Use of data from various sources to identify potential fraud
- Processes for reporting fraud, for Officers and the public
- Fraud investigation
- Money Laundering Reporting Officer

14.12 To assist them in their work, the **Chief Finance Officer** and any approved representative(s) have authority to:

- Enter at all reasonable times any Council premises or land, subject to any statutory or contractual restrictions that might apply;
- Access all records, documents, correspondence and data relating to the business of the Council, including those of a contractor acting on the Council's behalf and to remove any such records as is necessary for the purpose of their work;
- Require and receive such explanations from any **Officer**, **Councillor** or contractor acting as an employee of the Council as are necessary concerning any matter under examination;
- Require any **Officer** to produce cash, stocks or any other Council property under their control; and
- Have direct access to the **Managing Director**, **Monitoring Officer** and the **Chairs** of the **Overview & Scrutiny Committee** and the **Finance, Audit & Risk Committee**.

14.13 The **Heads of SAFS** is responsible for the preparation and maintenance of an annual risk-based anti-fraud plan. This plan is reviewed by the **Chief Finance Officer** and the **Service Director Customers** and contains details of the work to be undertaken in a financial year. The plan is approved by the **Finance, Audit and Risk Committee**.

14.14 The **Head of SAFS** will provide regular updates to the **Finance, Audit and Risk Committee** that cover:

- Progress against the plan and agreed key performance indicators
- Examples of fraud that has been detected or investigated



- Any other matters that they wish to bring to the attention of the Committee.

14.15 The **Chief Finance Officer** will ensure that appropriate actions (including required approval) are undertaken in respect of the appointment of External Auditors.

14.16 The **Leadership Team** are responsible for the development and maintenance of anti-fraud, anti-corruption and anti bribery policies. All **Officers** should read and understand these policies.

## 15. Income

15.1 It is important that the Council has processes in place to ensure that it collects income as efficiently as possible. This should ensure that it is identified, collected, receipted and banked properly.

15.2 **Service Directors** are responsible for designing the systems for income collection. These systems should be in accordance with the following, and agreed by the **Chief Finance Officer**:

### **Calculation of charges**

- Charges should be set in accordance with legislation and accurately calculated (**Accountancy Services** can provide support with this)
- Charging policies should be reviewed regularly, usually annually
- There should be a separation in duties between the **Officer** calculating the amount due and the **Officer** receiving the payment
- Ensure that VAT is charged as appropriate. If fees are published on the Website, the VAT code should be made clear to the customer, along with the rate at which VAT will be charged if applicable. (**Accountancy Services** can provide advice on this)

### **Collection of income**

- Where possible income should be collected in advance of supplying goods or services
- Sundry invoices should only be raised for amounts exceeding £50. Under this amount payment by debit or credit card should be sought, although payment by cheque can be accepted. Exceptions to this £50 limit must be approved by the **Chief Finance Officer**
- Sundry invoices should be raised within 5 days of the provision of the goods or service. The invoice should clearly state the date of the supply.
- All payments received by cash or cheque should be banked promptly
- Cash should be banked without deduction and must not be used for expenditure, to create or supplement floats or petty cash accounts or to enable the cashing of personal cheques
- To ensure that third party cheques are not accepted in payment for goods or services provided by the Council.
- To ensure that all paying-in slips show a reference to the related debt (such as the receipt number or the name of the debtor) or the origin of the cheque. The name of the relevant Service Area or a reference to the related debt must be written or printed on the reverse of each cheque.
- To ensure income collected on behalf of a third party whether for commission or not, is receipted and banked in the same way as the Council's own money. Payment of any amount due to a third party must be made once the account has been checked and the balances agreed.

### **Records**

- The correct stationery should be used. For raising sundry invoices this is the Council's Financial Management System. Sufficient information needs to be provided to enable the recording and collection of the amount owed.
- Invoices should not be raised after income has been received. A tax receipt can be sent, if requested by the customer
- If requested, to ensure sums received are acknowledged immediately by the issue of an official receipt, ticket, voucher or other document

prescribed by the **Chief Finance Officer**. To hold securely receipts, tickets and other records of income, for the appropriate period stated in the Retention Schedule.

- To order and control all receipt forms, books, tickets and other such items relating to the service. To maintain a register of issues, returns and destructions.

#### **Non-payment**

- Should use established performance management systems to monitor recovery of income and flag up areas of concern to the **Chief Finance Officer**.
- To assist the **Chief Finance Officer** in collecting debts by providing any further information requested by the debtor, and in pursuing the matter on the authority's behalf.
- Where appropriate seek approval for debt cancellation or write-off (see sections below)
- Unless mitigating factors are identified, service provision should be cancelled where debts are not paid in accordance with standard payment terms

#### **Refunds**

- Where a refund to the customer is due, seek advice from **Accountancy Services** on the appropriate procedure

15.3 The **Service Director- Customers** has overall responsibility for the collection of all income due to the Council. They will determine whether to institute distress and court proceedings for the recovery of outstanding monies due to the Council.

15.4 Debts can only be cancelled via credit note where they have been raised in error. The approval levels for cancelling debts are:

Up to £5,000	<b>Service Director</b>
£5,000 and above	<b>Service Director- Customers</b> , in consultation with the relevant <b>Service Director</b>

15.5 Debts can be written off where they have been raised correctly, have not been paid and it is determined that there is no prospect of collecting the amount owed. The Council sometimes has small negative balances on customer accounts (e.g overpayments) where it is not practical to return these amounts, then they will be written off. These write offs will be approved by the Chief Finance Officer. The approval levels for writing off debts are:

Up to £500	<b>Budget Holder</b> , in consultation with the relevant <b>Service Director</b>
£500 to £5,000	<b>Service Director</b> with responsibility for Revenues
£5,000.01 to £10,000	<b>Service Director- Customers</b> in consultation with the <b>Executive Member for Finance and IT</b>
Above £10,000	<b>Cabinet</b>

The **Service Director- Customers** will also approve the write off of all debts where the debtor is declared bankrupt, is in liquidation or subject to an Individual Voluntary Arrangement, and where the debtor is deceased and there are insufficient funds in the estate to repay the debt

15.6 The **Chief Finance Officer** will ensure that the appropriate accounting adjustments are made following a debt write-off or cancellation.

15.7 The **Chief Finance Officer** will ensure that all **Service Directors** are provided with details of outstanding debts for their service.

## 16. Ordering and paying for goods and services

- 16.1 This section should be read in conjunction with the Contract Procurement Rules.
- 16.2 **All Officers** must declare any links or personal interests which they may have with purchasers, suppliers or contractors if they are engaged in contractual or purchasing decisions on behalf of the council in accordance with the conflicts of interest policy. **Service Directors** should ensure that these forms are completed.
- 16.3 All orders must be appropriately raised and approved in accordance with authorised signatory limits and delegations. **Service Directors** should ensure that **Accountancy Services** are provided with details of authorised Officers including limits and specimen signatures. The **Chief Finance Officer** will ensure that the list of authorised signatories is maintained.
- 16.4 **All Officers** should raise and authorise orders promptly as the supplier should not provide works, goods or services until they have received the official order.

### Raising Orders

- 16.5 **Budget holders** should ensure that official orders are raised in advance of receipt of works, goods or services. The order should detail exactly what is being supplied and the price to be paid (or estimated price). This is to ensure that there is a mutual understanding between the Council and the supplier. The only exceptions to this are:
- Supplies of utilities, advertising, periodic payments such as rent or rates, petty cash purchases and purchase card purchases
  - Where a signed agreement or contract detailing the exact works, goods or services to be provided exists between the Council and the supplier, the order can be shortened to only include a brief description of the project and the total contract value
  - Exceptions agreed by the **Chief Finance Officer**
  - Verbal orders may only be issued in situations of true urgency, as authorised by the **Chief Finance Officer** and must be confirmed by an official order within two working days.
- 16.6 The **Chief Finance Officer** will determine (in consultation with the **Service Director- Legal and Community**) the format of official orders, and this will include standard terms and conditions. Orders will be raised on the Council's Financial Management System which will ensure that it is recorded against the right budget and VAT is accounted for correctly. **Officers** must only agree variations to the standard terms and conditions with prior approval from the **Chief Finance Officer**.
- 16.7 **All Officers** should ensure that official orders are not used for private or personal purchases. Council contracts also must not be used for personal purchases.
- 16.8 Where the Council has entered a contract with a supplier for goods or services the contract must be used and orders for the provision of goods and services in that contract must not be placed with other suppliers. For example, stationery should only be purchased through the stationery contract. Other suppliers may be used if the contracted supplier is unable to provide the goods and services required.

- 16.9 Where there are Council rules on how certain supplies should be obtained then these should be followed. For example, IT hardware and software should only be purchased with approval from the **Service Director- Customers**.
- 16.10 **Service Directors** should ensure that loans, leasing or rental arrangements are not entered into without prior agreement from the **Chief Finance Officer**. This is to protect the Council from entering into unapproved credit arrangements and to ensure value for money is being obtained.
- 16.11 For construction contracts (including alterations to buildings and civil engineering works), **Service Directors** must ensure that there are agreed systems and procedures in place for financial aspects including certification of interim/final payments, checking, recording and authorising payments, controlling capital schemes and for validating sub contractor's tax status. The various systems and procedures need to be documented and agreed with the **Chief Finance Officer**.
- 16.12 Orders must not be split or disaggregated to get them below limits (e.g. in relation to authorisation or procurement).

### **Authorising Orders**

- 16.13 The **Officer** authorising the order is confirming the following:
- The goods or services are appropriate and needed
  - There is adequate budgetary provision (the Financial Management System will provide a warning that there is insufficient budget, but will not prevent orders being raised)
  - Quotations and tenders have been obtained in line with the Contract Procurement rules
- 16.14 A variation to works or construction contracts must be accompanied by a variation order, which contains details of the variation and is signed in manuscript by an authorised officer. Variations may only be authorised if sufficient budget provision exists.

### **Goods Receipting Orders**

- 16.15 Officers are required to record goods or services have been received by raising an official goods receipt on the Financial Management System. By recording the goods receipt against the order, Officers are confirming that a payment of that value can be made to the Supplier. Goods or services should be recorded as received as soon as possible after receipt from the Supplier.

### **Certification for Payment**

- 16.16 **Officers** are required to certify invoices as soon as possible. Arrangements should be made for a substitute during periods of leave (especially extended leave). This is to ensure that the Council does not incur penalties for late payment.
- 16.17 The **Officer** certifying an invoice for payment must check the following:
- The ordering process has been followed
  - The works, goods or services have been received and confirmed to be of appropriate standard and quality
  - The invoice is attached to the transaction, is VAT compliant (if applicable), has been calculated correctly and any discounts and credits have been applied
  - The relevant expenditure has been properly incurred and is within the

relevant budget provision

Any variation to the original order value is justified.

- The invoice is correctly coded and that appropriate entries will be made in accounting records. It is not necessary to code the invoice when an order has been raised.
- Appropriate entries have been made in inventories, stores records or stock books as required
- The account has not been previously passed for payment and is a proper liability of the Council.
- Extra care should be taken with invoices that are marked as being a copy or have been copied. Payment will only be made on copy invoices if they are endorsed with a statement saying that the invoice has not already been passed for payment and that the expenditure incurred has been approved.
- The invoice submitted is an official supplier invoice (e.g. not a statement, reminder letter or other document). Limited exceptions to this requirement include periodic recurring payments, contract payments and any other exceptions specifically approved by the **Chief Finance Officer**
- Any other instructions provided by the **Chief Finance Officer**

16.18 Payments for Works should be based on the certificate of works that has been approved by the appropriate **Service Director**, which must include details of the value of work, retention money, amounts previously certified and amounts now certified within authorised limits.

### **Payment**

16.19 In general invoice payments are made via electronic bank transfer. Manual cheques can be used for emergency payments. Reasons for an emergency payment are that the delay would cause hardship to the individual, would result in the suspension of essential services or any other reason agreed by the **Chief Finance Officer**. In all cases, the officer requesting the cheque must document the reason for urgency on or attached to the invoice.

16.20 It is possible to pay invoices via purchasing card, but this should only be used for invoices that do not require an order.

16.21 Payment in advance and/ or without an invoice should be avoided. Where it is required an order should still be raised. For payments without an invoice, an official payment requisition form must be entered and authorised using the Council's Financial Management System. The Payment Requisition form should be uploaded to the system and attached to the transaction.

16.22 The **Chief Finance Officer** will ensure that payment is made for all correctly authorised invoices that are in accordance with these financial regulations. **All Officers** should immediately notify the **Chief Finance Officer** of any expenditure to be incurred as a result of statute/court order where there is no budgetary provision. Where payment is specifically required by statute or is made under a court order, this will be processed even if there is no budgetary provision.

16.23 Direct Debit (DD) mandates can only be authorised by those officers who are authorised bank signatories for that purpose, as determined by the **Chief Finance Officer**.

16.24 All BACS payments must be approved for payment via the Council's BACS processing software, by an officer who is authorised to do so on the authorised signatory listing.

## **General**

- 16.25 The **Chief Finance Officer** will ensure that there are processes in place to monitor compliance with these regulations and the Contract Procurement Rules. Any non-compliance will be reported to the relevant **Service Director**.
- 16.26 Where possible, **Service Directors** should ensure that there is separation of duties in respect of activities involving payments. There should be at least two authorised officers involved in ordering, receiving and authorising goods, services and works for payment. In all instances the officer authorising the invoice should be different from the officer who goods receipted the order. Where practicable, a different officer from the one who approved the order should authorise the invoice.

## **Purchase Cards**

- 16.27 Purchase cards will be authorised for certain officers, with an individual transaction threshold specific to the card holder. Purchase cards are generally suitable for low value transactions enabling the Council to shorten the purchase to pay cycle and reduce processing costs. Purchase orders are not required for purchase card transactions.
- 16.28 Where corporate contracts are in place, purchase cards should not be used to access alternative suppliers.
- 16.29 Purchase card transactions must be reviewed by the Cardholder within five working days, and receipts uploaded using the online Purchase Card system. Electronic approval of transactions must be carried out by an authorised officer within five working days and must only be completed once receipts have been viewed. All purchase card arrangements and their issue are permitted only on the approval of the **Chief Finance Officer**.

## 17. Petty Cash Accounts and Change Floats

- 17.1 The **Chief Finance Officer** will provide a petty cash account to cover incidental office expenses, if the requirement cannot be satisfied by using a purchase card. Petty cash will be issued on receipt of the appropriate application form for use by the petty cash account holder. The maximum limit for transactions is £10 (incl. VAT). A change float can also be provided if required.
- 17.2 The Officer responsible for the petty cash account/ change float should ensure that:
- The account is kept in credit
  - The cash is stored securely
  - Wherever possible a VAT receipt must be obtained for items of expenditure. Receipted vouchers, signed by the recipient of the reimbursement must support all expenditure.
  - Adequate records to support expenditure are kept in a form approved by the **Chief Finance Officer** to support expenditure. If requested, a certificate as to the state of the account must be provided to the **Chief Finance Officer**.
  - Income received by the Council must not be paid in to a petty cash account. • Should not be used for postage (stamps), unless approved by the **Chief Finance Officer**. Stamps must not be sold to Officers or members of the public.
  - Carry out, with another officer, regular checks on the balance of the account or float. A record of such checks should be signed by both officers and maintained.
- 17.3 The relevant **Service Director** should ensure that the above happens, and also ensures that there is a periodic (not less than every six months) check by an Officer who is not directly responsible for the operation of the account. There should also be a check if the Officer responsible for the petty cash account/ change float leaves the employment of the Council. Any balances should either be paid back to the main Council account or the account transferred to another Officer.
- 17.4 The Officer responsible must agree the accuracy of the records and cash held with their Line Manager prior to the transfer of the account (either permanently or during a period of planned leave). A form should be completed by the Officer surrendering the Petty Cash/ Change float, declaring the value of cash to be transferred. The new Officer responsible should countersign the Declaration, confirming the amount of cash received. Once completed, the form should be sent to **Accountancy Services**.
- 17.5 **Service Directors** must notify the **Chief Finance Officer** of the cash balances held on any floats or petty cash accounts at the 31st March on a duly signed certificate for each float or account as soon as possible after the 31st March and not later than such date as agreed in the closure of accounts timetable in each year.



## 18. Peacetime civil major incidents and business continuity plans

- 18.1 As part of its emergency planning role, the Council is responsible for a range of activities in the event of a major incident being declared. These activities may require the ordering of works, goods or services. The procuring officers may have little or no advance notice, may not have access to the raise purchase orders and requirements may be above purchase card transaction limits. Therefore the 'reserved order facility' will be put in place.
- 18.2 The **Managing Director** is responsible for activating both the Council's Major Incident Plan and Service Business Continuity Plans. Once activated, any orders for the supply of works, goods or services need not be subject to the Council's Contract Procurement Rules. However, during this period the Council's Financial Regulations continue to apply.
- 18.3 The **Chief Finance Officer** will ensure that **Accountancy Services** operate in a resource allocation role, working closely with the **Managing Director** in order to advise on and monitor the costs incurred by the Council in response to the major incident. They will also maintain an overview of ordering systems and financial records relating to the incident. This will include authorising the format of temporary order forms and instructing on the financial coding structure to be used. They will also arrange for purchase card limits to be increased if required.
- 18.4 Officers instructed to order works, goods or services must:
- Maintain a record of all such orders and purchase card transactions
  - As soon as is practicable, transfer all temporary orders to the Council's official ordering system providing best estimate of the cost and coded as instructed by Accountancy Services
  - Ensure that where practicable, documentation is completed to indicate that the goods or services have been received and works undertaken
  - Ensure that an inventory of all remaining goods is compiled following completion of the emergency. The inventory should record what items are to be retained for future Council activities and what items are surplus to the Council's requirements and should be disposed of
  - Ensure that all surplus goods are disposed of at best consideration to the Council.
  - Report to the **Chief Finance Officer** so that actions listed above can be monitored.

## 19. Payments to Officers and Councillors

19.1 Officer costs are the largest item of expenditure for most council services. It is therefore important that payments are accurate, timely, made only where they are due for services to the authority and accord with an individual's conditions of employment. It is also important that all payments are accurately and completely recorded and accounted for, and that Members' allowances are authorised in accordance with the scheme adopted by **Full Council**.

19.2 The **Service Director- Resources** will ensure that:

- There is a system in place to ensure the timely, secure and reliable payment of salaries, wages, compensation, travel and subsistence claims, and other emoluments
- Ensure the accurate and timely payment and recording of tax, pension (superannuation) and other deductions. This will include the completion of any required return
- Ensure that payroll documents are kept, stored and deleted in line with the document retention policy
- To keep the Employee Handbook under review to ensure it refers to the most up to date policies. **All Officers** (including temporary staff) must adhere to the handbook and linked policies
- Agree the format of time recording and payroll documents, in conjunction with the **Chief Finance Officer**
- Arrange for the maintenance of a list of Officers authorised to approve claims, including authorisation levels. Ensure that Human Resources (HR) staff and the contractor providing payroll services have secure access to this information. At least annually seek confirmation that information contained in the list remains up-to-date. **Service Directors** should provide HR with updated information on changes of staff as they occur.

19.3 **Service Directors** should ensure that adequate and effective systems and procedures are operated, so that:

- payments are only authorised to bona fide employees;
- payments are only made where there is a valid entitlement;
- conditions and contracts of employment are correctly applied; and
- employees' names listed on the payroll are checked at regular intervals to verify accuracy and completeness.
- details of any employee benefits in kind are notified to Human Resources to enable full and complete reporting within the income tax self-assessment system

### Recruitment

19.4 **Service Directors** should ensure that appointments are made in accordance with the regulations of the Council and approved establishments, grades and scales of pay, and that adequate budget provision is available.

19.5 **Service Directors** should give careful consideration to the employment status of individuals employed as self-employed, under a sub-contract or through an intermediary. It may be necessary for the individual to be treated as employed and paid via payroll, with appropriate deductions. Managers should check using the online tool: <https://www.gov.uk/guidance/check-employment-status-for-tax> There may be penalties for the Council for incorrect treatment. In cases of doubt, advice should be sought from Human **Resources**.

## Notification of changes in employee circumstances

19.6 **Service Directors** must notify HR of the following. This should be done as soon as possible and in particular before the Officer leaves. It should be done using appropriate documentation or electronic systems:

- Appointments, resignations, dismissals, suspension, secondments and transfers of all staff including those of casual staff and consultants;
- Absences from duty for sickness or other reasons, apart from approved leave;
- Changes in remuneration, other than pay awards and other negotiated agreements which apply to staff generally;
- Information necessary to maintain records of service for superannuation, income tax, national insurance etc.;
- Untaken or excessive leave when officers leave the employment of the Council;
- Training expenses recoverable when officers leave the employment of the Council.

## Claiming expenses

19.7 Allowances will only be payable against actual expenditure incurred up to the maximum allowed under the current regulations. In exceptional circumstances the **Chief Finance Officer** may approve claims above the maximum usually allowable if it is considered that this is reasonable. Receipts should be obtained and submitted online with a claim. Where it is not possible to obtain a receipt, the claimant should list the items purchased, their cost and the supplier. Payment will then be made at the discretion of their Manager.

19.8 For home-working expenses (applicable to any Officer that works at home on a regular basis) these must be claimed at the rate set out in the employee handbook. They may be claimed on a monthly or annual basis. (subject to it being in the correct financial year, 1<sup>st</sup> April to 31<sup>st</sup> March). The payment of these expenses may be subject to income tax deductions in accordance with legislation.

19.9 Mileage will only be reimbursed if it is incurred whilst carrying out official Council duties. Mileage claims must be accompanied by a relevant VAT fuel receipt, which must be uploaded into the payroll system as evidence, in order to comply with current VAT regulations. Officers who use their private vehicle for Council business must have insurance that covers business travel and have complied with any vehicle document verification checks.

19.10 Officers travelling by rail should where practicable purchase their ticket in advance using the Council's purchase card, or via personal credit card and reclaim via the expenses process.

19.11 Reimbursement of professional subscription fees will only be made on submission of the invoice from the relevant professional body. Alternatively these may be settled by Purchase Card.

19.12 Payments will only be made to Officers and Members who are entitled to claim travelling or other allowances upon submission of a completed and authorised claim form (including electronic forms) as prescribed by the **Chief Finance Officer**.

19.13 Claims for expenditure incurred between April and December inclusive of any financial year must be submitted in the first three months of the final day of the claim period. For example, claims made for the period 1<sup>st</sup> to 30<sup>th</sup> April must be

submitted by 31st July. Claims for expenses submitted after these dates will be paid only with the express approval of the **Chief Finance Officer**.

19.14 Claims for expenditure incurred between January and March inclusive of a financial year must be submitted by 30<sup>th</sup> April.

19.15 The last day for submission of authorised online claims is the 5th of the month for each pay period (i.e. by 5th of April for April payroll). This date relates to the process of monthly payment and are not the deadlines referred to above. The last day for submission of authorised claims varies and exact dates are available on the Intranet.

#### **Authorising expense claims**

19.16 Officers who authorise a claim are confirming that they are satisfied that the journeys were authorised, the expenses properly and necessarily incurred and the allowances properly payable by the Council. Authorisation must be via the online system.

19.17 Officers must not authorise their own claims for payment. Claims should generally be authorised by the claimant's manager. The **Managing Director's** claims should be authorised by the **Chief Finance Officer**.

#### **Documentation authorisation**

19.18 Service Managers must provide Human Resources with the names of officers authorised to sign or authorise electronically payroll documents and details of limits of authority and must forward amendment details on the occasion of any change.

## 20. Taxation

20.1 The council is responsible for ensuring its tax affairs are in order. Tax issues are often very complex and the penalties for incorrectly accounting for tax are severe. It is therefore very important for all officers to be aware of their role.

20.2 **Accountancy Services** will provide **Budget Holders** with relevant information and ensure that they are kept up to date on tax issues that are relevant to their role. **Budget Holders** should use that information to:

- Ensure that the correct VAT liability is attached to all income due and that all VAT recoverable on purchases complies with HM Revenue and Customs regulations
- For construction and maintenance works, ensure that the contractor fulfils the necessary Construction Industry Tax Deduction requirements.  
For appointment of temporary workers, ensure that the relevant checks have been completed as to whether the worker falls within the scope of the IR35 rules.

**Service Directors** should ensure that the **Budget Holders** in their service comply with the above.

20.3 The **Chief Finance Officer** will ensure that:

- A monthly return of VAT inputs and outputs is provided to HM Revenue and Customs in the required format and within stipulated timescales.
- HM Revenue and Customs are provided with details regarding the Construction Industry Tax Deduction Scheme in the required format and within stipulated timescales.

## 21. Advice and Support

21.1 The table below shows contact details for Officers that can provide advice on various elements of these procedures:

Subject Area	Contact Officer(s)	Contact
General Advice and application of these regulations	Service Director, Resources  Accountancy Manager	Ext 4243  Ext 4566
Revenue Budget Setting and Budget Management  <i>Including virements accruals and carry-forwards</i>  Income- calculation of charges	Group Accountant- Place and Commercial Group Accountant- Customers and Regulatory  Assistant Accountant (Resources and Legal & Community)	Ext 4240  Ext 4332  Ext: 4374
Capital budget setting and budget management	Corporate Support Accountant	Ext 4509
Lease accounting	Group Accountant- Customer Services	Ext 4240
Risk management	Service Director, Resources	Ext 4243
Insurance	Insurance team at Hertfordshire County Council	<a href="mailto:Insurance@hertfordshire.gov.uk">Insurance@hertfordshire.gov.uk</a>
Treasury Management	Corporate Support Accountant	Ext 4509
Internal Audit	Shared Internal Audit Service  Service Director Resources	<a href="mailto:sias@hertfordshire.gov.uk">sias@hertfordshire.gov.uk</a>  Ext 4243
Income- processes for invoicing and receiving payment	Controls, Risk and Performance Manager	Ext 4606
Ordering and paying for goods and services	Controls, Risk and Performance Manager	Ext 4606
Purchase cards	Controls, Risk and Performance Manager	Ext 4606
Petty Cash	Controls, Risk and Performance Manager	Ext 4606
Recruitment and expenses	HR	<a href="mailto:Hrhelp@north-herts.gov.uk">Hrhelp@north-herts.gov.uk</a>
Taxation	Controls, Risk and Performance Manager	Ext 4606

<b>FINANCE, AUDIT AND RISK COMMITTEE</b> <b>15 SEPTEMBER 2021</b>
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<b>*PART 1 – PUBLIC DOCUMENT</b>
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**TITLE OF REPORT: FINANCIAL MANAGEMENT CODE AND BALANCE SHEET INSIGHT**

REPORT OF: *Service Director: Resources*

EXECUTIVE MEMBER: *Finance and IT*

COUNCIL PRIORITY: BE A MORE WELCOMING, INCLUSIVE AND EFFICIENT COUNCIL

**1. EXECUTIVE SUMMARY**

In October 2019, the Chartered Institute of Public Finance and Accountancy (CIPFA) published a Financial Management Code. The intention of the Code is that it supports Local Authorities in assessing how prepared they are to deal with financial pressures. An assessment was provided to this Committee in January 2020. Since then, CIPFA have published some guidance notes. This report updates the previous assessment to cover matters raised in the guidance note and changes that the Council has made since the last update. It also provides a summary of the Council's balance sheet which is one of the actions contained within the Code.

**2. RECOMMENDATIONS**

- 2.1. That the Committee note this report and comment on the actions arising from the review of the Financial Management Code.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1. To enable the Committee to assess how the Council is performing against the Financial Management Code, in line with their Terms of Reference.
- 3.2. To provide training to the Committee to help them understand the Council's Balance Sheet (as part of the Statement of Accounts).

**4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1. None. Whilst it may not be a requirement to adopt the Financial Management Code, it is good practice and is part of effective governance.

**5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1. The Council's Political Liaison Board is made up of Cabinet Members and the Officer Leadership Team. For the purposes of the Financial Management Code they are considered to be the Council's Leadership Team. As a result, the Political Liaison Board also receive updates on performance in relation to the Financial Management Code.

## **6. FORWARD PLAN**

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

## **7. BACKGROUND**

- 7.1 In October 2019 CIPFA (Chartered Institute of Public Finance and Accountancy) launched a Financial Management Code. In January 2020 the actions arising from this were presented to this Committee.
- 7.2 The Code developed in response to the financial pressures that Authorities face and the need for strong financial management to address those pressures. The intention is that a self-regulation approach will prevent any other Local Authorities 'failing'. This will then avoid any need for any external control or reductions in current powers.
- 7.3 The Code should be applied from 1 April 2020. As it relates to the financial management cycle this means that elements may not be fully implemented until 31 March 2021.

## **8. RELEVANT CONSIDERATIONS**

- 8.1 Since the last report was considered by this Committee, CIPFA have published some guidance notes. This report provides an update on the actions that were outstanding from the last time it was presented and any new considerations. The CIPFA guidance notes have helped to clarify the intentions of the Code. This assessment is attached at Appendix A. The table in the Appendix sets out the 17 standards contained within the Code, an assessment of the current situation and actions required to comply with the Code. The Code is not intended to be proscriptive, so the manner in which compliance is demonstrated will be proportionate to the circumstances of the Council.
- 8.2 The Committee will note that one of the actions is "to raise awareness of the various elements of the Council's balance sheet, what they mean and the potential impacts/risks". An explanation of the various elements is attached at Appendix B.
- 8.3 Whilst there is a role for the Chief Finance Officer (s151 Officer) to manage compliance with the Code, this is not something that should be done in isolation. Adherence to the Code is a joint responsibility of the Authority's Leadership Team- both Officers and Members. This Committee also has a role in monitoring and supporting adherence.

## **9. LEGAL IMPLICATIONS**

- 9.1. The Committee's Terms of Reference in paragraph 10.1.5 (d) of the Constitution include to "[a]ssist the Council and the Cabinet in the development of its Budget and Policy Framework process by in-depth analysis of policy issues pertaining to finance, audit and risk." The Committee therefore has a role in monitoring and supporting adherence to the Financial Management Code.
- 9.2. The Code does not have any specific statutory backing. However CIPFA reference that compliance with the code should be linked to s151 of the Local Government Act 1972 ("every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the



administration of those affairs”). They also place an obligation on their Members to adhere to the Code. Note that it is a legal requirement for the Council’s Chief Finance Officer (s151 Officer) to be a member of a specified accountancy body (s113 Local Government Act 1988).

## **10. FINANCIAL IMPLICATIONS**

- 10.1. *There are no specific financial implications arising from this report. Adherence to the Financial Management Code should support the Council in developing effective financial management.*

## **11. RISK IMPLICATIONS**

- 10.2. *There are no specific risk implications arising from this report. Adherence to the Financial Management Code should support the Council in developing effective risk management.*

## **12. EQUALITIES IMPLICATIONS**

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2. *There are no equalities implications arising from this report.*

## **13. SOCIAL VALUE IMPLICATIONS**

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

## **14. ENVIRONMENTAL IMPLICATIONS**

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

## **15. HUMAN RESOURCE IMPLICATIONS**

- 15.1 *There are no direct HR implications arising from this report.*

## **16. APPENDICES**

- 16.1 *Appendix A: Assessment of adherence to the Financial Management Code*
- 16.2 *Appendix B: Balance sheet review*

## **17. CONTACT OFFICERS**

- 17.1 17.1 Ian Couper, Service Director: Resources [ian.couper@north-herts.gov.uk](mailto:ian.couper@north-herts.gov.uk); ext 4243
- 17.2 Jo Keshishian, HR Services Manager [jo.keshishian@north-herts.gov.uk](mailto:jo.keshishian@north-herts.gov.uk), ext 4314
- 17.3 Reuben Ayavoo, Policy and Community Engagement Manager, [reuben.ayavoo@north-herts.gov.uk](mailto:reuben.ayavoo@north-herts.gov.uk), ext 4212

- 14.4 Isabelle Alajooz, Legal Commercial Team Manager and Deputy Monitoring Officer,  
[Isabelle.alajooz@north-herts.gov.uk](mailto:Isabelle.alajooz@north-herts.gov.uk), ext 4346

**18. BACKGROUND PAPERS**

- 18.1 *Financial Management Code report to Finance, Audit and Risk Committee 20 January 2020*  
<https://democracy.north-herts.gov.uk/documents/s9595/Financial%20Management%20Code.pdf>

Ref.	Description	Detail	Relevant comments from last report	Additional considerations from guidance notes
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money	Legislative requirement for Authorities to deliver VFM. Delivery of VFM depends on decisions by Elected Members. Shared responsibility across the Leadership Team to communicate and understand the risks involved.	<p>VFM becomes more of a concern when decisions are more risky and/or deviate away from areas that the Council understands well.</p> <p><b>Actions required: Be aware of risks in new activities.</b></p>	<p>Consider the appropriate use of benchmarking and efficiency reviews. Partly addressed through the Challenge Board process. Need to note the limitations in most benchmarking data. Transformation programme is already looking at improving efficiency.</p> <p>In relation to communication on how the Council has delivered Value for Money. This is included in the Narrative Report in the Statement of Accounts, although this has limited readership. The Summer article in Outlook which usually focuses on the financial position was extended to cover Value for Money. To keep under review further opportunities for proactive communication, but also balance the work involved with the level of readership.</p> <p>Be aware of the increased risk when adopting new models of service delivery.</p> <p><b>Actions required:</b> <b>Continue to use Transformation programme to deliver further efficiency and a new ways of thinking.</b></p>
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	<p>In summary this Statement requires that the CFO:</p> <ol style="list-style-type: none"> <li>1. Is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest.</li> <li>2. Must be actively involved in, and able to bring influence to bear on, all material</li> </ol>	None outstanding.	Nothing additional identified.

		<p>business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy.</p> <p>3. Must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.</p> <p>4. Must lead and direct a finance function that is resourced to be fit for purpose.</p> <p>5. Must be professionally qualified and</p>		
<p>C</p> <p>Page 156</p>	<p>The leadership team demonstrates in its actions and behaviors responsibility for governance and internal control.</p>	<p>A proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles.</p> <p>Clarity over the role of Head of Paid Service and Monitoring Officer.</p> <p>Audit Committee provides independent assurance over governance, risk and internal control arrangements, with a focus on financial management, financial reporting and audit and assurance.</p> <p>Leadership Team with a culture of constructive challenge based on realism. Goals, assumptions and implementation plans are rigorously examined.</p>	<p>The recent SIAS reviews of Finance, Audit and Risk Committee (FARC) made a recommendation about having an independent member.</p> <p><b>Actions required: Continue to progress with an Independent FARC member.</b></p>	<p>Leadership Team to be seen as setting and demonstrating the highest standards in governance and internal control. To address any deficiencies promptly.</p> <p><b>Actions required:</b></p> <p><b>To note and ensure compliance with the above.</b></p>

D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)	This framework recommends that the review of the effectiveness of the system of internal control is reported in an annual governance statement	Nonoutstanding.	<p>Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to success and balancing competing demands when determining priorities for the finite resources available. Intention is that proposed budget reviews will include stakeholder engagement.</p> <p><b>Actions required:</b>  <b>When carrying out consultation on budget and spending reviews to consider who to get views from.</b></p>
E	The financial management style of the authority supports financial sustainability	Strong financial management is assessed against a hierarchy of (1) delivering accountability, (2) supporting performance and (3) enabling transformation. Need to perform well at each level before moving to the next. This is broadly linked to economy, efficiency and effectiveness.	<p>Planned work on better integration of performance and finance data has not taken place, mainly due to other priorities in relation to Covid-19.</p> <p><b>Actions required: Look at ways to better integrate performance and cost information (Budget Holders supported by Finance).</b></p>	<p>Consider whether the Leadership Team feels like it has sufficient skills and knowledge to enable the delivery of financial sustainability.</p> <p><b>Actions required:</b>  <b>Continue to provide regular finance updates to Leadership Team on key issues and address any training needs as they arise.</b></p>
F	The authority has carried out a credible and transparent financial resilience assessment	<p>Requirement to test sustainability against plausible scenarios of cost drivers, service demands, resources and key risks. Review of alternative options to match demand and resources.</p> <p>CIPFA will be providing Authorities with a Financial Resilience Index which may assist in this.</p>	The intention was that the MTFS for 2022/27 (previously planned for 2021/26) would include more scenario testing, analysis of risk areas and develop a longer time horizon. Given the continuing uncertainty over Covid-19 recovery and funding it has focused on that instead.	<p>Ideally any resilience review should have objectivity and independence.</p> <p>An understanding of the Council's assets and how they will be kept fit for purpose is an important component of ensuring resilience. To provide reports on this to the Leadership Team. Whilst this is partly addressed through the Council's investment strategy, to investigate ways to provide additional information.</p>

Page 158			<p>The plan is now to carry out the above actions for the 2023/28 MTFS (depending on the Covid situation). As part of that the Leadership Team will need to consider resilience options that are available in the event that significant risks transpire. E.g. what to do if there was a significant increase in a contract price at renewal.</p> <p><b>Actions required: Development of MTFS for 2023/8 to include scenario testing (Service Director- Resources). Consideration of resilience options (PLB).</b></p>	<p>Need to have clear plans for delivering savings, and ensure that there is an understanding of the difference between: savings where there is a delivery plan, savings where there is a principle agreed but not a clear strategy, savings that have been proposed but not agreed, and unidentified savings.</p> <p><b>Actions required:</b>  <b>Plan a SIAS review of resilience as part of the 2022/23 audit plan. Review information provided to Leadership Team in relation to the Council's assets (see Appendix B).</b></p> <p><b>Ensure that the output of the Council's Challenge Board process includes categorising savings as above, and there is a plan to move them through the stages.</b></p>
	<p>The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.</p>	<p>Based on the above, have a long-term financial strategy that links to vision, strategy and outcomes. This should include a vision of what services will look like in the future to achieve financial sustainability. The length of the long-term is undefined and should be linked to the risks faced. Potentially should be 10 years+.</p>	<p>The previous Council Plan contained a list of potential actions, but these had not been costed and prioritised. This has been addressed in the proposed Council Plan for 2022-27 where the actions listed have all been budgeted for.</p>	<p>Nothing that has not already been covered above.</p>

H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	<p>The Council has a long-term Capital Strategy that ensures that assets are managed and future plans are linked to capital resources available.</p> <p>Commercial investment activity should be considered over a suitable time horizon with risks fully considered. Ensure compliance with Prudential Code if borrowing.</p>	None outstanding, although potentially a need to review the Property Acquisition and Development Strategy.	Nothing additional identified.
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans	Translation of the long-term view into a more detailed medium-term financial plan. The time frame of which should support financially sustainable decision making. Clear link to service plans.	None outstanding.	<p>Make use of sensitivity analysis in Medium Term financial planning. Some of this has been included in relation to Covid-19. To look to further develop for the 2023-28 MTFS. Incorporate more details of use and condition of assets in medium-term planning. In line with the comments in F above.</p> <p><b>Proposed actions required:</b>  <b>To review the MTFS and Investment Strategy next year to determine how these can be improved.</b></p>
	The authority complies with its statutory obligations in respect of the budget setting process	<p>These are generally covered by part 2 of Local Government Act 2003. This includes robustness of estimates and reserves (covered below) and the requirement for financial monitoring.</p> <p>It also includes section 114 of the Local Government Finance Act 1988, which requires the CFO to issue a report if the Council is about to incur unlawful expenditure. This would include setting an unbalance budget.</p>	None outstanding.	Nothing additional identified.
K	The budget report includes	Reserves to be considered as part of the budget process and should be 'adequate' and	None outstanding.	Nothing additional identified.

	a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	<p>‘necessary’. Should enable the Council to manage unexpected events from within its own resources.</p> <p>The budget report details earmarked reserves held, the purpose of each reserve and estimated opening and closing balances.</p>		
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget	<p>Enabling residents to understand that resources are limited, and spending has to be prioritised. Leadership Team redirects resources to areas of higher priority. Understanding of statutory service delivery requirements.</p> <p>Use stakeholder consultation to set priorities. Helps to encourage community involvement, which could help reduce costs.</p>	<p>To carry out a budget consultation process when there is greater clarity over future funding. The budget challenge process is helping shape the content for the consultation.</p> <p><b>Actions required: To undertake public budget consultation in line with greater certainty over future funding and therefore financial forecasts.</b></p>	<p>Need to identify the stakeholders that are important to engage in a consultation process. Consider models in relation to ‘power’ and ‘interest’. Also consider how to achieve effective engagement (e.g. timing, format, content).</p> <p><b>Actions required: Plan the consultation bearing in mind the above.</b></p>
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	Decisions are made from clear business cases that detail the up-front and ongoing costs and benefits. Where appropriate the time value of money should be considered. Alternative options should be considered. The complexity of the business case should be proportionate to the decision.	None outstanding.	Nothing additional identified.



N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability	The Council should have timely information on its financial and operational performance. Performance indicators should be reviewed, alongside any overspends/ undelivered savings.	As E above, consider how to better align performance and financial reporting.	<p>Raises the need for timely reporting. The standard reporting timetable is relatively delayed. But more frequent reporting was introduced in relation to Covid-19 impacts. This will be continued/ used again as required. Therefore, no specific actions.</p> <p>Consider incorporating key partner performance in monitoring reports as an indicator of risk.</p> <p>To seek feedback from Leadership Team on whether financial monitoring reports allow appropriate decision making.</p> <p><b>Actions required:</b>  <b>To review what partner performance data would help in assessing risk.</b>  <b>Continue to seek feedback on financial monitoring reports.</b></p>
O Page 161	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability	Need to await the guidance notes as the Code itself is unclear on the requirements. There is reference to monitoring material elements of the balance sheet that might give indications of departures from financial plans. Specific reference is made to commercial asset portfolios, contingencies and provisions. Cash flow is managed in accordance with guidance.	None identified due to lack of detail.	<p>Highlights the need to raise awareness of the various elements of the Council's balance sheet, what they mean and the potential impacts/ risks. Also aligns to points raised previously about assets, and their condition.</p> <p><b>Actions required:</b>  <b>To provide a more detailed report on this (see Appendix B).</b></p>
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the	The CFO has statutory responsibility for (1) producing the accounts and ensuring they are published on a timely basis (2) maintaining financial records (3) certification of the accounts and confirmation of a 'true and fair view'.	None outstanding.	Nothing additional identified.

	local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom			
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions	The narrative report that accompanies the accounts provides a link to achievement of outcomes and performance. The Leadership Team understand variances from budget and how they have been managed. The future implications of variances should also be considered i.e. will it affect the financial strategy/ financial resilience.	None outstanding.	To consider whether outturn reporting is effective. The end of year report follows the same format as the quarterly reports. So, links to the action in N above.

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1,000	Long Term Investments (non-property)	20	0
1	Mortgages	20	0
17	Loans	20	0
320	Other Long Term Debtors	20	320
<b>116,512</b>	<b>Long Term Assets</b>		<b>123,957</b>
299	Inventories	21	416
6,632	Short Term Debtors	22	23,349
26,627	Short Term Non Property Investments	20	24,539
2,909	Assets Held for Sale	24	6,296
8,848	Cash & Cash Equivalents	23	20,850
<b>45,315</b>	<b>Current Assets</b>		<b>75,450</b>
(25)	Short Term Borrowing	20	(26)
(4,653)	Short Term Creditors	25	(19,240)
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<b>(12,927)</b>	<b>Current Liabilities</b>		<b>(38,966)</b>
(405)	Long Term Borrowing	20	(386)
(2,388)	Long Term Creditors	38	(1,957)
(882)	Provisions (> 1 year)	26	(2,783)
(30,691)	Liability related to Pension Scheme	39	(46,627)
49	Deferred Credits	37	37
0	Capital Grants Receipt in Advance	35	0
<b>(34,317)</b>	<b>Long Term Liabilities</b>		<b>(51,716)</b>
<b>114,583</b>	<b>Net Assets</b>		<b>108,725</b>
1,601	Usable Reserves	27	31,655
2,982	Unusable Reserves	28	77,070
<b>4,583</b>	<b>Total Reserves</b>		<b>108,725</b>

### Long-term investments

See short-term investments description on next page

### Definitions:

Asset = something that is owned by or is owed to the Council

Liability = something that the Council needs to pay (or may need to) in the future

Reserves = Assets – Liabilities: represent the resources that the Council has.

Long Term = life of more than 1 year

Current = life of less than 1 year

### Property, Plant and Equipment

The things that the Council owns to enable it to deliver services. These are revalued on a regular basis (at least every 5 years). Valuations are based on either depreciated historical cost (what it cost when it was built, reduced over what is determined to be its useful life) or existing use value (what would need to be paid for a similar asset of a similar age to be used for a similar purpose).

The Council incurs revenue and capital costs to maintain and extend the useful life of its assets (particularly buildings).

### Heritage Assets

Most of the Council's museum collections do not have a recognised financial value. However some items have a significant value and are shown on the Council's balance sheet.

The Council also has assets that it chooses to insure at a particular value, even though they are not recognised at that value in the accounts.

This insurance is a small revenue cost.

### Operational Buildings (£79m) includes:

- District Council Offices = £2.9m
- Portmill Lane Car Park = £2.6m
- Queen Street C/P = £2.0m
- Letchworth Outdoor Pool = £3.1m
- Hitchin Leisure = £8.4m
- Royston Leisure = £8.6m
- North Herts Leisure = £13.2m
- Community Centres = £10.3m
- Hitchin Town Hall = £12.8m
- Mrs Howard Hall = £1.6m

### Community Assets (£4m) includes Howard Park @ £2m

Amounts spent on works, depreciated over time

### Surplus Assets (£10.2m), includes:

- The Snipe, Weston
- Yeomanry Drive
- Baldock Road, LGC

Future capital receipts and/ or potential for income. Not expected to sell in the next 12 months. Values quoted are estimates and may be subject to planning permission. The actual value received will depend on the market at the time.

### Plant and Equipment (£3.5m) includes

Waste vehicles @ £1.8m

Depreciated cost, usually have short asset lives, less than 7 years.

Likely to need regular capital bids to replace them.

### Intangible Assets

Don't have a physical form. All of these are IT software licenses. These are depreciated over the term of the license period. It is likely that these will need to be replaced when the license period expires.

### Revaluations and depreciation

Companies reflect the costs of permanent reductions in value in assets (including depreciation) as expenditure that affects their profit. Local Authorities are required to show the impact of these on the Balance Sheet and in calculating the cost of services. But they are then moved into an unusable reserve (see later) so that there is no impact on the General Fund (amount to be funded from Council Tax).

### Investment Property

Property that is held to generate income. Revalued on an annual basis, in line with the income that it generates. Generates around £1.2m of income per year. Mostly low risk ground leases but does include Churchgate freehold (£1.7m). Risk on non-payment. Can be obligations that require expenditure (e.g. access roadway).

### Long-term Debtors:

The Long-term Debtors balance is made up of two loans:

- A start-up loan to Herts Building Control of £107k. Each partner Council has provided the same value of loan (now 8 Councils). The loan is at an interest rate of 4%, but this is not being added on to the loan balance (prudent). If / when repaid (depending on profitability of company and having sufficient cash) the interest would be calculated and added on.
- A loan to SLL for the purchase of gym equipment. Pre- Covid-19 this was being paid back in line with the loan agreement (including interest). Repayments have restarted in April 2021.

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<b>114,583</b>	<b>Total Reserves</b>		<b>108,725</b>

### Inventories (Stock)

As the Council doesn't make anything, these are things that have been bought but haven't been used yet. They are valued the lower of what was paid for them and what they could be sold for. The total includes: Careline telecare equipment (£360k), waste and recycling equipment (£45k), museum merchandise, postage, and Town Hall bar/ café supplies. The increase from last year relates to Careline (EU transition and taking on HCC clients).

### Short Term Debtors

These are amounts owed (for services that have been provided) to the Council that are either overdue or due for payment within the next 12 months. For most types of debt (except where owed by Government or other Local Authorities) the Council makes an allowance for non-payment (bad debt provision). This reduces the amount owed by creating a cost (reduces the General Fund balance). This will then be adjusted in the following year when the actual payment position is known- it could be a further cost (if even less is collected than assumed) or could be additional income (if the provision amount was too pessimistic).

The balance is made up of:

- Central Government £14.9m (£0.5m at 31 March 2020)- includes share of Business Rates amounts owed (£9.5m), Local Tax income guarantee compensation (£1.4m), Sales, Fees and Charges compensation (£0.6m), Housing Benefit subsidy (£2.9m) and VAT reclaim (£0.3m)
- Local Authorities £5.5m (£2.8m at 31 March 2020)- mainly relates to Hertfordshire County Council (share of Business Rates £1.2m, share of Council Tax owed £2.3m and recycling credits owed £0.2m)
- NHDC share of Business Rates and Council Tax owed. Total owing of £2.2m (£1.5m at 31 March 2020). Profile of debt and general outlook means that the provision for non-payment is £1.5m (£0.6m last year).
- Housing Benefit overpayments. Total owing of £1.4m (£1.6m at 31 March 2020). Reduction in total amount due to transition to Universal Credit. Profile of debt and general outlook means that the provision for non-payment is higher even though the amount owed is lower £0.9m (£0.8m last year).
- Amounts owed by individuals and businesses, e.g., Estates commercial income, PCNs not paid, waste collection charges collected by contractor but not yet paid over. Total owing £2m (£1.8m at 31 March 2020). Provision for non-payment £0.25m (£0.16m at 31 March 2020).

A lot of the increases above are related to Covid-19.

### Assets Held for Sale

These are assets (mainly surplus land) that the Council is aiming to sell within the next 12 months. They are not used for service delivery. Includes: Windmill Close, Barkway; Chequers Lane, Preston and The Green, Newnham.

Also see Surplus Assets. The value of these disposals is already reflected in assessing the future funding of capital expenditure in the Investment Strategy.

### Short-Term Non-Property Investments and Cash & Cash Equivalents

This is the surplus 'cash' that the Council has, which is invested in line with the Investment Strategy. The split between the two categories depends on the duration of the investment. It is treated as Cash & Cash equivalents if the duration of the investment is less than 3 months (includes the Council's bank account). If it is longer than 3 months then it is a short-term investment. Where the outstanding term is greater than 12 months then it would become a long-term investment.

The total amount of 'cash' that the Council has is made up of two main elements:

- Long-term resources that the Council has, e.g. Usable reserve balances and long-term provisions. But due to Covid some of these balances are actually short-term. For example, within one of our reserves is money from Government that we will have to use over the next 3 years to balance the position on the Business Rates Collection Fund.
- The impact of cash-flow timing differences (e.g. if the Council has a receipt in advance then we have cash we wouldn't expect to have, if someone hasn't paid us money that they owe us (a creditor) then we have less cash than we would otherwise have).

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2,901	Usable Reserves	27	31,655
92,682	Unusable Reserves	28	77,070
<b>95,583</b>	<b>Total Reserves</b>		<b>108,725</b>

### Receipts in Advance (RIA)

These are amounts that have been received by the Council that relate to future years.

The biggest component relates to Covid-19 grants received from Government for payment to businesses. As these grants covered across 20/21 and 21/22, the amount that had not been given out at the end of March was treated as a RIA.

The amount also includes Garden Waste subscriptions (the period residents have paid for in 21/22), s106 funding that has not yet been used and other grants received but not yet used (e.g., Heritage Lottery funding for the museum, BEIS funding for Park Home insulation)

### Borrowing

The Council is able to borrow money for capital funding or cashflow. We can not borrow for revenue spending.

When borrowing for capital purposes the Council can only borrow when it has (or forecasts to have) a need to borrow. Otherwise it is 'borrowing in advance of need' which is not allowed.

The Council received a huge capital receipt from the stock transfer in 2003. This has also been supplemented by the sale of surplus land and buildings. But over time this has been spent funding our capital programme. As at the 31 March 2021, we had positive capital reserves (which meant that our Capital Financing Requirement, or CFR, was negative) and therefore did not have a need to borrow. The investment strategy shows that we are forecasting to use up our capital reserves.

When we need to borrow, we can borrow internally. This means that we use the cash that we have. At a personal level this would be like having savings for the deposit on a house, and then using some of that money to buy a car, with the intention that you will save up again to replenish the house deposit money. This incurs a charge known as a Minimum Revenue Provision (MRP). This is an annual cost to set-aside the money to pay back the borrowing. The period over which the amounts are set aside is linked to the expected life of the notional asset(s) that it is used to fund, rather than the actual term of the borrowing.

If borrowing externally then we actually receive additional cash. As well as the MRP cost, we would also incur interest costs too.

The amounts shown here are external borrowing that was taken out a long time ago (prior to 2003) over the long-term. It is made up of a number of loans with different maturity dates. Due to the prevailing interest rates when the loans were taken out, the interest rates on these loans are fixed at a much higher rate than current interest rates. So, although we have the cash to pay these loans back, we would have to pay a premium to do so. So we will just pay them back as they become due.

The split between short-term and long-term is those that are due to mature within the next year, and those that mature in more than one year.

### Short Term Creditors

These are amounts owed by the Council that due for payment within the next 12 months.

The balance is made up of:

- Central Government £14.3m (£0.8m at 31 March 2020)- the main component and the movement from last year is section 31 grants for Business Rate reliefs due to Covid. MHCLG intentionally paid the full value (including Central Government and Herts County Council share) to us. This needs to be returned during 2021/22.
- Other Local Authorities £0.5m (£2.2m at 31 March 2020)- last year there was a surplus on the Business Rate collection fund, which meant that we owed Herts County Council their share. At the end of 2020/21 there was a deficit on the collection fund, so no money owed to HCC.
- Other entities and individuals £4.4m (£1.7m at 31 March 2020). £1.75m relates to the timing of the Housing Benefit payment run, which in accounting terms results in amounts owed. £0.6m of the balance and £0.4m of the movement relates to accrued absences. The Council is required to calculate the impact of what it would cost to pay all outstanding leave and flexi-leave balances as at the end of the year. Due to work pressures, no cap on carry-forwards and people not wanting to take leave (all due to Covid) the balance is substantially higher than the previous year.



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<b>114,583</b>	<b>Total Reserves</b>		<b>108,725</b>

### Long-term Creditors

These are amounts owed by the Council that are due for payment in more than 12 months time.

This amount all relates to waste vehicles and is due to accounting rules. The Council's waste contractor leases the vehicles that they use to deliver the contract. As those vehicles are used almost exclusively to provide a service to the Council and by the end of the contract they will have very little life left, the Council needs to show the vehicles as though it owns them.

The vehicles are therefore shown as an asset at the top of the balance sheet under Property, Plant and Equipment. In accounting every transaction has to have two sides to it. As the Council didn't pay any actual money for the vehicles, it needs to show that it 'owes' the money to pay for the vehicles. The amount owed is split between payments due within the next year and payments due in more than one year. Currently, the biggest element is still the amounts due in more than one year, although the amount reducing each year. Each year, part of the amount that the Council pays for the waste contract is treated as paying interest and paying back the loan. The amount we actually pay to the contractor is unaffected.

What the Council actually did was 'fund' the vehicles from capital reserves at the start of the contract. So all the above actually reduces our revenue costs each year. As it isn't a real saving, the money is put in to a reserve. That reserve will then provide a contribution towards the cost of new vehicles when they need replacing.

### Provisions

These are amounts that are owed by the Council but the timing and/or amount is uncertain. They will usually have to be paid in more than one year, so they are treated as long-term. The Council has to make an educated guess as to how much will need to be paid and when. If the payment is expected to be a long way in the future then the amount owed can be discounted, as usually £1 now is worth more than £1 in the future, due to inflation.

The largest component (£2.74m) relates to NNDR appeals. This has been increased by £1.9m since the end of 2019/20. Properties are assessed by the Valuation Office Agency (VOA) on how much Business Rates they should pay. Businesses can appeal against the rating of the property, but there are very limited time bars on when a business can appeal, and even once they have appealed the VOA workloads means it takes a long time to get resolved. If an appeal is successful then any adjustment goes all the way back to when the value was assessed. Despite having no influence over it, the Collection Fund (made up of North Herts, Herts County Council and MHCLG shares) has to fund their shares of any refunds. The Council therefore makes a provision for its share. The increase in provision reflects two components (1) another year has passed with hardly any appeals resolved, so another year of refunds would be due for any successful appeal, and (2) taking a less optimistic view in relation to new appeals that might come along. Whilst it might seem to make sense that Businesses should appeal as soon as possible as then (if successful) they get their money back quicker, past experience has shown that this is not the case and there has been a flurry of appeals when an end date is set.

The rest of the provision relates to insurance claims we have received. The amounts that are not covered by the insurance (i.e. the amount of the excess) are set aside in the provision.

The risk with provisions is whether they have been estimated correctly. If they are not enough then creates a further cost later. If they are too much, then the excess will reduce the costs incurred at later date. Given the long-term nature, the value will be reviewed a number of times before the events actually happen (particularly for Business Rates appeals)

**Contingent Liabilities**- The Council also has to disclose (only as a note to the accounts and not set money aside) any events that are likely to lead to a cost in the future, but where it is impossible to come up with an estimate of the amount that will have to be paid.

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### Liability Related to Pension Scheme

The Local Government Pension Scheme (LGPS) is a funded pension scheme. This is an estimate of the value of the pension assets against the liabilities that they need to pay for. Whilst any change in the value of this liability is included when working out the accounting cost of the Council's services, this is removed when working out the impact on the Council taxpayer. For that calculation the actual costs incurred in the year are used (i.e. the lump sum to cover past service costs and a percentage of employee salaries to cover the service costs that have accrued in year).

A net deficit (liability) on the pension is a risk. But it is a very long-term risk. The triennial pension valuation sets the rates (% of employee salaries and lump-sum) that the Council needs to contribute. This aims to get it so that it is fully funded over a 20-year period. This avoids reacting to short term fluctuations and also reflects that these liabilities will not need to be paid for a long time.

### Deferred Credit

This relates to a lease premium agreed in negotiating an extension to the lease for the bowling green and the social centre at Howard Gardens. The lease extension was required to secure lottery funding for the project to renovate Howard Park & Gardens. The original premium of £55k was paid in 2010. The balance sheet value will gradually be written off to the General Fund in equal instalments over the remaining years of the lease contract.

### Usable Reserves

These are the important reserves as these are the ones that the Council can use.

They are made up of four parts:

- General Fund Reserve (£8.9m). This is the Council's general savings account. The Chief Finance Officer needs to set a minimum value that it should not fall below to cover for financial risks, unforeseen events and emergencies. At no point should it be forecast to fall below that value either, as that would involve setting an unbalanced medium term budget. With those caveats, the reserve can be spent on anything (revenue or capital) as long as it is legal. But it can only be spent once, the reserve can only be replenished by having a net underspend (funding > net expenditure).
- Earmarked Reserves (£20.8m). These are generally like savings accounts that have been set aside for a particular purpose. They can also be used to hold grant funding until it is needed. As at 31 March 2021, £14.3m relates to Business Rate funding, and the majority of that is rate relief funding that will need to be used in 2021/22. The money in each reserve should only be used for its earmarked purpose, although Full Council can approve changes to those purposes (subject to external conditions, such as unspent grant funding).
- Usable Capital Receipts (£1.1m). When the Council sells an asset (e.g. land, buildings, plant, equipment) then the proceeds go in to this reserve. The reserve can then be used to fund new capital (but not revenue) spend. The Council currently still has a separate pot of funding for capital expenditure, which arose from the Housing Stock Transfer. Current forecasts are that both pots will be used up within the next year. The Council will then need to borrow to fund capital spend.
- Capital Grants Unapplied- Capital funding that has been received. When the project that it was awarded for takes place then the grant will be applied.

### Unusable Reserves

The most important point is that the amounts held here are unusable. It is the reversal of all the adjustments that have been made to give the 'accounting' cost of our services, but are not costs that need to be borne by taxpayers. It includes:

- Where assets are revalued this increases the value of the asset. This isn't a real increase in value so the off-setting amount is shown here.
- Where assets are depreciated to show them being used up over their life. This isn't a real cost so the off-setting amount is shown here.
- The liability relating to pensions isn't a real cost so the off-setting amount is shown here.
- The Collection Fund is administered by the Council, but the balances relate to other parties as well (County Council and Police and Crime Commissioner for Council Tax, and County Council and MHCLG for Business Rates). The balance that doesn't relate to the North Herts Council is shown here.
- The adjustment to show the cost of untaken staff leave is not a real cost so the off-setting amount is shown here.

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