

NORTH HERTFORDSHIRE DISTRICT COUNCIL



06/06/22

Our Ref Finance, Audit and Risk
Committee/15/06/22
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To: Members of the Committee, Councillors: Terry Tyler (Chair), Clare Billing (Vice Chair), George Davies, Morgan Derbyshire, Phil Weeder, Sean Nolan and Terry Hone

Substitutes: Councillors Juan Cowell, Steve Jarvis, Nigel Mason and Kay Tart

NOTICE IS HEREBY GIVEN OF A

MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE

to be held in the

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

On

WEDNESDAY, 15TH JUNE, 2022 AT 7.30 PM

Yours sincerely,

Jeanette Thompson
Service Director – Legal and Community

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Agenda

Part I

| Item | | Page |
|-------------|--|---------------------|
| 1. | APOLOGIES FOR ABSENCE Members are required to notify any substitutions by midday on the day of the meeting. Late substitutions will not be accepted and Members attending as a substitute without having given the due notice will not be able to take part in the meeting. | |
| 2. | MINUTES - 17 JANUARY 2022, 16 MARCH 2022 To take as read and approve as a true record the minutes of the meetings of the Committee held on the 17 January 2022 and 16 March 2022. | (Pages 5 - 20) |
| 3. | NOTIFICATION OF OTHER BUSINESS Members should notify the Chair of other business which they wish to be discussed at the end of either Part I or Part II business set out in the agenda. They must state the circumstances which they consider justify the business being considered as a matter of urgency. The Chair will decide whether any item(s) raised will be considered. | |
| 4. | CHAIR'S ANNOUNCEMENTS Members are reminded that any declarations of interest in respect of any business set out in the agenda, should be declared as either a Disclosable Pecuniary Interest or Declarable Interest and are required to notify the Chair of the nature of any interest declared at the commencement of the relevant item on the agenda. Members declaring a Disclosable Pecuniary Interest must withdraw from the meeting for the duration of the item. Members declaring a Declarable Interest, wishing to exercise a 'Councillor Speaking Right', must declare this at the same time as the interest, move to the public area before speaking to the item and then must leave the room before the debate and vote. | |
| 5. | PUBLIC PARTICIPATION To receive petitions, comments and questions from the public. | |
| 6. | AUDIT RESULTS REPORT 2020/21 REPORT OF ERNST & YOUNG To consider the Audit Results Report 2020/21. | (Pages 21 - 56) |
| 7. | STATEMENT OF ACCOUNTS 2020/21 REPORT OF: THE SERVICE DIRECTOR - RESOURCES | (Pages 57 - 166) |

For the Committee to approve the audited Statement of Accounts for 2020/21.

8. SIAS ANNUAL REPORT AND UPDATE ON 2022/23 AUDIT PLAN

The report and any associated documents will be circulated as a supplementary agenda as soon as received.

9. ANNUAL REPORT ON RISK MANAGEMENT AND RISK MANAGEMENT UPDATE (Pages 167 - 184)
REPORT OF THE SERVICE DIRECTOR – RESOURCES

To provide the Committee with an update on risk management, including the Annual Report on Risk Management for 2021-22.

10. REVENUE BUDGET OUTTURN 2021/22 (Pages 185 - 204)
REPORT OF: THE SERVICE DIRECTOR - RESOURCES

To consider the Revenue Budget Outturn 2021/22

11. INVESTMENT STRATEGY (CAPITAL AND TREASURY) END OF YEAR REVIEW 2021/22 (Pages 205 - 234)
REPORT OF THE SERVICE DIRECTOR – RESOURCES

To consider the Investment Strategy (Capital and Treasury) End of Year Outturn Review 2021/22

12. FINANCE, AUDIT AND RISK ANNUAL REPORT 2021/22 (Pages 235 - 246)
REPORT OF THE SERVICE DIRECTOR – RESOURCES

To consider the Annual Report of the Finance, Audit and Risk Committee for the 2021/22 Civic Year.

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Public Document Pack Agenda Item 2

NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MEETING HELD IN THE COUNCIL CHAMBER, DISTRICT COUNCIL OFFICES
ON MONDAY, 17TH JANUARY, 2022 AT 7.30 PM

MINUTES

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

In Attendance: *Ian Couper (Service Director – Resources), Isabelle Allajooz (Legal Commercial Team Manager), William Edwards (Committee, Member and Scrutiny Manager), Louis Mutter (Committee, Member and Scrutiny Officer)*

1 APOLOGIES FOR ABSENCE

Audio recording – 1:26

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

2 MINUTES - 15 DECEMBER 2021

Audio Recording – 1:40

RESOLVED: That the Minutes of the Meeting of the Committee held on 15 December 2021 be approved as a true record of the proceedings and be signed by the Chair.

3 NOTIFICATION OF OTHER BUSINESS

Audio recording – 2:18

There was no other business notified.

4 CHAIR'S ANNOUNCEMENTS

Audio recording – 2:20

- (1) The Chair welcomed those present at the meeting, especially those who had attended to give a presentation;
- (2) The Chair advised that, in accordance with Council Policy, the meeting would be audio recorded;
- (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.
- (4) The Chair drew attention to a supplementary agenda pack for item 7 that had been published containing an updated version of Appendix A owing to a technical problem with the original document.

5 PUBLIC PARTICIPATION

Audio recording – 3:03

There was no public participation at this meeting.

6 UPDATED CONTRACT PROCUREMENT RULES FOR 2022/2023

Audio Recording: 3:10

The Legal Commercial Team Manager presented the report entitled Updated Contract Procurement Rules for 2022/23, together with Appendix A – Contract Procurement Rules showing track changes. She drew attention to the following:

- The amendments have been made in consultation with the Councils Contracts and Procurement Group, as well as relevant Executive Members and Deputies;
- Amending the Go Local threshold from £50,000 to £100,000, asking officers to consider going local in procurements that meet that threshold;
- The Contract Procurement Rules form part of the Constitution at Section 20, amendments to these rules have been made as a result of the UK's withdrawal from the European Union;
- Paragraph 8.5 sets out the threshold amendments that have been made and contained in Appendix A as tracked changes;
- Terminology has also been changed to reflect the UK's withdrawal from the European Union.

The following Members asked questions

- Councillor Terry Hone
- Councillor Adam Compton

In response to questions, the Legal Commercial Team Manager advised:

- Consultations with neighbouring Local Authorities took place before any amendments were made;
- The Council's Contracts and Procurement Group allows discussions between key contract managers and any changes are made after consulting this group;
- If these amendments are adopted, the Legal Commercial Team Manager would provide training on any key amendments;
- A requirement to add contracts above £5,000 into the contract register would be added to the Contract Procurement Rules due to the Local Government Transparency Code;
- A definition would be provided for the acronym WTOGPA;
- The use of the term 'e-tender' would be looked into due to its possible confusion between tender and quotations.
- Guidance is provided on the intranet around Regulation 84 reports which can be added onto the Section 20 CPRs.

RECOMMENDED TO CABINET: That they recommend to Full Council the adoption of the Updated Contract Procurement Rules for 2022/23 as outlined in Appendix A

REASON FOR DECISION: That the Contract Procurement Rules are part of the Constitution (under Section 20) and are revised and updated periodically as part of the Council's governance and procurement review processes, contributing to effective organisational internal control.

7 REVENUE BUDGET 2022/23

Audio Recording: 29:35

The Service Director – Resources presented the report entitled Revenue Budget 2022/23 together with the following appendices:

- Appendix A – Financial Risks 2022/2023;
- Appendix B – Revenue Budget Savings and Investments;
- Appendix C – Budget Summary 2022 – 2027.

He drew attention to the following:

- Paragraph 5.2 details the Business Ratepayers statutory consultation;
- Paragraph 8.1 to 8.6 summarises some of the key savings investments and are generally in line with what was presented at budget workshops;
- Paragraph 8.20 details that as Chief Finance Officer, it is required that advice be provided on what is the minimum General Fund balance;
- Paragraph 8.21 provides a table of a budget provision, set aside for COVID impact in both 2022/23 and 2023/24;
- The COVID provision money will be set aside in one general pot to be allocated as required;
- Paragraph 8.24 and 8.25 detail that the Council will need to borrow at the end of the period;
- Paragraphs 8.26 to 8.30 provides a commentary on the reliability of estimates within the budget, as well as mentioning the CIPFA financial resilience index which is yet to be published;
- Paragraph 8.32 highlights that the overall impact is that the Council needs to find a minimum of 1.5m savings over the next 5 years.

The following Members asked questions:

- Councillor Terry Hone

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

- The Alternative Financial Model is accounted a year in arrears, the amount stated in 2022/23 is based on the performance of 2021/22. There is a risk this year that the Council won't receive anything. The amount of the year after is an estimate based on County Council information.

Following the vote, it was:

RECOMMENDED TO CABINET:

- (1) That Cabinet approves the decrease in the 2021/22 working budget of £111k, as detailed in table 5;
- (2) That Cabinet recommends to Council to note the position on the Collection Fund and how it will be funded;
- (3) That Cabinet recommends to Council to note the position relating to the General Fund balance and that due to the risks identified a minimum balance of £2.95 million is recommended;
- (4) That Cabinet recommends to Council to approve the saving and investments as detailed in Appendix B;

- (5) That Cabinet recommends to Council to approve a net expenditure budget of £18.123m, as detailed in Appendix C.
- (6) That Cabinet recommends to Council to approve a Council Tax increase of £5 or a band D property (other bands with pro-rata increases). This is in line with the Medium Term Financial Strategy and is equivalent to 2.08%.

REASON FOR RECOMMENDATIONS: To ensure that all relevant factors are considered in arriving at a proposed budget and Council Tax level for 2022/23, to be considered by Full Council on 10 February 2022. To ensure that the budget is aligned to Council priorities for 2022/23 as set out in the Council Plan.

8 INVESTMENT STRATEGY (INTEGRATED CAPITAL AND TREASURY)

Audio Recording – 16:38

The Service Director – Resources presented the report entitled Revenue Budget 2022/23 together with the following appendices:

- Appendix A – Financial Risks 2022/2023;
- Appendix B – Revenue Budget Savings and Investments;
- Appendix C – Budget Summary 2022 – 2027.

He drew attention to the following:

- Paragraph 5.2 details the Business Ratepayers statutory consultation;
- Paragraph 8.1 to 8.6 summarises some of the key savings investments and are generally in line with what was presented at budget workshops;
- Paragraph 8.20 details that as Chief Finance Officer, it is required that advice be provided on what is the minimum General Fund balance;
- Paragraph 8.21 provides a table of a budget provision, set aside for COVID impact in both 2022/23 and 2023/24;
- The COVID provision money will be set aside in one general pot to be allocated as required;
- Paragraph 8.24 and 8.25 detail that the Council will need to borrow at the end of the period;
- Paragraphs 8.26 to 8.30 provides a commentary on the reliability of estimates within the budget, as well as mentioning the CIPFA financial resilience index which is yet to be published;
- Paragraph 8.32 highlights that the overall impact is that the Council needs to find a minimum of 1.5m savings over the next 5 years.

The following Members asked questions:

- Councillor Terry Hone

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

- The Alternative Financial Model is accounted a year in arrears, the amount stated in 2022/23 is based on the performance of 2021/22. There is a risk this year that the Council won't receive anything. The amount of the year after is an estimate based on County Council information.

Following the vote, it was:

RECOMMENDED TO CABINET:

- (7) That Cabinet approves the decrease in the 2021/22 working budget of £111k, as detailed in table 5;
- (8) That Cabinet recommends to Council to note the position on the Collection Fund and how it will be funded;
- (9) That Cabinet recommends to Council to note the position relating to the General Fund balance and that due to the risks identified a minimum balance of £2.95 million is recommended;
- (10) That Cabinet recommends to Council to approve the saving and investments as detailed in Appendix B;
- (11) That Cabinet recommends to Council to approve a net expenditure budget of £18.123m, as detailed in Appendix C.
- (12) That Cabinet recommends to Council to approve a Council Tax increase of £5 or a band D property (other bands with pro-rata increases). This is in line with the Medium Term Financial Strategy and is equivalent to 2.08%.

REASON FOR RECOMMENDATIONS: To ensure that all relevant factors are considered in arriving at a proposed budget and Council Tax level for 2022/23, to be considered by Full Council on 10 February 2022. To ensure that the budget is aligned to Council priorities for 2022/23 as set out in the Council Plan.

9 POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS

Audio recording – 40:45

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

The meeting closed at 8:11 pm

Chair

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Public Document Pack

NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MEETING HELD IN THE TO BE ADVISED
ON WEDNESDAY, 16TH MARCH, 2022 AT 7.30 PM

MINUTES

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

In Attendance: *Ian Couper (Service Director – Resources) Debbie Hanson (Ernst & Young), Ghulam Hussain (Ernst & Young), Nick Jennings, Mark Chalkley (Client Audit Manager), William Edwards (Committee, Member and Scrutiny Manager) and Louis Mutter (Committee, Member and Scrutiny Officer)*

10 APOLOGIES FOR ABSENCE

Audio recording – 1:18

Apologies for absence were received from Councillors Sean Prendergast, Adem Ruggerio-Cakir and Morgan Derbyshire.

11 MINUTES - 17 JANUARY 2022

Audio Recording – 1:35

RESOLVED: That the Minutes of the Meeting of the Committee held on 17 January would be approved at the next Committee meeting, due to it not being included in the agenda pack.

12 NOTIFICATION OF OTHER BUSINESS

Audio recording – 1:52

There was no other business notified.

13 CHAIR'S ANNOUNCEMENTS

Audio recording – 1:58

- (1) The Chair welcomed those present at the meeting, especially those who had attended to give a presentation;
- (2) The Chair advised that, in accordance with Council Policy, the meeting would be audio recorded;
- (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.

14 PUBLIC PARTICIPATION

Audio recording – 2:20

There was no public participation at this meeting.

15 ANNUAL GOVERNANCE STATEMENT 2020/21

Audio Recording: 2:25

The Policy and Community Engagement Manager presented the report entitled Annual Governance Statement 2020/21 along with Appendix A – Annual Governance Statement for 2020-21 and Action Plan for 2021-22 and drew attention to the following:

- This report had been brought to the Committee last July for comments;
- The statement sets out the Council's Governance arrangements for the 2021 period and proposes an Action Plan for the next financial year;
- The statement received comments from SAFS and Ernst & Young and changes were made subsequent to those comments.

Councillor Keith Hoskins proposed and following a vote it was:

RESOLVED: That the Committee is recommended to approve the amended AGS and Action Plan (Appendix A)

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

16 LOCAL CODE OF CORPORATE GOVERNANCE 2022

Audio Recording: 5:15

The Policy and Community Engagement Manager presented the report entitled Local Code of Corporate Governance 2022 and highlighted the following key points:

- The Code is updated annually and is based on the Chartered Institute of Public Finance and Accountancy;
- It is the basis for the assessment of the Governance arrangement;
- The document hasn't changed much since last year except the section which discusses the Council Plan as this is changing in 2022;
- Will be reviewed annually to make use it's a current and live document.

The following Members asked questions:

- Councillor Terry Hone

In response to questions the Policy and Community Engagement Manager advised:

- The legal entity remains to be North Herts District Council, however in the body of reports it is intended to use North Herts Council

Councillor Keith Hoskins proposed and following the vote it was:

RESOLVED: That the Committee approves the Local Code of Corporate Governance 2022 (Appendix A)

REASON FOR DECISION: It is recommended practice to review the Local Code of Corporate Governance each year to ensure it remains up to date and relevant.

17 AUDIT RESULTS REPORT

Audio Recording: 8:47

Ernst & Young presented the report entitled Audits Results and highlighted the following key points:

- This is a required report once E&Y have completed their audit and before their opinion is given on financial statements;
- To highlight the key risks identified, the work that has been done to address those risks, and the conclusion from the audit work;
- Now substantially completed the audit of the accounts of 2021 financial year, there are some areas of work that are subject to manager review, aiming to complete those over the next few weeks;
- The biggest remaining piece of work is the review of the Council's property plan and equipment;
- No significant changes from the planned audit procedures; have updated their materiality based draft financial statements;
- Haven't identified any risks or change to risks during the audit work;
- Haven't identified any difference from the audit other than minor disclosure differences;
- Have now identified one adjusted difference of £651,000 which is a reduction of pension fund liability;
- One area that won't be completed in a timely basis is the work on the Whole of Government Accounts on behalf of the NAO, due to the instructions of that work not being issued until July this year; Cannot issue the audit certificate which concludes the audit;
- Page 44 summarises the risks that E&Y have identified, which includes 2 fraud risks and 1 significant risk;
- Have not identified any issues in relation to the fraud risks; and have completed work on investment properties;
- Have also completed the work on Grant Income and have not identified any issues.

The following Members asked questions:

- Councillor Terry Hone
- Councillor Adam Compton

In response to questions, Ernst & Young advised:

- E&Y are happy to report back to the Committee once all stages of the audit have been completed and if any issues arose it would be brought to the Committee.

Councillor Keith Hoskins proposed and following a vote, it was:

RESOLVED: That the Audit Results Report be noted by the Committee.

18 STATEMENT OF ACCOUNTS 2020/21

Audio Recording: 18:47

The Service Director – Resources presented the report entitled Statement of Accounts 2020/21 along with Appendix A – Draft Statement of Accounts 2020/21 (current version at the time of writing the report)

Councillor Keith Hoskins proposed and following a vote, it was:

RESOLVED:

(1) That the draft 2020/21 Annual Statement of Accounts, as set out in Appendix A, be approved based on the draft Audit Results report.

(2) That, subject to the final Audit Results report not requiring any substantial changes, the Committee delegates to the Chair of the Committee the final approval of the 2020/21 Annual Statement of Accounts. This will include confirming that the Chair of the Committee can sign the Statement of Accounts to confirm that they have been approved by the Committee.

REASON FOR DECISION: To ensure that the Council abides by the Audit and Account Regulations 2015, which require the approval and publication of audited Statement of Accounts.

19 **SAFS PROPOSED ANTI-FRAUD PLAN 2022/23 AND PROGRESS WITH DELIVERY OF 2021/22 PLAN**

Audio Recording: 21:25

Nick Jennings presented the report entitled SAFS Proposed Anti-Fraud Plan 2022/23 and Progress with Delivery of 2021/22 Plan and highlighted the following key points:

- The report covers two topics and includes two recommendations;
- The appendices included in the agenda pack are in the reverse order and should be: Appendix A – Proposed Anti-fraud plan and Appendix B – SAFS KPI Performance for 2020-21;
- Structured the plan around the five pillars of: Govern, Acknowledge, Prevent, Pursue and Protect in fighting fraud in Local Government.
- Membership of SAFS partnership for the Council will be £86,165 which has seen a increase of 2.5%;
- Have been working with landlords to investigate tenancy fraud across the district boundaries;
- New arrangements to work with Settle Housing;
- The new County-wide Council Tax Review Framework is now funded entirely by the County Council and the District Council can draw on this;
- Tweaked the KPI's including targets for fraud alerts and dissemination of referrals to third parties. Have reduced amount of fraud training however have extended packages for iLearn on money laundering and other fraud;
- Section 4 details work completed by the fraud officers;
- The level of fraud reporting has decreased this year;
- Reporting from the public however remains high – good indication that the public have confidence that they can report matters of fraud to the Council;
- SAFS carried forward 37 live cases from 2020/21 and currently 39 cases are open and under investigation with estimated fraud losses/savings of £147k;

The following Members asked questions:

- Councillor Clare Billing
- Councillor Terry Hone
- Councillor Adam Compton

In response to questions Nick Jennings advised:

- Very few of the allegations received end in prosecutions as it can be dealt with by other means. As a result the amount of prosecutions is very low. Deal with about 2-3 serious cases that end up in Criminal Courts;

- As part of the Fraud Investigation activity in North Herts, the housing register is reviewed frequently to ensure that if there is any changes in person's circumstances it is reported back to the housing team.

Councillor Keith Hoskins proposed and, following a vote, it was:

RESOLVED:

- (1) That the Committee approves the Anti-Fraud Plan 2022/23;
- (2) That the Committee notes the activity to protect the Council against fraud and corruption in 2021/22.

20 UPDATED FRAUD POLICY

Audio Recording: 35:23

The Service Director – Resources presented the report entitled Updated Fraud Policy and highlighted the following key points:

- This report represents a minor change to the Fraud Prevention Policy;
- The change that has been made is to reflect that the Shared Anti-Fraud Service has taken on the Money Laundering Reporting Officer role;
- The Council does not really receive MLRO issues so it makes sense for SAFS to do it for the Council;
- SAFS have offered to provide this service free of charge;
- Have also reviewed the Fraud Prevention Policy to make sure it is up to date.

Councillor Keith Hoskins proposed and, following a vote, it was:

RESOLVED: That the Committee approve the amended Fraud Prevention Policy as attached at Appendix A.

REASON FOR DECISION: The policy is kept under regular review. As explained in section 8 it is beneficial for SAFS to take on the MLRO role for the Council.

21 AUDIT PLAN 2022/2023

Audio Recording: 38:00

Mark Chalkley, SIAS Client Audit Manager presented the report entitled Audit Plan 2022/23 and highlighted the following key points:

- Section 1 of Page 239 provides a background of the Internal Audit Plan and the professional standards that are applicable to the process;
- Page 242 reflects changes made by SIAS after an external review of their process;
- Paragraph 2.2 sets out the 5 stage process to annual planning, and paragraph 2.3 sets out its horizon scanning method;
- Page 248 Paragraph 3.3 highlights the annual performance indicators that were approved by the SIAS board.
- Appendix A provides information on the level of priority of certain audits;
- Appendix B sets out the dates those audits would be considered.

The following Members asked questions:

- Councillor Adam Compton

In response to questions the SIAS Client Audit Manager advised:

- The high priority audits are included in the timetable in Appendix B and are spread across the year.

Councillor Keith Hoskins proposed and, following a vote it was:

RESOLVED:

(1) That the Finance, Audit and Risk Committee approve the proposed North Herts Council Internal Audit Plan for 2022/23;

(2) That the Committee agree on the Medium Priority Audits to be completed in Quarter 1 and 2.

22 Q3 2021/22 AUDIT UPDATE REPORT

Audio Recording: 47:10

The SIAS Client Audit Manager presented the report entitled Q3 2021/22 Audit Update Report and highlighted the following points:

- The report is a fairly brief update is the work so far this year;
- Page 258 Paragraph 2.5 highlights the proposed amendments agreed with management within this reporting period;
- Total number of billable days completed is 233 out of 270 – 86% versus the target of 90%;
- 16 completed projects compared to the target of 22;
- Although performance is quite strong, it is unlikely that SIAS will not meet the target for completed projects bringing it up to 92%.

The following Members asked questions:

- Councillor Terry Hone
- Councillor Adam Compton

In response to questions the SIAS Client Audit Manager advised:

- The two reports that will not be completed are: Ways of Working, due to start in Q4 which has not yet started and, Health and Safety of Lone Workers, which is underway but at risk at not scheduled to be completed. Anything that isn't complete by the end of this financial year are treated as a priority in the following months.
- Health and Safety of Lone Works was always scheduled to take place in Q4 and one half has been completed last year, however the pressures of the pandemic were on these teams during this work, it is predicted that the work will be done but the reporting stage will not be completed until after 31 March

Councillor Keith Hoskins proposed and, following a vote, it was:

RESOLVED:

(1) That the Committee notes the SIAS Progress Report for the period to 18 February 2022.

(2) To note the plan amendments to the 2021/22 Annual Audit Plan

23 RISK MANAGEMENT UPDATE

Audio Recording: 53:18

The Service Director – Resources presented the report entitled Risk Management Update and highlighted the following points:

- Not recommending any changes to Corporate Risk;
- Seen no need to change any of the risk scores and have focused a lot of the risk work in the upcoming Council Delivery Plan which is to be presented at the Committee later this evening.

The following Members asked questions:

- Councillor Adam Compton
- Councillor Clare Billing

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

- The team have been looking into what the impact could be with the ongoing conflict in Ukraine;
- The Council has very limited amount of vehicles however contractors do; at the moment they are continuing their services and are expected to in the future.
- No gas is bought from Gazprom;
-

Councillor Keith Hoskins proposed and, following a vote it was:

RESOLVED: That the Committee notes that there were no changes to Corporate Risk scores in this quarter.

REASON FOR DECISION:

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

24 THIRD QUARTER REVENUE BUDGET MONITORING 2021/22

Audio Recording:

The Service Director – Resources presented the report entitled Third Quarter Revenue Budget Monitoring 2021/22 and highlighted the following points:

- This report is heading for Cabinet and is asking for any notes or comments from Members of this Committee;
- Table 3 Page 273 sets out a summary of significant variances and whether they are expected to be an impact on next years' 2022/23 budget;
- Paragraph 8.11 and table 5 provide an overall total of the impact of COVID-19 in terms of additional expenditure and loss income;
- Table 6 notes that the General Fund Balance is increased compared to the beginning of the year and forecast of the end of year previously – large contribution coming from other reserves.

Councillor Keith Hoskins proposed and, following a vote, it was:

RECOMMENDED TO CABINET:

- (1) The Committee recommends to Cabinet to note the report;
- (2) The Committee recommends to Cabinet to approve the changes to the 2021/22 General Fund budget, as identified in table 3 and paragraph 8.2, a £510k decrease in net expenditure;
- (3) The Committee recommends to Cabinet to approve the changes to the 2022/23 General Fund budget, as identified in table 3 and paragraph 8.2, a total £238k increase in net expenditure.

REASON FOR DECISION: 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.

25 THIRD QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2021/22

Audio Recording: 1:01:40

The Service Director – Resources presented the report entitled Third Quarter Investment Strategy Review 2021/22 and highlighted the following key points:

- Report to go to Cabinet but welcomes feedback from this Committee;
- Table 2 are the various capital schemes which haven't taken place this year and so need approval from Cabinet to move across to the next year;
- Table 3 outlined Section 106 projects and the budget and forecast spend of those;
- Paragraph 8.9 mentions the small breach of the Treasury Strategy due to the Council's IT systems were down for the majority of the day and so payments could not be made;
- Paragraph 8.11 sets out the rates of interest the Council is earning, at the end of the Third Quarter the investment yield was very low but are now increasing for Short Term Investments.

The following Members asked questions:

- Councillor Adam Compton
- Councillor Clare Billing

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

- The foreign investment criteria is very high and far above the UK criteria, also set a high quality institution criteria for anything that is international. Also has to be in Sterling.
- The John Barker Place payments are expected to go out in the year 2022/23 after the 1st April.

Councillor Keith Hoskins proposed and, following a vote, it was:

RECOMMENDED TO CABINET:

- (1) The Committee recommends to Cabinet to note the forecast expenditure of £2.424M in 2021/22 on the capital programme, paragraph 8.3 refers;
- (2) The Committee recommends to Cabinet to approve the adjustments to the capital programme for 2021/22 onwards, as a result of the revised timetable of schemes detailed in table 2 and 3, increasing the estimated spend in 2022/23 by £0.823M;

(3) The Committee recommends to Cabinet to note 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;

(4) The Committee recommends to Cabinet to note the position of Treasury Management activity as at the end of December 2021

REASON FOR RECOMMENDATION:

(1) Cabinet is required to approve adjustments to the capital programme and ensure the capital programme is fully funded.

(2) To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

26 TAX COMPLIANCE FRAMEWORK

Audio Recording: 1:08:40

The Service Director – Resources presented the report entitled Tax Compliance Framework and highlighted the following key points:

- Inviting comments and feedback on the work of this report;
- HMRC have published a Tax Strategy and whilst the Council is not required to produce a strategy, the Council plans to publish one.
- This decision has been made as it is good practice, it also provides a named contact at HMRC which makes contacting HMRC easier.

Councillor Keith Hoskins proposed and, following a vote, it was:

RESOLVED: That the Committee comment on and note the proposed Tax Compliance Framework.

REASON FOR DECISION: The Council will benefit from having a Tax Compliance Framework, as it means that it will be allocated a contact at HMRC to discuss any relevant issues. This will support ongoing tax compliance. It also demonstrates best practice.

27 COUNCIL DELIVERY PLAN

Audio Recording: 1:10:50

The Service Director – Resources presented the report entitled Council Delivery Plan and made the following key points:

- This version of the Council Delivery Plan is for 2022/23 and has been discussed by the Overview & Scrutiny Committee last night;
- Appendix A is the proposed Council Plan;
- Appendix B is the list of risks and PIs that have been previously reported at this Committee or at the Overview and Scrutiny Committee that will not be reported in 2022/23;
- The majority of these risks have become outdated, however the online fraud is also listed, which is still important to the Council; the indirect potential implications are potential.

Councillor Keith Hoskins proposed and, following a vote, it was:

RECOMMENDED TO CABINET: That Cabinet considers and formally approves the Council Delivery Plan and any associated targets, to be monitored throughout 2022/2023 by Overview & Scrutiny Committee.

REASON FOR RECOMMENDATION: An approved Council Delivery Plan provides the Cabinet with assurance that progress against achievement of the Council Plan objectives, will be monitored throughout 2022/23.

28 POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS

Audio recording – 1:14:28

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

The meeting closed at 8:46 pm

Chair

**North Hertfordshire
District Council
Audit results report -
Addendum**

Year ended 31 March 2021

6 June 2022

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Building a better
working world

Agenda Item 6



Finance, Audit and Risk Committee Members
North Hertfordshire District Council
Council Offices
Gernon Road
Letchworth Garden City
SG6 3JF

6 June 2022

Dear Finance, Audit and Risk Committee Members

We are pleased to attach our Audit Results Report - Addendum which provides an update on our Provisional Audit Results Report dated 2 March 2022 and presented to the Finance, Audit and Risk Committee on the 16 March 2022 and the position following the conclusion of the outstanding audit procedures stated within that report.

We have now completed our audit of North Hertfordshire District Council's financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Audit Planning Report.

Subject to satisfactory completion of the final conclusion procedures set out below we expect to issue an 'unqualified opinion' on the Council's financial statements.

The final conclusion procedures are:

- Review of the final version of the financial statements;
- Receipt of response from Hertfordshire Pension Fund actuary with respect to how they have calculated the impact of errors in relation to the Hertfordshire building control service and our EY Pensions advisory team review of this response.
- Completion of subsequent events review to the date of the audit report; and
- Receipt of the signed management representation letter and financial statements

Yours faithfully

Debbie Hanson

Associate Partner
For and on behalf of Ernst & Young LLP

Enc.

Contents



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

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

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



01

Executive Summary



Executive Summary

Status of the audit

This Addendum provides a bridge between our Provisional Audit Results Report dated 2 March 2022 and presented to the Finance, Audit and Risk Committee on the 16 March 2022 and the position following the conclusion of the outstanding audit procedures stated within that report. This report includes an update on the areas of focus report in our Audit Plan as well as an update on the final audit differences identified and our independence.

We have now completed our audit of North Hertfordshire Council's financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Audit Plan. We updated our materiality calculation on the conclusion of our work and can confirm that we have worked to an overall materiality level of £1.427 million. We have performed our audit procedures using a performance materiality of £1.07 million and reported all uncorrected differences above £71k.

Subject to satisfactory completion of the outstanding matters set out below we expect to issue an unqualified opinion in the form presented in section 03 of our Provisional Audit Results Report dated 2 March 2022.

The following items are outstanding at the date of this report:

- Page 25
- Review of the final version of the financial statements;
 - Receipt of response from Hertfordshire Pension Fund actuary with respect to how they have calculated the impact of errors in relation to the Hertfordshire building control service and our EY Pensions advisory team review of this response.
 - Completion of subsequent events review to the date of the audit report; and
 - Receipt of the signed management representation letter and financial statements

We expect to issue the audit certificate after we issue the audit opinion, once the requirements of the Whole of Government Accounts (WGA) submission has been notified to us and subsequently completed. We note that however we expect the Council to be below the threshold requiring us to undertake any detailed procedures, but until the instructions are issued we are not able to confirm this.

Value for money

We have completed our planned VFM procedures and have no matters to report 'by exception' in our Auditor's Report.

We will formally issue our VFM commentary within our Auditor's Annual Report, which we plan to issue by the end of June 2022.



Executive Summary

Areas of audit focus

Our Audit Plan dated February 2021 followed by an update dated December 2021, identified key areas of focus for our audit of North Hertfordshire District Council's financial statements. In our Provisional Audit Results Report dated 2 March 2022 which was presented to the Finance, Audit and Risk Committee on the 16 March 2022, we provided our observations and conclusions on the areas we had completed at that time. We have summarised our consideration of all areas of focus below and have provided further details on those areas where we had not previously fully concluded our work as noted in our Provisional Audit Results Report.

| Risk | Findings & Conclusions |
|---|--|
| Misstatements due to fraud or error (management override) | No change from Provisional Audit Results Report - 2 March 2022 We have completed our audit work in respect of journal entries, estimates and unusual transactions. We have not identified any indications of management override of controls. |
| Incorrect capitalisation of revenue expenditure | No change from Provisional Audit Results Report - 2 March 2022 We have completed our audit work on capital additions (including REFCUS considerations) and have not identified any misstatements. |
| Valuation of Investment Properties | Update from Provisional Audit Results Report - 2 March 2022 We have now completed our audit work in this area, including receipt and review of our internal valuation specialists report. We engaged our valuations specialist (EY Real Estates - EYRE) to review a sample of four investment property valuations to verify the reasonableness of the valuation methodology applied and key assumptions used. We have not identified any significant difference in valuation of Investment Properties and have sufficient assurance that they are materially accurate. |

Executive Summary

Areas of audit focus

Our Audit Plan dated February 2021 followed by an update dated December 2021, identified key areas of focus for our audit of North Hertfordshire District Council's financial statements. In our Provisional Audit Results Report dated 2 March 2022 which was presented to the Finance, Audit and Risk Committee on the 16 March 2022, we provided our observations and conclusions on the areas we had completed at that time. We have summarised our consideration of all areas of focus below and have provided further details on those areas where we had not previously fully concluded our work as noted in our Provisional Audit Results Report.

| Risk | Findings & Conclusions |
|---|---|
| Valuation of Property, Plant & Equipment assets | <p>Update from Provisional Audit Results Report – 2 March 2022</p> <p>We have now completed our audit work in this area, including receipt and review of EYRE report. We engaged our valuations specialists to verify the reasonableness of the valuation methodology applied and key assumptions used, including the potential ongoing impact of Covid on valuations. Our sample included total four properties, including three from other land and buildings and one surplus asset. Our valuers concluded that for all four properties reviewed the values were supportable.</p> <p>Our valuer's also noted that the Council's valuers use of Depreciated Replacement Cost (DRC) method is reasonable and consistent with the valuation practice, with the land value element assessed using the market approach. They did however note that the Council's valuers have used land values of £9,500 per acre, which in our specialists opinion are lower than the land values that should have been adopted (with EYRE expected range being from £150,000 to £200,000 per acre). Although this did not have an impact on the overall values for the assets sampled by our valuer, due to the small land areas for these assets and the fact that the Council's valuer's assumptions for obsolescence resulted in building values being towards the upper end of our valuers expected range, we have considered the impact of the use of lower land values on all other DRC assets. This has resulted in a potential difference of around £1.3 million between the Council's valuers and our estimated values in relation to the land element of the valuation. As set out above, we also noted that the valuer's assumptions for obsolescence for these assets were lower than we would have expected which results in the value of the building element being higher. Therefore the £1.3 million difference noted on the land would be the maximum potential difference as it would be offset by the Council's value of buildings being higher. We are therefore satisfied that overall the combined land and buildings values are materially accurate. Please refer section "Audit Differences" for details.</p> <p>Furthermore, we noted that the Council's valuers performed their valuation as of 1 November 2020, which is some time before year end of 31 March 2021. EYRE's rollforward procedures confirmed that the values remained appropriate for use as of 31 March 2021. However we would have expected the valuer to provide an update letter as at the valuation date to confirm to the Council that the valuations remained appropriate for use as at year end, but understand that this is not part of the valuers scope. We would therefore recommend that the Council should include this as part of the valuers scope moving forward.</p> |



Executive Summary

| Risk | Findings & Conclusions |
|---|---|
| Pension liability valuation and disclosures | <p><i>Update from Provisional Audit Results Report - 2 March 2022</i></p> <p>We have completed our audit work in this area, including the review of report from our EY pension specialists in relation to alternate procedures performed to create an auditor's estimate on rollforward of the pension liability. Our specialists did not identify any material difference based on their procedures.</p> <p>In addition to the completion of the above procedures, the Council made us aware that there was an error in the actuary's IAS19 report and the net pension liabilities reported in this. This was due to the incorrect treatment of assets related to Hertfordshire Building Control (HBC) at outset of HBC's participation in the Hertfordshire Pension Fund (HPF). Below is a brief summary of this issue and impact on North Hertfordshire District Council's accounts.</p> <p><u>Background</u></p> <p>In 2017, when HBC began participation in the HPF, assets were allocated to HBC from Hertfordshire County Council (HCC) rather than from each of the seven originating councils. As a result, since this date, asset shares for HCC have been understated, with asset shares for the seven originating councils correspondingly overstated.</p> <p><u>Impact for NHDC</u></p> <ul style="list-style-type: none">• At the 2019 formal actuarial valuation, rectifying the error would result in a small decrease in the reported funding level of North Herts District Council. This would have had no impact on the contribution rate calculated at the time of the valuation.• The net asset position reported in the 31 March 2020 IAS19 accounting reports would have been overstated by around 0.3% of total assets. This will also have had a similar impact on the 31 March 2021 IAS19 accounting position. <p>Management has calculated the impact for the year ended 31 March 2020 and 2021, and have concluded that the overall impact on the Council accounts is not material for either 31 March 2020 or 2021, and therefore do not propose to adjust the difference in the accounts for 2020/21. Based on the information we have currently received from the pension fund actuary the impact of the above we have also concluded that building control issue is not material. We are however currently awaiting assurance over the method applied by the actuary to confirm the difference, including the reasonableness of impact on total assets for the Council being 0.3%, as reported by actuary.</p> <p>The difference calculated above amounts to £454k for 2020/21 and £377k for 2019/20. We have therefore considered this as an unadjusted misstatement, as the amount for 2020/21 is above our SAD level. We will seek confirmation from management on the reasons for this not being adjusted via our management representation letter. Refer Appendix A for draft representation letter (which is updated from draft representation letter included in our Provisional Audit Results Report). Please refer Section "Audit Differences" for the impact amount for 2020/21. As the difference for 2019/20 is not material we would not require any adjustment to the prior year comparative as a prior period adjustment for this.</p> |



Executive Summary

| Risk | Findings & Conclusions |
|---|---|
| Going concern disclosure | <p>Update from Provisional Audit Results Report – 2 March 2022</p> <p>We have now completed our audit work in this area, including review of cashflow forecast of the Council up to June 2023. Based on the work undertaken we are satisfied that management’s assessment on going concern is adequate and supportable. We also reviewed the Council’s disclosures within the financial statements and have assessed the need for any internal consultation. We have concluded that there is no need for any internal consultation as we have assessed the risk involved with management’s use of going concern basis to be low. We have no matters to report.</p> |
| Calculation of NNDR appeals provision | <p>Update from Provisional Audit Results Report – 2 March 2022</p> <p>We have now completed our procedures in relation to the calculation of NNDR appeals provision. No material misstatements were identified.</p> |
| Accounting for Covid-19 related government grants | <p>Update from Provisional Audit Results Report – 2 March 2022</p> <p>We have now completed our procedures in relation to the of accounting for Covid-19 grant income. No material misstatements were identified.</p> |

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We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issue
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Finance, Audit and Risk Committee.



02 Areas of Audit Focus





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error (Fraud risk)

What is the risk?

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

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

What judgements are we focused on?

We focused our testing on accounting estimates which include pension liability, property valuation, and bad debts provision including NNDR appeals provision. Also performing mandatory procedures including testing of journal entries.

What did we do?

This is a risk that we recognise on all engagements. Our overall response to this for North Hertfordshire District Council was:

- ▶ Assessment to identify fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determined an appropriate strategy to address those identified risks of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements, assessing accounting estimates for evidence of management bias and evaluating the business rationale for significant and unusual transactions.
- ▶ We have utilised our data analytics capabilities to assist with our work.

What are our conclusions?

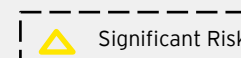
No change from Provisional Audit Results Report - 2 March 2022

We have completed our audit work in respect of journal entries, estimates and unusual transactions, including reviews from Manager and Associate Partner.

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.





Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure (fraud risk)

What is the risk?

Linking to our risk of misstatements due to fraud and error above, we have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Council's capital programme.

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What judgements are we focused on?

Whether management have appropriately classified expenditure as capital in nature

What did we do?

We have undertaken additional procedures to address the specific risk we have identified, which included:

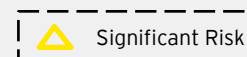
- For significant additions to property, plant and equipment, we have examined invoices, capital expenditure authorisations, leases and other data that support these additions. We have ensure that they have been correctly classified as capital in line with accounting standards and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.
- If material we planned to review Revenue Expenditure Funded from Capital Under Statute (REFCUS), to verify that revenue costs have not been inappropriately funded from capital. However, as the balance was only £496k and therefore immaterial we have not undertaken any testing on this balance.
- We have extended our testing of items capitalised in the year by lowering our testing threshold. We have also review a random sample of capital additions below our testing threshold.
- Journal testing - we have used our testing of journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

What are our conclusions?

No change from Provisional Audit Results Report - 2 March 2022

We have completed our audit work on capital additions including reviews from Manager and Associate Partner.

We have not identified any revenue items that have been inappropriately capitalised from our substantive testing.





Areas of Audit Focus

Significant risk

Valuation of investment properties

What is the risk?

The fair value investment properties represent a significant balance in the Council's accounts and is subject to valuation changes, market volatility, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. As per draft accounts for 2020/21, investment properties amount to £23.8 million (2019/20: £18.4 million)

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What judgements are we focused on?

As this is a material accounting estimates and one dependent on a high degree of subjectivity, we associated a significant risk to the valuation of investment properties in the 2020/21 audit.

What did we do?

We have undertaken following procedures to address the specific risk we have identified, which included:

- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Engaged our valuations specialist (EY Real Estates) to review a sample of 4 investment properties valuations to verify the reasonableness of the valuation methodology applied and key assumptions used.
- Challenged the assumptions used by the valuer and sample testing key information used by the valuer in performing their valuation.
- Reviewed the list of investment properties to ensure that all properties were revalued in 2020/21.
- We have reviewed the report from the Council's valuer - Reynolds Butler, and confirmed there is no material uncertainty in their report for 2020/21.

What are our conclusions?

Update from Provisional Audit Results Report - 2 March 2022

We have now completed our audit work in this area, including receipt and review of our internal valuation specialists report. We engaged our valuations specialist (EY Real Estates) to review a sample of four investment property valuations to verify the reasonableness of the valuation methodology applied and key assumptions used. We have not identified any significant difference in valuation of Investment Properties and have sufficient assurance that they are materially accurate.





Areas of Audit Focus

Inherent risks and other areas of audit focus

What is the risk/area of focus?

Valuation of property, plant and equipment (PPE) assets

The valuation of assets included in the PPE balance represent significant balances in the Council's accounts and are subject to valuation changes. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is therefore a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted.

Property, plant and equipment (PPE) (of which land and buildings and surplus assets represent the vast majority) are significant balances in the Council's accounts. As at 31 March 2021, PPE totals £95.6 million (2019/20: £95 million).

What have we done and our conclusions?

We have:

- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Engaged our valuations specialist (EY Real Estates) to review a sample of asset valuations to verify the reasonableness of the valuation methodology applied and key assumptions used, including the potential impact of Covid-19 on valuation uncertainties. Our sample included total four properties – out of this sample three assets are from land and buildings and one from surplus assets category;
- ▶ Sample tested key asset information used by the valuers in performing their valuation;
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.
- ▶ Considered any specific changes to assets that have occurred and whether these have been communicated to the valuer;
- ▶ Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements.

Update from Provisional Audit Results Report – 2 March 2022

We have now completed our audit work in this area, including receipt and review of EYRE report. We engaged our valuations specialists to verify the reasonableness of the valuation methodology applied and key assumptions used, including the potential ongoing impact of Covid on valuations. Our sample included total four properties, including three from other land and buildings and one surplus asset. Our valuers concluded that for all four properties reviewed the values were supportable.

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Areas of Audit Focus

Inherent risks and other areas of audit focus

What is the risk/area of focus?

What have we done and our conclusions?

Valuation of property, plant and equipment (PPE) assets

Update from Provisional Audit Results Report - 2 March 2022 (continued)

Our valuer's also noted that the Council's valuers use of Depreciated Replacement Cost (DRC) method is reasonable and consistent with the valuation practice, with the land value element assessed using the market approach. They did however note that the Council's valuers have used land values of £9,500 per acre, which in our specialists opinion are lower than the land values that should have been adopted (with EYRE expected range being from £150,000 to £200,000 per acre). Although this did not have an impact on the overall values for the assets sampled by our valuer, due to the small land areas for these assets and the fact that the Council's valuer's assumptions for obsolescence resulted in building values being towards the upper end of our valuers expected range, we have considered the impact of the use of lower land values on all other DRC assets. This has resulted in a potential difference of around £1.3 million between the Council's valuers and our estimated values in relation to the land element of the valuation. As set out above, we also noted that the valuer's assumptions for obsolescence for these assets were lower than we would have expected which results in the value of the building element being higher. Therefore the £1.3 million difference noted on the land would be the maximum potential difference as it would be offset by the Council's value of buildings being higher. We are therefore satisfied that overall the combined land and buildings values are materially accurate. Please refer section "Audit Differences" for details.

Furthermore, we noted that the Council's valuers performed their valuation as of 1 November 2020, which is some time before year end of 31 March 2021. EYRE's rollforward procedures confirmed that the values remained appropriate for use as of 31 March 2021. However we would have expected the valuer to provide an update letter as at the valuation date to confirm to the Council that the valuations remained appropriate for use as at year end, but understand that this is not part of the valuers scope. We would therefore recommend that the Council should include this as part of the valuers scope moving forward.



Areas of Audit Focus

Inherent risks and other areas of audit focus

What is the risk/area of focus?

Pension liability valuation and disclosures

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. As per the draft accounts, this liability amounts to £46.6 million as at 31 March 2021 (2019/20: £30.7 million).

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

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

What have we done and our conclusions?

To address this risk, we have carried out a range of procedures including:

- ▶ liaised with the auditors of Hertfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council;
- ▶ assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PwC, as the Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering the review of this work by the EY Pensions actuarial team;
- ▶ Considered the nature and value of level 3 investments held by the Pension Fund and the proportion of the overall Fund relating to North Hertfordshire District Council in and confirmed no additional procedures are required to support the estimates of the valuation of these asset as at 31 March 2021;
- ▶ Considered the movement in fund asset values between the actuary's estimate and year end; and
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

ISA540 (revised) requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we modified our planned approach and undertook alternate procedures to create an auditor's estimate, to gain the necessary assurance. We employed the services of an EY Pensions specialist to review the Council's IAS19 reports and run a parallel actuarial model which was compared to that produced by the Council's actuary. Our specialists have completed their procedures and have not reported any significant difference.

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Areas of Audit Focus

Inherent risks and other areas of audit focus

What is the risk/area of focus?

Pension liability valuation and disclosures

What have we done and our conclusions?

Update from Provisional Audit Results Report - 2 March 2022

We have completed our audit work in this area, including the review of report from our EY pension specialists in relation to alternate procedures performed to create an auditor's estimate on rollforward of the pension liability. Our specialists did not identify any material difference based on their procedures.

In addition to the completion of the above procedures, the Council made us aware that there was an error in the actuary's IAS19 report and the net pension liabilities reported in this. This was due to the incorrect treatment of assets related to Hertfordshire Building Control (HBC) at outset of HBC's participation in the Hertfordshire Pension Fund (HPF). Below is a brief summary of this issue and impact on North Hertfordshire District Council's accounts.

Background

In 2017, when HBC began participation in the HPF, assets were allocated to HBC from Hertfordshire County Council (HCC) rather than from each of the seven originating councils. As a result, since this date, asset shares for HCC have been understated, with asset shares for the seven originating councils correspondingly overstated.

Impact for NHDC

- At the 2019 formal actuarial valuation, rectifying the error would result in a small decrease in the reported funding level of North Herts District Council. This would have had no impact on the contribution rate calculated at the time of the valuation.
- The net asset position reported in the 31 March 2020 IAS19 accounting reports would have been overstated by around 0.3% of total assets. This will also have had a similar impact on the 31 March 2021 IAS19 accounting position.

Management has calculated the impact for the year ended 31 March 2020 and 2021, and have concluded that the overall impact on the Council accounts is not material for either 31 March 2020 or 2021, and therefore do not propose to adjust the difference in the accounts for 2020/21. Based on the information we have currently received from the pension fund actuary the impact of the above we have also concluded that building control issue is not material. We are however currently awaiting assurance over the method applied by the actuary to confirm the difference, including the reasonableness of impact on total assets for the Council being 0.3%, as reported by actuary.

The difference calculated above amounts to £454k for 2020/21 and £377k for 2019/20. We have therefore considered this as an unadjusted misstatement, as the amount for 2020/21 is above our SAD level. We will seek confirmation from management on the reasons for this not being adjusted via our management representation letter. Refer Appendix A for draft representation letter (which is updated from draft representation letter included in our Provisional Audit Results Report). Please refer Section "Audit Differences" for the impact amount for 2020/21. As the difference for 2019/20 is not material we would not require any adjustment to the prior year comparative as a prior period adjustment for this.



Areas of Audit Focus

Inherent risks and other areas of audit focus

What is the risk/area of focus?

Going concern disclosures

Covid has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.

In addition, the auditing standard, International Auditing Standard 570 Going Concern, has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that an Council's financial statements shall be prepared on a going concern basis; the accounts should be prepared on the assumption that the functions of the Council will continue in operational existence for the foreseeable future and can only be discontinued under statutory prescription.

However, ISA 570, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

What have we done and our conclusions?

The revised standard requires:

- ▶ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- ▶ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Council obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- ▶ ensuring compliance with any updated reporting requirements;
- ▶ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

Update from Provisional Audit Results Report - 2 March 2022

We have now completed our audit work in this area, including review of cashflow forecast of the Council up to June 2023. Based on the work undertaken we are satisfied that management's assessment on going concern is adequate and supportable. We also reviewed the Council's disclosures within the financial statements and have assessed the need for any internal consultation. We have concluded that there is no need for any internal consultation as we have assessed the risk involved with management's use of going concern basis to be low. We have no matters to report.



Areas of Audit Focus

Inherent risks and other areas of audit focus

What is the risk/area of focus?

National Non-Domestic Rates (NNDR) Appeals Provision

In common with other billing authorities, the Council is proposing a significant increase in its appeals provision due to more businesses seeking rates reductions as a result of Covid-19 and a decrease in rental prices on which rateable values are based. In light of this we consider there to be a higher inherent risk of misstatement of the Council's NNDR appeals provision.

The NNDR provision amount as per the draft statement of accounts for 2020/21 is £2.74 million (2019/20: £0.84 million).

What have we done and our conclusions?

We have considered the Council's estimation of the NNDR appeals provision by performing the following:

- Reviewed the assumptions made by the Council in determining the NNDR appeals provision and challenged these assumptions to ensure their adequacy.
- Assess the reasonableness of any local adjustments made by the Council on the NNDR appeals provision.

Update from Provisional Audit Results Report - 2 March 2022

We have now completed our procedures in relation to the calculation of NNDR appeals provision. No material misstatements were identified.



Areas of Audit Focus

Inherent risks and other areas of audit focus

What is the risk/area of focus?

Recognition of grant income associated with Covid

Central Government has provided a number of new and different Covid related grants to local authorities during the year. There are also funds that have been provided for the Council to distribute to other bodies.

The Council needs to review each of these grants to establish how they should be accounted for. The Council needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. Where the decision is that the Council is a principal, it must also assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.

What have we done and our conclusions?

We have:

- ▶ Considered the revenue and capital grants received by the Council;
- ▶ Responsive to the risk, carried out testing to ensure the accounting treatment and recognition applied to grant income is appropriate.
- ▶ For a sample of the grants we have:
 - Reviewed the Council's assessment of whether it is acting as principal or agent;
 - Reviewed whether any initial conditions are attached to grants which would impact on their recognition;
 - Assessed whether the accounting appropriately follows those judgements.

We have also checked that the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

Update from Provisional Audit Results Report - 2 March 2022

We have now completed our procedures in relation to the of accounting for Covid-19 grant income. No material misstatements were identified.



03 Audit Differences



Audit Differences

Summary of unadjusted differences

We identified the following audit differences which management has not agreed to adjust in the final accounts, therefore these differences remain uncorrected.

| Uncorrected misstatements | | | Analysis of misstatements Debit/(Credit) | | | | | | | |
|---------------------------|----------|---|--|-------------------------|-------------------------|-------------------------|-------------------|----------------------------------|---|------------|
| No. | WIP ref. | Account (Note 1) | Assets Current | Assets Non-current | Liabilities Current | Liabilities Non-current | Equity components | Effect on the current period OCI | Income statement effect of the current period | |
| | | (misstatements are recorded as journal entries with a description) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit t) | Non taxabl |

Add new misstatement

Judgmental misstatements:

Page 42

| | | | | | | | | | | |
|---|----|---|--|-----------|--|-----------|--|-------------|--|--|
| 1 | 21 | Difference is due to an error made by the actuary in accounting for Herts Building Control for assets not allocated from NHDC at the start of HBC being part of the HPF | | | | | | | | |
| | | Unusable Reserves | | | | | | 454,000 | | |
| | | Pensions Liability | | | | (454,000) | | | | |
| | | | | | | | | | | |
| 2 | 21 | The internal valuer used a low agricultural value of land. EY Real Estate specialists suggested a higher value of such land. We have used EYRE value and calculated the difference. | | | | | | | | |
| | | Property, plant & equipment | | 1,335,801 | | | | | | |
| | | Gains on Revaluation of property, plant & equipment | | | | | | (1,335,801) | | |
| | | | | | | | | | | |



Audit Differences

Adjusted differences

We identified the certain disclosure differences (e.g. casting, referencing, classification etc) which management has agreed to adjust in the final accounts. As these adjustments are purely related to disclosures, they will not have any impact on current year's CIES and/or balance sheet.



04

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

Whilst we have identified certain audit differences as detailed in above Section "Audit Differences" of this report, neither of these audit differences suggest nor we have identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



05

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1st April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that are due to us in relation to the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are in the next page. Further detail of all fees has been provided to the Finance, Audit and Risk Committee.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We confirm that we have not undertaken non-audit work, other than Housing Benefit Certification assurance work.

Other communications

EY Transparency Report 2021

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

[EY UK 2021 Transparency Report | EY UK](#)

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

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

| Description | Proposed Fee (£) 2019/20 | Final Fee (£) 2019/20 | Planned Fee (£) 2020/21 |
|---|-----------------------------|--------------------------|----------------------------|
| Scale fee - Code work | 40,068 | 40,068 | 40,068 |
| Changes in work required to address professional and regulatory requirements & scope changes associated with risk - Note 1 | 19,752 | 12,962 | TBC |
| Additional work required in 2019/20 - Note 2 | 14,877 | 7,000 | - |
| Additional work required in 2020/21 - Note 3 | - | - | TBC |
| Additional work required due to changes in auditing standards for estimates - Note 4 | - | - | 2,500 |
| Additional work required due to change in scope of VFM work - Note 4 | - | - | 6,000 to 11,000 |
| Non-audit Fee - Housing subsidy claim | 7,340* | 9,140 | 7,340* |
| Total audit fees | 82,037 | 69,170 | TBC |

All above fees are excluding VAT

** This amount doesn't include any fee for extended ("40+") testing*

Note 1: For 2019/20 and 2020/21, we have proposed an increase to the scale fee to reflect the increased level of audit work required which has been impacted by a range of factors including changes in risk profile of the audit and increases in regulatory standards. Further detail on this proposed increase was included in our previous reports to the Committee. We have proposed an increase of £19,752 for 2019/20 to the scale fee to reflect these additional requirements and have shared details of the breakdown with management. For 2019/20, PSAA approved £12,962 against this proposed fee. For 2020/21, we will calculate the proposed increase in fee by using the revised hourly rates as approved by PSAA (refer Note 4 below).

Note 2: For 2019/20, we proposed an additional fee of £14,877, as detailed in our 2020/21 Outline Audit Plan. This reflected the increased audit work required in regard to: valuations of PPE and investment properties; the impact of Covid-19 on a number of areas including going concern disclosures, EY internal consultation with our PPD on audit report. For 2019/20, PSAA approved £7,000 against this proposed fee.

Note 3: For 2020/21, the additional fee will be quantified after completion of audit and will be discussed with the management before submission to PSAA. PSAA will determine the final fee.

Note 4: PSAA published additional information for 2020/21 audit fees in August 2021, whereby PSAA provided guidance about the range of minimum additional fee in certain areas of audit. The figures above are the ranges or minimum fee set by PSAA. PSAA also revised its hourly rates for calculating the additional fee variations.

DRAFT Management representation letter

Management Representation Letter - DRAFT

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young
400 Capability Green
Luton
Bedfordshire
LU1 3LU

This letter of representations is provided in connection with your audit of the financial statements of North Hertfordshire District Council ("the Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of North Hertfordshire District Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.

DRAFT Management representation letter

Management Representation Letter - DRAFT

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because *they do not have a General Fund impact, only affect unusable reserves and relate to areas of the Balance Sheet that are already subject to significant estimation. Furthermore, we do not view the difference to be material particularly in the context of the overall PPE balance of £xxxm.*
6. We confirm the Council does not have securities (debt or equity) listed on a recognized exchange.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial improprieties;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the [Council/Authority]'s financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the [Council/Authority]'s activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.
3. We have made available to you all minutes of the meetings of the Council and committees (the Executive, Audit Committee and Review Committee) (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date].

DRAFT Management representation letter

Management Representation Letter - DRAFT

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with applicable financial reporting framework.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter (17 November 2020) through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note [XXX] to the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 4 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. As described in Note 6 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

DRAFT Management representation letter

Management Representation Letter - DRAFT

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Financial Report 2020/2021, including the Narrative Report and the Annual Governance Statement. .
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant & equipment and investment properties and the defined benefit pension scheme liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

K. Estimates

1. We confirm that the significant judgments made in making the valuation of valuation of property, plant & equipment and investment properties, the defined benefit pension scheme liability and NNDR appeals provision have taken into account all relevant information and the effects of the COVID-19 pandemic on 31 March 2021 of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of valuation of property, plant & equipment and investment properties, the defined benefit pension scheme liability and NNDR appeals provision.
3. We confirm that the significant assumptions used in making the valuation of valuation of property, plant & equipment and investment properties, the defined benefit pension scheme liability and NNDR appeals provision appropriately reflect our intent and ability to carry out our procedures on behalf of the entity.



Appendix A

DRAFT Management representation letter

Management Representation Letter - DRAFT

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on 31 March 2021, are complete and are reasonable in the context of the applicable financial reporting framework.
5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of valuation of property, plant & equipment and investment properties, the defined benefit pension scheme liability and NNDR appeals provision.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

L. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

(Service Director - Resources)

(Chairman of the Finance, Audit and Risk Committee)

DRAFT Management representation letter

Management Representation Letter - DRAFT

Schedule of unadjusted audit differences

| Uncorrected misstatements | | | Analysis of misstatements Debit/(Credit) | | | | | | | |
|---------------------------|----------|---|--|-------------------------|-------------------------|-------------------------|-------------------|----------------------------------|---|------------|
| No. | W/P ref. | Account (Note 1) | Assets Current | Assets Non-current | Liabilities Current | Liabilities Non-current | Equity components | Effect on the current period OCI | Income statement effect of the current period | |
| | | (misstatements are recorded as journal entries with a description) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit t) | Non taxabl |

Add new misstatement

Judgmental misstatements:

| | | | | | | | | | | |
|---|----|---|--|-----------|--|-----------|--|-------------|--|--|
| 1 | 21 | Difference is due to an error made by the actuary in accounting for Herts Building Control for assets not allocated from NHDC at the start of HBC being part of the HPF | | | | | | | | |
| | | Unusable Reserves | | | | | | 454,000 | | |
| | | Pensions Liability | | | | (454,000) | | | | |
| | | | | | | | | | | |
| 2 | 21 | The internal valuer used a low agricultural value of land. EY Real Estate specialists suggested a higher value of such land. We have used EYRE value and calculated the difference. | | | | | | | | |
| | | Property, plant & equipment | | 1,335,801 | | | | | | |
| | | Gains on Revaluation of property, plant & equipment | | | | | | (1,335,801) | | |
| | | | | | | | | | | |

EY | Assurance | Tax | Transactions | Advisory

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| FINANCE, AUDIT AND RISK COMMITTEE 15 June 2022 |
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|---------------------------------|
| PART 1 – PUBLIC DOCUMENT |
|---------------------------------|

TITLE OF REPORT: STATEMENT OF ACCOUNTS 2020/21

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: *NON-EXECUTIVE*

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

1. EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to ask Finance, Audit and Risk Committee to approve the audited Statement of Accounts for 2020/21. The Statement of Accounts has been subject to external audit and a draft is enclosed with the report as Appendix A. The final Audited Statement of Accounts for 2020/21, which will include the external audit opinion, is expected to be ready for sign off shortly and will be circulated to Committee members for their review in the coming days.

2. RECOMMENDATIONS

- 2.1. That the 2020/21 Annual Statement of Accounts, as set out in Appendix A, be approved and signed by the Chair of the Committee.

3. REASONS FOR RECOMMENDATIONS

- 3.1. To ensure that the Council abides by the Audit and Account Regulations 2015, which require the approval and publication of audited Statement of Accounts.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1. None. The Authority is required to prepare an annual Statement of Accounts and must follow accounting practices guidance issued by the Secretary of State and follow 'proper practices' governing the preparation of the annual Statement of Accounts (Section 21 of the Local Government Act 2003).

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. Consultation on the Statement of Accounts is not required.
- 5.2. The draft Statement of Accounts 2020/21 was published on the Council's website at the end of July 2021
- 5.3. The accounts are subject to audit by the Council's External Auditors, Ernst and Young LLP (EY).
- 5.4. Under the Local Audit and Accountability Act 2014 (sections 26 and 27) and the Accounts and Audit Regulations 2015 (sections 14 and 15), members of the public and

Local Government electors have certain rights in respect of the audit process. This includes inspection of the accounts, associated documents and being able to ask questions. This opportunity was advertised in accordance with the regulations. No one took up this opportunity

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 legally required to annually produce a statement of accounts detailing the financial activities for the year and overall financial position as at 31st March. Generally it has a statutory responsibility to publish its draft Statement of Accounts by 31st May, and that an audited version should be approved by 31st July 2021. Due to the implications of the Covid-19 pandemic, however, these deadlines have been extended. The Council published unaudited accounts by the revised deadline of 31 July 2021. An audited version should have been approved by 30th November 2021. This was delayed by resourcing issues at Ernst & Young LLP. In line with legislation, the Council published a notice on its website detailing this delay, alongside a letter from Ernst and Young: [Statement of Accounts | North Herts Council \(north-herts.gov.uk\)](https://www.north-herts.gov.uk/statement-of-accounts).
- 7.2. The Council's external auditors, Ernst & Young LLP (EY) commenced their audit work in November 2021. The Provisional Audit Results report was presented to the Committee in March 2022. Work to complete the audit has been ongoing since then, resulting in only minor updates and amendments to the Statement of Accounts, which are highlighted in the version at Appendix A. As the final Audit Results report was therefore not ready in time for the previous Chair of Committee to approve and sign the Statement of Accounts in accordance with the delegation agreed at the last meeting in March, the Statement of Accounts for 2020/21 has been brought back to Committee for approval at the meeting this evening.

8. RELEVANT CONSIDERATIONS

- 8.1. A draft of the audited version of the Statement of Accounts is attached at Appendix A. The Narrative Report within the statement of accounts provides an overview of how the accounts are presented and highlights the most significant matters. Changes from the draft unaudited accounts published in July 2021 are highlighted in yellow. The final signed version of the accounts will have these highlights removed. As the audit is not fully complete at the time of writing this report, any further changes identified will be presented either as a verbal update (if very minor) or an addendum report
- 8.2. The only changes of note in the version of the statement of accounts at Appendix A from the draft accounts published last July relate to the accounting for the Council's share of the Hertfordshire Pension Fund, following the audit of the Hertfordshire Pension Fund accounts. The draft 2020/21 accounts for the Pension Fund had included some asset values that were based on a measurement as at the end of the third quarter of the financial year. It was subsequently established during the audit that there were large movements in these asset values during the final quarter, the materiality of which was such that it required both the asset values to be restated in the Pension Fund Accounts and, consequently, the pension estimates for North Herts Council to be recalculated by the Pension Fund actuary accordingly. The accounts as published at Appendix A therefore reflect the updated position. All other changes highlighted are minor corrections or updates to disclosure notes and do not change the summary financial position for the Council as presented in the unaudited accounts.

- 8.3. The Committee will see in the Audit Results Report from EY that the Council has chosen not to adjust for two differences, one in respect of pension values and the other relates to property valuations. Both of these are non-material and will not affect the audit opinion. The main reason for not adjusting for these is that they do not have a General Fund impact, only affect unusable reserves and relate to areas of the Balance Sheet that are already subject to significant estimation (i.e. property and pension valuations). Also, as well as being below the EY audit materiality threshold, they are immaterial in the context of the specific items which they are part of.
- 8.4. The pensions difference is an estimate and to do a full correction would require an updated report from the actuary. As the actuary made the original mistake, this valuation report would be provided without charge. There would however still be an impact on the Council and Ernst and Young in actioning and then auditing the changes. Given where we are with the timing of the audit, this is felt to not be a good use of time. The estimated difference of £454k is not significant in the context of pension fund scheme assets of over £151m.
- 8.5. The property valuation difference is essentially down to a difference of professional opinion between the Council's valuer and the EY Real Estates valuer. Both believe that they are correct in their understanding of the RICS (Royal Institute of Chartered Surveyors) valuation rules and their understanding of the property market/ land values. There is no simple way to correct this situation. The estimated difference of less than £1.336m is not significant in the context of total Property, Plant and Equipment assets of over £98.7m.
- 8.6. Once approved by the Committee, the Statement of Accounts will be formally signed. The Chair will sign page 1 of the Statement of Accounts to confirm that they have been approved by the Committee. The Service Director- Resources (as the Council's Chief Finance Officer) will sign the Statement of Responsibilities (page 1 of Appendix A) to certify that the statement of accounts give a true and fair view of the financial position of the Authority as at 31 March 2021 and its income and expenditure for the year then ended. The Service Director- Resources (as Chief Finance Officer) and the Chair of the Committee will also sign the Letter of Representation on behalf of the Council. The wording of the Letter of Representation can be found as an appendix to the final Audit Results Report document presented by EY this evening. This will be amended to include an explanation of the reason that the Council will not be adjusting for the uncorrected differences. It will state that "we have not corrected these differences identified by and brought to the attention from the auditor because they do not have a General Fund impact, only affect unusable reserves and relate to areas of the Balance Sheet that are already subject to significant estimation. As well as being below the audit materiality threshold, we believe that they are immaterial in the context of the specific items which they are part of. The estimated pension difference of £454k is not significant in the context of pension fund scheme assets of over £151m. Similarly, the estimated property valuation difference of less than £1.336m is not significant in the context of total Property, Plant and Equipment assets of over £98.7m."
- 8.7. Officers are not aware of any events that have occurred since the year end that provide additional evidence of conditions that existed at 31st March 2021 or materially affect the amounts in the Statement of Accounts. In particular, there has not been any subsequent event that would require an amendment to the contingent assets and liabilities listed in the accounts. The implications of the Covid-19 pandemic are detailed in the accounts and the Narrative Report. There is also an extended justification on that it is still appropriate to prepare the accounts on a Going Concern basis.

- 8.8. The Annual Governance Statement (AGS) is required to be approved in advance of approving the Statement of Accounts. This was approved at the meeting of the Committee in March 2022. The Council will ensure that the publication of the Statement of Accounts is accompanied by the publication of the Annual Governance Statement.

9. LEGAL IMPLICATIONS

- 9.1. The Accounts and Audit Regulations 2015 determine how and when the Annual Statement of Accounts should be approved and published. For 2020/21 the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 have amended the dates by which the accounts have to be prepared and approved.
- 9.2. The Accounts and Audit Regulations 2015 (section 9) state the accounts should be signed and dated by the Member presiding at the meeting which formally approves the accounts. Under the constitution, the Finance, Audit & Risk Committee has responsibility to “review and approve the Statement of Accounts” (constitution 10.1.5a).
- 9.3. The Local Audit and Accountability Act 2014 (sections 26 and 27) and the Accounts and Audit Regulations 2015 (sections 14 and 15) grant members of the public and Local Government electors certain rights in respect of the audit process.
- 9.4. The Local Government Act 2003 (section 21) determines that the Council must follow ‘proper practices’ in the preparation of the annual Statement of Accounts

10. FINANCIAL IMPLICATIONS

- 10.1. The outturn reports were presented to Members in June 2021. These provided the end of year position of the General Fund, other reserves and capital expenditure. None of the changes to the Statement of Accounts identified from the audit have resulted in any change to the outturn position reported.

11. RISK IMPLICATIONS

- 11.1. The process of compiling the Statement of Accounts is a control mechanism to help mitigate against the risk of poor financial management and is a way the Council can demonstrate to the public how it has managed its resources and acted in its responsibility as a steward of public funds.

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” 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. There are no direct human resource implications arising from this report.

16. APPENDICES

- 16.1. Appendix A - Draft Statement of Accounts 2020/21 (current version at the time of writing the report).

17. CONTACT OFFICERS

- 17.1. Ian Couper, Service Director – Resources
ian.couper@north-herts.gov.uk; ext 4243
- 17.2. Antonio Ciampa, Accountancy Manager
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18. BACKGROUND PAPERS

- 18.1. None.

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**Audited Statement of
Accounts
2020/2021**

**North
Hertfordshire
District Council**

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The Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Service Director – Resources;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the statement of accounts.

Service Director – Resources' Responsibilities

The Service Director – Resources is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the statement of accounts, the Service Director – Resources has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code;

The Service Director – Resources has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the 31 March 2021 and its income and expenditure for the year then ended.

Ian Couper

Service Director – Resources

Independent Auditor's Report

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Independent Auditor's Report

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Independent Auditor's Report

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Narrative Report

This narrative report provides a summary of the key information that is contained within the Statement of Accounts, as well as providing more information about the Council. This includes the vision and objectives, performance over the year and how resources are allocated.

The Council Plan, Vision and Objectives

The Council has a five year Council Plan that it reviews each year, although the intention is that the vision and objectives should be in place for **a longer period**. Following the local elections in May 2019, a joint administration of Labour and Co-operative and Liberal Democrat Councillors was formed. The plan agreed in November 2019 for the period 2020-25 reflected **ed** the aims and ambitions of the joint administration. The plan was updated in September 2020, with the first objective being updated to be “a welcoming, inclusive and efficient Council”.

The Council's overall vision for **2020-21 was** to make “**North Hertfordshire a district in which everyone who lives, works or visits is able to flourish**”.

The Council understands that it must work with its partners, businesses, and urban and rural communities to achieve **its** vision. This **was** reflected in our five objectives which **were**:



The Council refreshed its Council Plan in September 2021, for the period 2022-27. The full current plan can be found here <https://www.north-herts.gov.uk/home/council-data-and-performance/council-plan>.

Narrative Report

We will operate in line with the principles of a co-operative council. The Council will be one that builds the co-operative values of mutual support, accountability, fairness and responsibility into everything it does.

New organisational values were adopted in 2019. These are expected to be demonstrated by staff and these values are embedded in our appraisal system to ensure our plan is delivered in a co-operative manner. The values ("We are") are matched with corresponding behaviours for staff ("I am"). The values and behaviours are: -



The values and behaviours are also being incorporated in to our "Shaping our Future" programme.

What we do

Despite reductions in funding, the Council continues to deliver a wide range of statutory and non-statutory services. Some of the statutory services are provided at levels beyond the statutory minimum.

Examples of the delivery of statutory duties are:

- Waste collection from just over 58,000 households
- 57% of household waste sent for re-use, recycling and composting
- Street cleansing over 400 miles of roads
- Food inspections of around 600 premises.
- Collecting Council Tax and Business Rates from just over 58,000 homes and 4,500 businesses
- Planning for the second largest district in Hertfordshire at 145 square miles.
- Issuing of approximately 2,200 licences to premises and licenced individuals, around 550 licences to taxi and private hire vehicles and drivers and in the region of 650 temporary licenses to premises/individuals.
- Homelessness provision
- Housing Benefit to around 4,700 claimants
- Regulation e.g. Parking, Fly-tipping.

Non-statutory services provided include:

- Leisure centres in Hitchin, Letchworth and Royston
- Five swimming pools including 2 outdoor pools
- Maintenance of 100 hectares of parks and gardens
- 'Splash' parks in the four towns.
- Museum provision in the new North Hertfordshire Museum in Hitchin
- Local information and signposting to other services and providers
- Active Communities events

Narrative Report

Impact of Covid-19

The COVID-19 pandemic has had a significant impact on the Council during 2020/21 in terms of financial implications, service pressures and new burdens. Some of the initial actions undertaken by the Council at the start of the pandemic included:

- providing accommodation for homeless peoples
- setting aside reserve funding to support community groups to provide support to vulnerable people during the pandemic
- enabling our staff to work from home through the provision of IT equipment and support

There have been several impacts on our services during 2020/21. Many of these have had financial implications. These impacts include:

- The suspension of garden waste and bulky waste collection services during the early stages of the pandemic to allow a focus on residual, food and recycling waste collections.
- Periods of closure of our leisure facilities in line with Government guidelines, and Covid-safe measures in place when they have been allowed to open reducing capacity and the range of activities available.
- Periods of closure of Hitchin Town Hall and District Museum in line with Government guidelines, and Covid-safe measures in place when they have been allowed to open.
- Increases in volumes of waste collected from households. Additional costs for the disposal of recyclable materials as a result of increased volumes, additional processing costs and changes in material values.
- Additional staffing costs due to changes in the way services can operate e.g. our community alarm service, Careline.
- The supply of targeted communications to ensure residents and businesses were kept informed about the local and national Covid-19 response.
- Implemented safety measures in playgrounds and maintained parks and open spaces during the pandemic, including dealing with increased litter.
- Some of our customers have struggled to pay us the money that they owe. We have only been doing light-touch chasing of debts. This has resulted in an increase in overall debt, and also the amount that we have set-aside as a bad debt provision (from £109k to £172k).

There have also been reductions in demand for our services which has affected our income. Examples of these include:

- Car Parking
- Trade Waste collections
- Planning Applications

There have been areas where the Council has had to take on additional work, mainly due to new burdens and instructions from Government:

- The continuing need to provide accommodation to homeless people.
- Payment of Business Grants, some of which have been paid in accordance with criteria fully determined by Government and some where the Council has been able to determine how they are awarded. Amounts paid out of £39.2million in 2020/21.
- Payment of self-isolation payments to those with low incomes. Payments totalled £150k in 20/21.
- Environmental Health support to help mitigate the impacts of the pandemic e.g. Test and Trace, helping businesses to reopen in a Covid-secure way.

Narrative Report

Impact of Covid-19

The Council has worked with partners in the response to the pandemic. This work has included:

- Supporting provision of food and essential supplies to those that were Shielding, including helping create capacity for voluntary organisations to increase their provision.
- Identifying sites for Covid-19 testing centres and vaccination centres.
- Providing activity packs to families during the school holidays.
- Providing welfare packs to individuals and families who were fleeing domestic abuse.

As detailed above, we chose to make some of our reserves available to Community Groups to apply for. This was to fund the additional costs involved in supporting people with the provision of food and essentials, mental health support and domestic abuse support. The funding covered very focused support (e.g. focused on a particular area) up to general support (e.g. groups covering the whole District). As at 31st March 2021, £86k had been allocated.

The total costs and lost income incurred by the Council in 2020/21 was £5.4million (excluding grant payments and other areas where ring-fenced funding has provided full compensation). Of that the Council has received £3.2million in Government support relating to 2020/21 and expects to receive a further £0.6million relating to 2020/21. That leaves a balance of £1.6million that the Council has had to fund from its reserves.

The expenditure and income impacts of the pandemic **continued** in to 2021/22, although it **was** hoped that they will be significantly less. The Council **welcomed** the continuation of the Covid-19 grant funding and the Sales, Fees and Charges compensation from Government up to 30th June 2021. However the additional costs and lost income **were** still expected to be significantly higher, The budget agreed by Full Council for 2021/22 **attempted** to reflect the expected slow recovery in leisure income, and also builds in the uncertainty for other costs and income through increasing the recommended minimum General Fund balance.

As well as additional costs and reduced income, the Council has also been faced with uncertainty over its funding from Council Tax and Business Rates. A large proportion of the Rates that the Council would usually collect from businesses has been paid as compensation from Government (via a s31 grant), as they have provided mandatory relief to those businesses during 2020/21. However the Council still faces impacts from the impact of the subsequent failure of those businesses and the inability to pay of those businesses that were not eligible for any/ full relief in 2020/21. For Council Tax the biggest impact has been the increase in eligibility for Council Tax Reduction Support (CTRS). The reduction in Business Rate income and Council Tax income is mostly covered by a funding income guarantee from Government for 2020/21. The forecast impact on 2020/21 before the Guarantee is £3.5million, and the Guarantee reduces it down to £2.2million. This impact is accounted for through the Collection Fund so the actual impact **was** reflected when setting the budget for 2022/23.

The funding impact for 2021/22 **was** more uncertain, as there **was** no Guarantee currently in place. For Business Rates the impact also **depended** on how businesses **were** able to pay their rates when reliefs (and other business support) **came** to an end. This could be reflected in the underlying rateable value, or just the ability to pay what is owed. For Council Tax, it is unknown how and when CTRS eligibility will start to decrease. The current planning assumption that the Council has adopted is that there will be no growth in the Council Tax base. This means that it is assumed that the increase in CTRS will be off-set by property growth, but there will not be a quick reduction in CTRS eligibility.

There has been a significant impact on our staff who have had to adapt to new ways of doing their job, change the work that they need to do and (in a number of cases) have done more hours to get the job done. This is demonstrated by the accumulated absence accrual of £428k in 20/21, an increase of £388k on the equivalent adjustment of £40k posted in the 2019/20 accounts. The Council is very aware of the need to continue to support our staff.

Narrative Report

Impact of Covid-19

Throughout 2020/21 the Council has formally reported the budget position to Cabinet on a quarterly basis. There have also been additional updates relating to key decisions, such as providing financial support to Stevenage Leisure Limited. In addition to this, monthly reviews on the Covid-19 impact have also been undertaken. This has been used to determine if additional reporting/ action would be required. This process will be continued in to 2021/22

The Council has chosen to keep its cash more liquid during the pandemic. This reflects the uncertainty over whether income (including fees, charges, Council Tax and Business Rate income). would be received or when, when business grants would be paid out and when additional costs would be incurred. This combined with the general decline in market conditions has significantly reduced the investment interest payments that have been received. During the first half of 2021/22, the Council **has looked** at investing for longer periods again.

Covid-19 recovery

The Council has been able to provide the majority of its services during the pandemic, although some have operated in different ways. Some of the different ways of working are expected to continue as a new way of doing things. The following services have recommenced during the first few months of 2021/22:

- Leisure Centres reopened on Monday 12th April, with increasing capacity and facilities available as the Government roadmap allows.
- Hitchin Town Hall and Museum reopened on Tuesday 18th May.
- Customer Service Centre **reopened** on 2nd August on an appointment basis.

As well as recovering the services that it provides, the Council has supported the wider recovery of the District and will continue to do so through the next phases. **The initial work was** focused on town centre recovery. This has included developing a Shop Safe, Shop Local campaign, in conjunction with East Herts Council. It has also involved a successful bid for money from the Reopening High Streets Safely (RHSS) Fund (£88k), of which £20k has been spent during 2020/21. The remainder **was allocated for spending in** 2021/22.

The Council has tried to make sure that business grant money is paid out as quickly as possible, whilst ensuring that appropriate checks are in place. In the first quarter of 2021/22 it **focused** on making payments from the Additional Restrictions Grant (ARG) money to support those businesses that were missed by the mandatory schemes. This **enabled** the Council to receive another tranche of funding (£1.127m) which **was** focused on more general business support and further grants.

The Council has also been allocated £118k of Welcome Back funding. This **was** used to:

- Continue the initiatives that were put in place as part of the RHSS funding, including communications and maintaining planters in the Town Centres.
- Develop Town Centre plans for what they will look like post-pandemic and provide a basis on which to apply for future regeneration plans.
- Work with partners (e.g. Business Improvement Districts, Parish, Town and Community Councils) to fund specific interventions that will make a difference to their local economies.

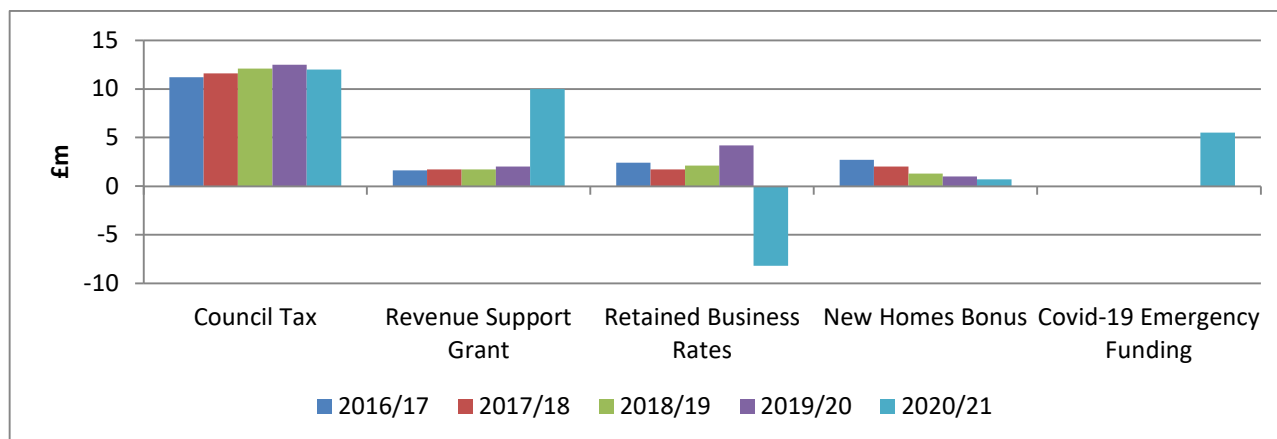
The Council **worked** with Hertfordshire County Council to make best use of Contain Outbreak Management Funding. This funding **is** targeted to break the trains of transmission and protect the vulnerable. The Council **received** £144k that has been specifically allocated to the District, as well as looking to access the County-wide pot of funding.

Narrative Report

Our funding

The Council is required to split its spending between Revenue (day-to-day running costs) and Capital (buying and creating assets with a useful life of more than one year). Similarly, our funding is split between Revenue and Capital. We can only use Capital funding sources for Capital spend (i.e. we can't use this funding for day-to-day running costs).

Revenue funding sources (Taxation and General Grants):



Increases in Council Tax are limited by Central Government, unless agreed by a local referendum. In 2020/21 the Council raised its element of Council Tax by £5 for a band D property (with other bands pro-rata to this), which was the maximum possible without a referendum.

The Revenue Support Grant total includes section 31 grants, which is where Central Government provides reimbursements for reliefs and discounts in relation to Business Rates. This was substantially higher in 2020/21 due to the reliefs that have been provided in relation to Covid-19. The actual grant to support general expenditure has decreased substantially in recent years and has been zero for the last few years.

Government have provided grant funding to Councils in 2020/21 to support the additional expenditure and lost income caused by Covid-19. This is shown separately on the graph above. As detailed in the Covid-19 impacts section, the Council is still facing a significant shortfall that it will meet from reserves.

The graph above excludes the grant funding that the Council has received to pay on to businesses. For some of these grants the Council has had discretion as to which specific businesses that they are paid to (£3.1m of the total paid out) and for some it has been mandated as to how they should be paid (£36.1m of the amounts paid).

The current Business Rates system involves 50% of funding being retained within Local Government, and the balance going to the Ministry of Housing, Communities and Local Government. Each Authority has an assessed baseline need and, as the Council's assessed need is a lot lower than the income it collects, it has to pay a levy which redistributes the funding to other Authorities. The Council retains some of any growth in Business Rates, but is also exposed to falls as well (subject to a safety net level). This would mean that usually the Council keeps around 6p out of every £1 it collects. During 2020/21, the Council was part of a Business Rates Pool with Hertfordshire County Council and four other Hertfordshire Districts/ Boroughs.

Income from New Homes Bonus increased up to 2016/17 as the period for which the Bonus was paid increased each year. In 2016/17 Authorities received the bonus for new housing in the previous 6 years. For 2017/18, the period reduced to 5 years, and further has reduced year by year since then. Alongside this a baseline was also introduced, so the Bonus is only paid if housing growth for that year is above a certain level.

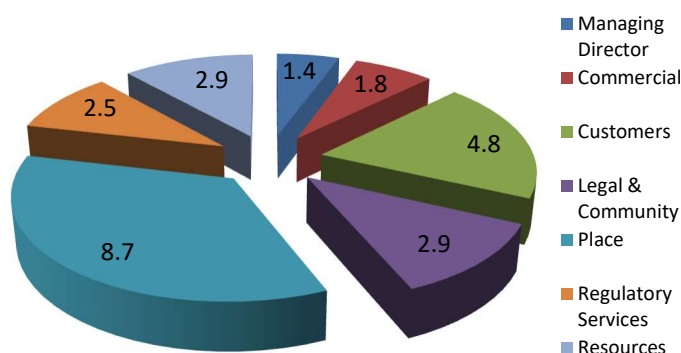
While overall our funding of £20.1m in 2020/21 was higher than the total received in 2019/20, this relates to Covid-19 support. This additional funding will continue in the first part of 2021/22 (up to the end of June), but **has now come to an** end.

Narrative Report

Spend by service area

The Council is managed under 6 Service Directorates and the Managing Director area (including Communications), and spend against these in 2020/21 was as follows:

Service-related net spend (by Strategic Directorate), £m



Future Funding

Reforms to Council funding are expected to happen at some time, but it is now very uncertain (due to Covid-19) when this will take place. It is still expected that this will include a move to 75% Business Rate Retention, a Business Rate reset and a new Fair Funding Formula. However Covid-19 has put in to question whether these are suitable mechanisms for funding Local Government. If they are implemented, this is likely to mean that more money will be provided to Local Government but will be matched by new responsibilities. The way that this pot of money is then allocated to individual Councils will also change. It is expected that this will result in more money being provided to Social Care authorities, and therefore less to Authorities like North Hertfordshire District Council. Any change may be phased in, although it is expected that this phasing will be quite short.

How we allocate our funding

At the same time that the Council reviews its Council Plan, it also carries out an annual review of its Medium Term Financial Strategy (MTFS). This estimates the funding that we expect to have in future years and sets the strategy for meeting any shortfall. This strategy is inherently linked to the Council Plan. **The MTFS for 2021-2026 can be found here:**

<https://srvmodgov01.north-herts.gov.uk/documents/s11769/Appendix%20A-%20Medium%20Term%20Financial%20Strategy.pdf>

Current spend provides a good starting point for assessing the future costs of providing services. Future budgets are estimated from this starting point, with adjustments for inflation, service changes, efficiencies and demography.

Each year, Officers and Councillors are asked to come up with ideas for reducing expenditure (e.g. income generation, efficiencies and service changes). Each of the Political Groups are given an opportunity to comment on these proposals at Budget Workshops held in the Autumn. These comments are considered by Cabinet when they formulate a budget in January. This budget is presented to Full Council in February for approval.

The Council has started a budget challenge process. This initially looked at all the budgets and what they are spent on. It has also started to look at all the potential ways that the Council could spend less or generate more income. When it is clearer what the Council's future funding will be, there will be a residents' consultation to seek views on which measures should be implemented to balance the budget.

Budgeting for Risk

In setting the budget each year, the Council's Chief Finance Officer is required to recommend a minimum level of General Fund reserves (the money that the Council has that is not allocated to a specific purpose). This minimum level is currently calculated as:

- 5% of the net budget of the Council - which is an allowance for unknown financial risks
- +
- **3% of budgeted income (excluding Housing Benefit, grants and other contributions) - which is an allowance to reflect the risks of being reliant on sales, fees and charges**
- +
- An assessment of known financial risks by both value and likelihood of occurring

This is a change from 2021/22 onwards, as for 2020/21 (and prior years) the income element was not included. This partly reflects the impact of Covid-19, which showed how volatile income could be.

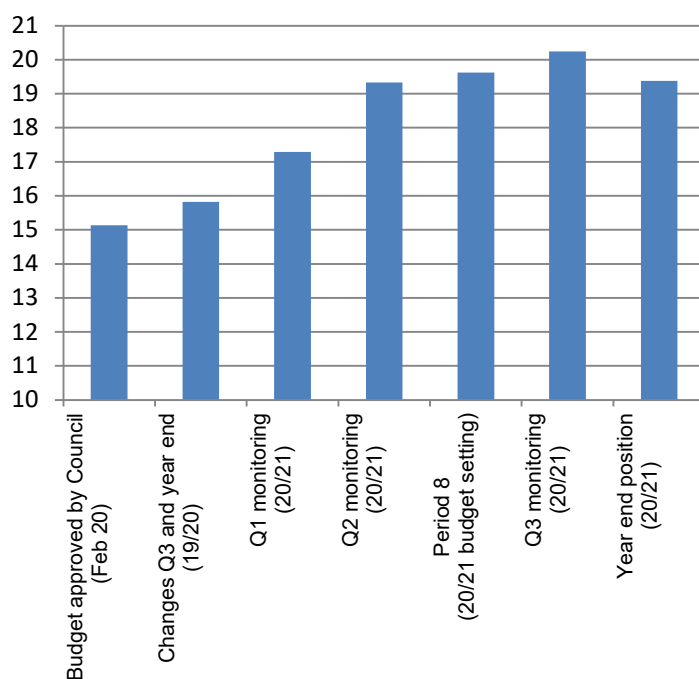
For 2020/21, this resulted in a recommended minimum General Fund level of £2.45 million (£3.85 million in 2021/22). The budgeted balance was £8.4 million at the start of the year and £8.4 million at the end of the year. The actual balance at 31st March 2021 was £8.9 million.

Narrative Report

Monitoring expenditure

The Council's Cabinet are responsible for monitoring expenditure (both revenue and capital) and they receive quarterly reports to enable them to do this. The Finance, Audit and Risk Committee review the financial performance of the Council. They receive the same reports and are able to make recommendations to Cabinet.

Reported spend forecasts in 2020/21 (£m)



Success at achieving savings

Budgeted revenue savings achieved by year since 2010/11 (efficiencies, income generation and service change).

| Year | Savings Achieved (£m) |
|--------------|-----------------------|
| 2010/11 | 1.3 |
| 2011/12 | 1.9 |
| 2012/13 | 0.6 |
| 2013/14 | 0.7 |
| 2014/15 | 1.6 |
| 2015/16 | 0.4 |
| 2016/17 | 0.4 |
| 2017/18 | 1.2 |
| 2018/19 | 2.9 |
| 2019/20 | 0.6 |
| 2020/21 | 0.5 |
| Total | 12.1 |

Corporate Financial Health Indicators (Income)

In addition to overall monitoring, the quarterly reports also detail performance in relation to 4 of the Council's key sources of income.

| Income category | Budgeted Income (£'000) | Q1 Status | Q2 Status | Q3 Status | Q4 Status | Actual Income (£'000) |
|---------------------------|-------------------------|-----------|-----------|-----------|-----------|-----------------------|
| Planning Application Fees | 950 | Amber | Amber | Red | Red | 822 |
| Land Charges | 164 | Red | Red | Red | Red | 142 |
| Car Parking Fees | 1,936 | Red | Red | Red | Red | 826 |
| Penalty Charge Notices | 532 | Red | Red | Red | Red | 371 |

Narrative Report

Capital funding

The Council funds capital expenditure from these main sources:

- Government Grants
- S106 developer contributions
- Other Contributions – including third party contributions and financing from revenue.
- Capital receipts - amounts received from the sale of surplus assets
- Set aside capital receipts - the remainder of the amounts received from the sale of our housing stock to North Herts Homes in 2003

The Council can also borrow money to fund capital expenditure, subject to meeting certain conditions. The Council has historic borrowing of £405k which is not worth repaying early (as at 31st March 2021).

During 2020/21 the Council's capital expenditure was funded from the following sources:

| | £'000 |
|------------------------------|--------------|
| Government Grants | 120 |
| S106 Developer Contributions | 122 |
| Capital Receipts | 1,224 |
| Set-aside receipts | 417 |
| Total | 1,883 |

As at the end of the year, the Council had £1.1m of Capital Receipts and £5.1m of set-aside receipts remaining.

Significant Capital Projects in 2020/21

Access to Burymead Road, Hitchin

IT Infrastructure and Hardware

Laptop purchases

North Herts Leisure Centre Gym Changing Rooms refurbishment

North Herts Leisure Centre pool circulation pipework replacement

Conversion of Harkness Court to flats

Refurbishment and improvements to Community Facilities

All projects with spend greater than £50,000 in 2020/21

The Council's capital assets

The total value of the Authority's capital (long-term) assets is £124.0 million.

The main components of this are:

- Property, Plant and Equipment (£98.7 million) used to deliver services
- Heritage assets (£0.9 million), the museum collections and public artwork
- Investment properties (£23.8 million) that generate an annual income from being leased out (£1.2 million in 2020/21)

The property assets are revalued on a regular basis (at least every 5 years).

Narrative Report

The Council's liabilities

The most significant liability that the Council has is its pension fund, which is administrated by Hertfordshire County Council. All of the Council's employees are eligible to join the pension scheme, which provides a retirement benefit that is linked to earnings. Employees make a contribution as part of their salary based on percentage rates that are set nationally. The Council also makes employer contributions. These contributions are based on:

- The estimated cost of the benefits being accrued by current employees – it is impossible to know what this really is as they will be payable from an unknown future date (when the employee retires) for an unknown period (depending on how long the employee lives for).
- Making up the shortfall from the past where the previous contributions are now considered to be insufficient – the shortfall is due to a combination of factors including people living longer and the old scheme where pensions were based on final salary. To stabilise the impact on Council Tax, this is being caught up on over a number of years.

The pension scheme is fully revalued every 3 years, with a less detailed revaluation each year in between. These valuations are undertaken by an actuary and involve a number of assumptions about the future. As the shortfall is being caught up on over time, this leaves an outstanding liability. This liability is the difference between the estimated value of the future pension payments that have been accrued and the value of the assets held by the pension fund.

As at the 31st March 2021, the value of the liability was £46.0 million (compared with £30.7 million at 31st March 2020). During the year, the Council made contributions of £2.8 million (of which £1.0 million was a lump sum relating to past shortfalls) and its employees contributed £0.6 million.

Key partners and contractors

Services may not always be delivered by the Council alone, but increasingly in a partnership with others.

Key partners include those in partner authorities and other Councils across the country, Urbaser (waste contract), John O'Connor (grounds maintenance contract), Stevenage Leisure Limited, settle, Countryside Management Service and Groundwork.

We work to support local, County wide and wider partnerships that seek to improve the wellbeing of our local community e.g. through the North Herts Health and Wellbeing Partnership and Hertfordshire Public Health Board.

Other key partners in the operation of the Council include District Councillors, County Councillors, Parish Councillors, local Members of Parliament, the Ministry of Housing, Communities and Local Government, the Local Government Association, the East of England Local Government Association, the Local Government Ombudsman, housing associations, North Herts Centre for Voluntary Service, Citizens Advice North Hertfordshire, North Herts Minority Ethnic Forum, Youth Connexions Herts, Business Improvement Districts, Letchworth Garden City Heritage Foundation, the Police, Herts Young Homeless and the Stevenage Haven.

We have contributed to a number of key partnerships in responding to the Covid-19 pandemic. These partnerships have supported the delivery of supplies to those who were vulnerable, increasing testing capacity, delivery of vaccinations, communications and the general Public Health/ Environmental Health response.

Governance

The Council is required to review its governance arrangements annually and assess these against the International Framework: Good Governance in the Public Sector. An Annual Governance Statement (AGS) is published alongside the Statement of Accounts.

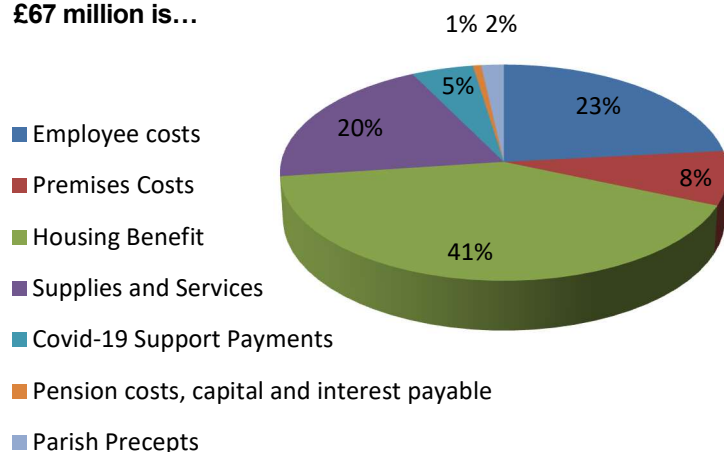
The Finance, Audit and Risk (FAR) Committee approves the AGS and monitors the actions identified.

The Action Plan from 2020/21 was last considered by the Committee at their meeting on 8th March 2021.

Narrative Report

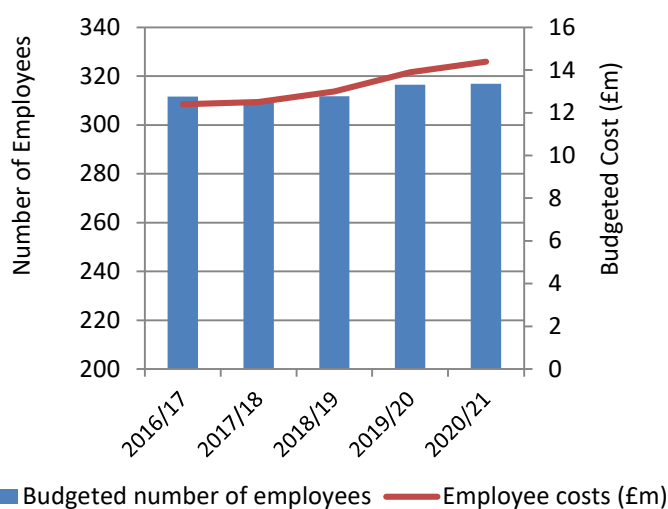
Spend by type, including employee spend

The breakdown of the Council's gross spend of £67 million is...



By far the largest area of expenditure is Housing Benefit, which the Council is responsible for administering. The Council claims a subsidy from the Department of Work and Pensions (DWP) towards the costs of benefits paid. In general, the subsidy covers the cost of the grants awarded.

The next two most significant areas of expenditure are employee costs and supplies and services. Supplies and services include the amounts paid to suppliers to deliver services on the Council's behalf (e.g. waste collection, street cleansing and grounds maintenance). The graph below shows the trend in numbers and costs of employees:



Whilst the number of employees (as measured by the number of whole-time equivalents) has been fairly stable over the last 5 years, the costs have increased. This reflects wage inflation and increasing pension contributions.

Alternatives Models of Service Delivery

CCTV

The Council is engaged in a jointly controlled operation for the provision and management of CCTV in the Hertfordshire and Bedfordshire area. This arrangement is with Stevenage Borough Council, North Hertfordshire Council, East Hertfordshire Council and Hertsmeire Borough Council. Each member of the arrangement accounts for their share of the assets, liabilities and cash flows of the CCTV in their accounts. In 2013/14 all partner authorities agreed to incorporate a new company to conduct the commercial trading affairs of the CCTV partnership. This new company, Hertfordshire CCTV Partnership Ltd, started trading on the 1 April 2015. The Council's interest in this company is not considered to be material, and therefore it is not included within the Statement of Accounts.

Building Control

The Council set up a joint Building Control Company with six other Hertfordshire Authorities. The company began trading in August 2016. The company delivers statutory building control services on behalf of the Council, as well being able to access further areas of work to help spread the cost of the service. The Council's interest in this company is not considered to be material, and therefore it is not included within the Statement of Accounts.

Home Improvement Agency





During 2017/18 the Council was part of the setting up of a Home Improvement Agency (HIA) arrangement that is hosted by Hertfordshire County Council. The HIA integrates Disabled Facilities Grants and Occupational Therapists to provide a more seamless service to those who need housing adaptations. The Council shows its contribution to running costs and use of Disabled Facilities Grants within its accounts.

Narrative Report

Monitoring Projects

The Council's projects and performance are monitored by the Overview and Scrutiny Committee. The Committee receive quarterly update reports on projects and an end of year report in June.












A summary of the position on the key projects throughout the year is:

| Status | Q1 | Q2 | Q3 | Q4 |
|--|-----------|-----------|-----------|-----------|
|  Halted/ Funding not available | 0 | 0 | 0 | 0 |
|  Behind original due date or forecast not to meet due date | 3 | 3 | 5 | 7 |
|  Not due for completion in year or has not reached due date | 10 | 9 | 6 | 4 |
| -- Project pending | 2 | 1 | 1 | 1 |
|  Project Completed | 0 | 1 | 1 | 0 |
| | 15 | 14 | 13 | 12 |

After being reported as completed the project is taken off for the next quarter. At Q2, 1 project was reported as completed (refurbishment of Gym Changing Room at North Herts Leisure Centre). 1 project was reported as completed at Q3 (Brexit preparation and implementation).

At Q1 it was decided that the project to provide a purpose-built depot, transfer facility and household waste recycling centre should be removed from the monitoring report for 2020/21 and that monitoring resume in 2021/22

The end of year position on the projects was:

| Project | Progress |
|---|---|
| Refurbishment of lifts at Lairage Multi-Storey car park. | On track against milestones.  |
| Delivery of Climate Change Strategy / Installation of Electric Vehicle Charging Points | The Electric Vehicle strategy is now embedded with the Council's Climate Change Strategy. Officers are working towards an approach to install electric vehicle charges within the Council's car parks. Delivery impacted by Covid-19 pandemic.  |
| Disposal of Surplus Assets | Two sites have been sold (Land at Hill View, Rushden and Town Lodge, Letchworth site). The majority of the other sites are in progress.  |
| Acquisition of Property Investments | Continue to explore opportunities. Finalising the options appraisal for Harkness Court, Hitchin.  |
| Examination and adoption of a Local Plan for North Herts | A six-week consultation on the proposed further modifications commenced on the 12 May 2021. It is anticipated the Inspector will issue a report following consideration of the responses to the consultation.  |
| Implement a "Customer Account" for customers to access specific information and transact with the Council | The Customer 'MyAccount' portal is now live. A soft launch, targeting e-billing customers and callers to the CSC to sign up initially, will then be followed up with a bigger launch, so this milestone is complete. The Councillor Portal is being tested but is due to launch soon.  |
| Property conversion at Harkness Court, Hitchin to provide Housing at market rents. | Expected completion in May 2021.  |
| Develop long-term museum storage solution | A layout plan was devised. When a developer was asked to provide an indicative cost plan it was much higher than expected. Officers are currently investigating whether this can be offset through commercial use of the rest of the plot or through the sourcing of grant funding. Once commercial investigations are completed, officers will undertake a procurement to source alternative quotes for the overall scheme and gain a clear picture of the costs involved.  |
| Renovate play area at Howard Park, Letchworth | Brexit related supply issues meant the play equipment was not received until May. To avoid closing at the busiest time of the year, installation has been delayed until Autumn.  |
| Designating Air Quality Management Areas in Hitchin | A number of actions have been completed. But some have been delayed due to Officer time being focused on the Covid-19 pandemic.  |
| Development of a North Herts crematorium | The appeal against refusal of outline planning permission has been dismissed. Officers are now considering the Inspector's reasons for this decision and are assessing the options regarding the next steps.  |
| Churchgate | Officers continue to investigate options. -- |

Narrative Report

Key Projects 2021/22

The Overview and Scrutiny Committee have identified the following key projects for 2021/22:





- Roll out separated recycling bins for flats.
- Refurbishment of lifts at Lairage Multi-Storey Car Park.
- Trial Electric Vehicle Charging Points in car parks.
- Churchgate.
- Set up community tree planting programme.
- Develop a long-term museum storage solution.
- Examination and adoption of the 2011-2031 Local Plan.
- Development of a crematorium.
- Preparation of a walking and cycling strategy.
- Introduce a North Herts Community Lottery.
- Delivery of the Climate Change Strategy.
- Disposal of surplus assets.
- Acquisition of property investments.
- Provide housing at market rents.
- Develop and implement a cohesive Empty Homes strategy.

The Committee will receive updates against these projects on a quarterly basis which will be available here:





<https://democracy.north-herts.gov.uk/ieListMeetings.aspx?CId=134&Year=0>

Monitoring Performance

The Overview and Scrutiny Committee also receive quarterly reports on Performance Indicators. During 2020/21 there were 18 indicators that were monitored, with some having targets and others for information only. A summary of the position on these throughout the year is:

| Status | Q1 | Q2 | Q3 | Q4 |
|---|----|----|----|----|
|  Met or exceeded target | 4 | 4 | 4 | 5 |
|  Target not achieved but within agreed tolerance | 0 | 0 | 2 | 2 |
|  Not achieved and outside tolerance | 6 | 6 | 3 | 2 |
|  For information only and traffic light status is not applicable | 8 | 8 | 9 | 9 |

The indicators that did not meet or exceed their target at Q4 were*:

| Indicator | Target | Actual Value | Comments |
|--|--------|---|---|
| Percentage of due sales invoices that had not been paid | 97% |  92.5% | Mainly due to the impact of Covid-19, both in terms of ability to pay and reduced actions taken to chase payment. Receipts during April 2021 have taken it above 97%. |
| Percentage of NNDR collected in year | 97% |  94.8% | The Covid-19 pandemic, as expected, has had a serious effect on Business Rate collection. The suspension of all recovery processes during 2020 coupled with trading uncertainty has kept the collection rate below expected levels. The indications are that some businesses continue to struggle and there is increasing evidence of further business failures, which will have an ongoing negative affect on collection rates. |
| Kg of residual waste per household | 335kg |  387kg | The overall impact of elevated tonnages during lockdown, both residual and recycling (with more residents at home and an increase in online purchasing and associated packaging), has led to a drop in the NI192 recycling rate. We are likely to see ongoing impacts into the next reporting year. A recent waste compositional analysis indicated that food waste still makes up 23% of the weight of our purple bins despite separate weekly collections. Our primary communication focus is therefore reducing food waste and increasing food waste capture for recycling |
| Percentage of household waste sent for reuse, recycling and composting | 55.6% |  57.5% | |

* The target for leisure centre visits was amended and the target for Environmental Health Inspections was deleted. These changes were both due to the impacts of Covid-19 and approved by Cabinet in January 2021.

Narrative Report

Monitoring Risk and Opportunities

The Council's processes for the development and operation of risk management are monitored by the Finance, Audit and Risk Committee. The committee review reports and can make recommendations to Cabinet on any changes.

In December 2020, the Committee reviewed the Council's 'Risk Management Framework' (details can be found here; <https://srvmodgov01.north-herts.gov.uk/ielistDocuments.aspx?CId=146&MId=2455&Ver=4>). They recommended that revisions to the framework be adopted, which was then approved. The committee also receive quarterly reports on Corporate Risks.

Full Council receives an Annual Report on Risk Management in July each year.

At the start of the year the Council's Corporate Risks were:

| | | | | |
|------------|-------------|---|--|--|
| Likelihood | 3 High | 4 | 7 • Impact of Anti-Social Behaviour on Council Facilities • Income Generation • Sustainable Development | 9 • Brexit • Local Plan • Managing the Council's Finances • Novel Coronavirus (Covid-19) |
| | 2 Medium | 2 | 5 • Increased Homelessness • Workforce Planning | 8 • Cyber Risks • Delivery of the Waste Collection and Street Cleansing Services Contract |
| | 1 Low | 1 • Route Optimisation of Collection Rounds (archiving postponed pending the provision of further information) | 3 | 6 • External Factors Affecting the Future Provision of Waste Services |
| | | 1 Low | 2 Medium | 3 High |
| | | Impact | | |

During the year, the Committee received recommendations on changes to the following risks:

- Introduction of a 'Covid-19 - Leisure Management Contract' risk, initially with a score of 8 and then increased to 9.
- Archiving of the 'Route Optimisation of Collection Rounds' risk.
- The 'Increased Homelessness' risk score be increased to 7 with a target score of 6.
- That the 'Workforce Planning' risk be archived.

Understanding the Accounts

The accounts are made up of 4 core financial statements:

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Balance Sheet
- Cashflow statement

These are supported by a series of notes that provide further details of the numbers that they contain, with the Expenditure and Funding analysis being particularly useful in understanding the overall picture. Much of the information is of a technical nature and has been completed to be compliant with the 2020/21 Local Authority Accounting Code of Practice and Service Reporting Code of Practice, which are based on the International Financial Reporting Standards. On the next page there is a summary of the key information from each of these statements.

Narrative Report

Comprehensive Income and Expenditure Statement

This statement shows the Council's cost of providing services. There are two key totals:

- Surplus or Deficit on provision of services
- Total Comprehensive Income and Expenditure

The deficit on provision of services is £1.0m, which includes actual income and expenditure incurred as well as adjustments for the cost of using capital assets (e.g. depreciation) and pension costs.

The total comprehensive income and expenditure (which is a deficit of **£5.2 million**) also includes the estimated gains on the revaluation of non-current (e.g. land and buildings) and pension assets. These gains would only be realised if the assets were actually sold.

Movement in Reserves Statements

This statement starts with the surplus or deficit on provision of services total (from the Comprehensive Income and Expenditure Statement). A series of adjustments are then applied to get to the movement in the General Fund balance.

The General Fund balance is like the Council's savings account. We try to balance income and expenditure each year, but there will be variations which lead to amounts being added to or taken out of the General Fund. There is a need to maintain a certain level of savings, and Council Tax will be set to try and keep these at the right level.

The adjustments to get to the General Fund balance reflect that:

- The Council has separate funding sources for capital so rather than reflect the full cost of using assets; it only has to make allowances for the repayment of any borrowing that it has taken out to fund capital purchases.
- Rather than reflect the full cost of future pension liabilities, the Council only has to show current year contributions. These already include an element of catching up on previous deficits.

The overall result is that the movement on the General Fund is £0.5 million, which means that the balance at the start of the year of £9.4 million is now £8.9 million.

This statement also shows the other reserves that the Council has. The key ones are:

- Earmarked Reserves - money that the Council has chosen to set aside for a specific purpose.
- Capital Receipts Reserve - funding that can be used to fund future capital expenditure.

Expenditure and Funding Analysis

This **note** is the most relevant to Council Taxpayers as it shows the Council's spend by Directorate (net total of £19.8 million). It then goes on to show how this is funded from taxation and grants. The final section shows the impact on the General Fund balance.

Balance Sheet

The Balance Sheet shows the value as at the 31 March of the assets and liabilities recognised by the Council. The net assets of the Authority (assets less liabilities) are matched by the reserves held. The total value of net assets of the Authority at 31 March 2021 is **£109.4 million**. Key assets and liabilities include:

- Property, Plant and Equipment used to deliver services: £98.7 million
- Investment properties used to generate income: £23.8 million
- Short Term Treasury investments: £24.5 million
- Pension liabilities: **-£46.0 million**

Cashflow Statement

This shows the reason for changes in the Council's cash balances during the year, and whether that change is due to operating activities, new investment, or financing activities (such as repayment of borrowing and other long term liabilities).

Statement of Accounting Policies

1. GENERAL

- 1.1. The Statement of Accounts summarises the Authority's transactions for the 2020/21 financial year and the position at the year-end of 31 March 2021. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. Those Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Local Government Act.
- 1.2. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. All disclosures are subject to materiality as the intention of the statement of accounts is to present a 'true and fair' view of financial position, financial performance and cashflows.

2. ACCRUALS OF INCOME AND EXPENDITURE

- 2.1. Subject to materiality, activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:
 - Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards or ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
 - Revenue from the provision of services is generally recognised when the Authority can measure reliably the percentage of completion of the transaction and this reflects that the same proportion of the economic benefits or service potential associated with the transaction will flow to the Authority. Where the revenue is not material in value and the time interval between the receipt of the payment and transfer of the service to the service recipient is insignificant, the revenue is recognised when the payment is received. Where the provision of the service occurs over a period of time and the expectation of receiving the economic benefits or service potential only flows to the authority when the performance obligations have been completely fulfilled, the revenue will only be recognised when performance obligations in the contract have been fully satisfied.
 - Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
 - Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
 - Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
 - Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
 - Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Statement of Accounting Policies

3. COUNCIL TAX AND NON-DOMESTIC RATES

- 3.1 Billing authorities act as agents, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting Council Tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.
- 3.2 The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.
- 3.3 The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

4. BUSINESS IMPROVEMENT DISTRICTS

- 4.1 Business Improvement District (BID) schemes apply in Hitchin, Royston and Letchworth. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority acts as an agent only under the scheme and so income is not shown in the Comprehensive Income and Expenditure Statement since the BID levies are collected on behalf of the relevant BID body.

5. CASH AND CASH EQUIVALENTS

- 5.1 Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

6. EMPLOYEE BENEFITS

Benefits Payable During Employment

- 6.1. Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as salaries, paid annual leave, paid sick leave, and banked hours in the flexi scheme for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Statement of Accounting Policies

Termination Benefits

- 6.2. Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis in the Comprehensive Income and Expenditure Statement and recognised at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring that involves the payment of termination benefits.
- 6.3. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

- 6.4. As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although these benefits will not actually be payable until the employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.
- 6.5. The Authority participates in one pension scheme, the Local Government Pension Scheme, administered locally by Hertfordshire County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The Local Government Pension Scheme

- 6.6. The Local Government Pension Scheme is accounted for as a defined benefits scheme:
- The liabilities of the Hertfordshire Local Government Pension Scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.
 - Liabilities are discounted to their value at current prices, using a discount rate based on the indicative current rate of return on high quality corporate bonds of equivalent currency and term as the liabilities (rated at the level of AA or equivalent).
 - The assets of the Hertfordshire Local Government Pension Scheme attributable to the Authority are included in the balance sheet at their fair value:

| | |
|---------------------|--------------------------------------|
| quoted securities | – bid price |
| unquoted securities | – professional estimate |
| united securities | – average of the bid and offer rates |
| property | – market value |

Statement of Accounting Policies

- 6.7. The change in the net pensions liability is analysed into the following components:

Service cost comprising:

Current service cost – the increase in liabilities as a result of years of service earned in the financial year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

Net interest on the net defined benefit liability (asset) – i.e. the net interest expense for the authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any charges in the net defined benefit liability during the period as a result of contribution and benefit payments.

Re-measurements comprising:

The return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Hertfordshire Pension Scheme – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

- 6.8. In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

- 6.9. The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Statement of Accounting Policies

7. EVENTS AFTER THE REPORTING PERIOD

- 7.1. Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:
- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
 - Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.
- 7.2. Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

8. EXCEPTIONAL ITEMS

- 8.1. When items of income and expenditure are material and significant to the understanding of the Council's financial performance, their nature and amount is disclosed separately in the notes to the accounts.

9. FINANCIAL INSTRUMENTS

- 9.1. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities.

Financial Liabilities

- 9.2. Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For the Council's borrowings, the amount presented in the Balance Sheet is the outstanding principal repayable; and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.
- 9.3. Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.
- 9.4. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Statement of Accounting Policies

FINANCIAL ASSETS

- 9.5. Financial assets are classified into two types:
- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
 - Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments
- 9.6. The Authority does not have any available for sale assets.

Loans and Receivables

- 9.7. Assets of this type will arise where the Council provides money, goods or services to another party and contracts to defer the settlement of the debt that arises, but in the meantime will not plan to trade the receivable on the market. Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Authority has made this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.
- 9.8. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.
- 9.9. Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

10. GOVERNMENT GRANTS AND CONTRIBUTIONS

- 10.1. Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:
- The Authority will comply with the conditions attached to the payments, and
 - The grants or contributions will be received.
- 10.2. Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Statement of Accounting Policies

- 10.3. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Where revenue grants have been ring-fenced to a specific service and have not been spent at the Balance Sheet date they are reversed out of the General Fund Balance and posted to an ear-marked reserve (revenue grants with less than £1,000 left unspent at the Balance Sheet date are treated as Creditors and not transferred to an ear-marked reserve).
- 10.4. Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

11. HERITAGE ASSETS

Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)

- 11.1 Heritage assets have historical, artistic, scientific, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture. The Authority's Heritage Assets consist of collections of assets or artefacts either exhibited or stored in the Authority's Museums (North Hertfordshire, Letchworth and Hitchin Museums) or the Museum Resource Centre, and items of public Sculpture and Artwork.
- 11.2 Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as the majority of them do not have a material monetary value and are therefore not recognised on the Balance Sheet.
- Where the Museums' Manager determines that an asset has a monetary value then they will undertake an annual programme of valuations by reviewing the archives of auctions houses to identify similar paintings by the same artist which have sold in the recent past.
 - Purchased acquisitions are initially recognised at cost.
 - For any donated acquisitions the Museums' Manager will determine whether they are likely to have a monetary value. If they do, then they will either provide a valuation or obtain an external valuation (as per above). Otherwise they will not be recognised on the Balance Sheet.
- 11.3 The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see section 18.13 in this summary of significant accounting policies.
- 11.4 The Authority has a policy for the acquisition and disposal of Museum collections. The policy states there is a strong presumption against the disposal of any items in the museum's collection and decisions to dispose of items will not be made with the principal aim of generating funds. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment.

Statement of Accounting Policies

12. INTANGIBLE ASSETS

- 12.1. Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.
- 12.2. Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).
- 12.3. Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.
- 12.4. Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.
- 12.5. Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

13. INVENTORIES AND LONG TERM CONTRACTS

- 13.1. Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Work in Progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.
- 13.2. Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

14. INVESTMENT PROPERTY

- 14.1. Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.
- 14.2. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged in an orderly transaction between participants at the measurement date, and assuming that highest and best use is made of that asset. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Statement of Accounting Policies

- 14.3. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

15. JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS

- 15.1. Jointly controlled operations are activities undertaken by the Authority in conjunction with other partners that involve the use of the assets and resources of the partners rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs, and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.
- 15.2. Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other partners, with the assets being used to obtain benefits for the partners. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

16. LEASES

- 16.1. Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.
- 16.2. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

- 16.3. Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.
- 16.4. Lease payments are apportioned between:
- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
 - A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Statement of Accounting Policies

- 16.5. Property, plant and equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).
- 16.6. The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

- 16.7. Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance leases

- 16.8. Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain and loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.
- 16.9. Lease rentals receivable are apportioned between:
- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
 - Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).
- 16.10. The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.
- 16.11. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Statement of Accounting Policies

Operating Leases

- 16.12. Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

17. OVERHEADS AND SUPPORT SERVICES

- 17.1. The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

18. PROPERTY, PLANT AND EQUIPMENT

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

Recognition

- 18.2. Expenditure, above the de-minimis level, on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) or is below the de-minimis level, is charged as an expense when it is incurred.
- 18.3. The Authority's de-minimis level is £20,000 for property and £10,000 for vehicles, plant and equipment.

Measurement

- 18.4. Assets, other than surplus assets (see below), are initially measured at cost, comprising:
- The purchase price.
 - Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
 - The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Surplus assets are measured at fair value, based on the highest and best use of that asset.

- 18.5. The cost of assets acquired other than by purchase is deemed to be its current value. Where an acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority) and is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.
- 18.6. Donated assets are measured initially at current value. The difference between current value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Statement of Accounting Policies

- 18.7. Assets are then carried in the Balance Sheet using the following measurement bases:
- Infrastructure, community assets and assets under construction – depreciated historical cost.
 - All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- 18.8. Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. In such cases an estimate of the cost to re-build a similar asset (to provide the same function), using modern building practices and the latest information from the Building Cost Information Services is used as the value of the asset.
- 18.9. Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.
- 18.10. Assets included in the balance sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of a loss previously charged to a service.
- 18.11. Where decreases in value are identified, they are accounted for by:
- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
 - Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.
- 18.12. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

- 18.13. Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.
- 18.14. Where impairment losses are identified, they are accounted for by:
- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
 - Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.
- 18.15. Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Statement of Accounting Policies

Depreciation

- 18.16. Depreciation is provided for all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).
- 18.17. Depreciation is calculated on a straight line allocation over the useful life of the property as estimated by the valuer. There is no depreciation in the year of disposal but a full year's depreciation charge in the year of acquisition. Assets are typically depreciated over the following lives:

| Fixed Asset | Life |
|-----------------------|----------------|
| Operational Buildings | Up to 50 years |
| Vehicles & Plant | 5 to 10 years |
| Community Assets | Up to 50 years |
| Infrastructure | Up to 40 years |

- 18.18. Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.
- 18.19. An individual item of property, plant or equipment is componentised and each resultant significant component is recognised and depreciated separately subject to the following principles:
- Individual assets with a carrying value less than £500k are disregarded for componentisation (subject to an assessment of the materiality of any group of assets that have been disregarded).
 - A component is judged to be significant and hence recognised and depreciated separately if the cost of the component is at least 20% of the overall cost of the asset and the components useful life and required method of depreciation is different to the overall asset.
 - The significance of a component relative to the overall asset is determined when an asset is enhanced, acquired or revalued (e.g. as part of the five-year rolling programme).
 - The cost of a component is based on best estimates where historical cost of assets and components is not available.
- 18.20. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

- 18.21. When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Statement of Accounting Policies

- 18.22. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.
- 18.23. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.
- 18.24. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.
- 18.25. Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.
- 18.26. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

19. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

- 19.1. Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.
- 19.2. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. When a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.
- 19.3. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Statement of Accounting Policies

20. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

- 20.1. Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.
- 20.2. Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.
- 20.3. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.
- 20.4. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

Contingent Liabilities

- 20.5. A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will not be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

- 20.6. A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

21. RESERVES

- 21.1. The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.
- 21.2. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

Statement of Accounting Policies

22. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

- 22.1. Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a long term asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.
- 22.2. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.
- 22.3. While the Authority has a de-minimis level for capitalising expenditure on its own assets there is no de-minimis level for revenue expenditure funded from capital under statute.

23. TRUST FUNDS AND THIRD PARTY ASSETS

- 23.1. Where the Authority acts as sole managing trustee for a Trust the net balance of the transactions incurred in running the Trust is included in the Comprehensive Income and Expenditure Statement. The Authority also holds income received for S106 legal agreements and unilateral undertakings relating to the submission of planning applications and these are treated as receipts in advance in the Balance Sheet before they are applied.

24. VAT

- 24.1. Value Added Tax (VAT) payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES).

The Expenditure and Funding Analysis is a note to the financial statements however it is positioned here as it provides a link between the figures in the narrative statement and the CIES.

| 2019/20 | | | 2020/21 | | |
|---|---|--|---|---|--|
| Net Expenditure chargeable to the General Fund £'000 | Adjustments between the Funding and Accounting Basis £'000 | Net Expenditure in the Comprehensive Income and Expenditure Statement Directorate £'000 | Net Expenditure chargeable to the General Fund £'000 | Adjustments between the Funding and Accounting Basis £'000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £'000 |
| 2,005 | (981) | 1,024 | 1,891 | (504) | 1,387 |
| 783 | 519 | 1,302 | 1,097 | 686 | 1,783 |
| 3,861 | 1,062 | 4,923 | 4,013 | 801 | 4,814 |
| 2,230 | 845 | 3,075 | 2,121 | 819 | 2,940 |
| 3,561 | 2,632 | 6,193 | 5,968 | 2,776 | 8,744 |
| 415 | 630 | 1,045 | 2,049 | 409 | 2,458 |
| 2,310 | 361 | 2,671 | 2,637 | 267 | 2,904 |
| 15,165 | 5,068 | 20,233 | 19,776 | 5,254 | 25,030 |
| | | Net Cost of Services | | | |
| 1,160 | 0 | 1,160 | 1,200 | 147 | 1,347 |
| | | Other Operating Expenditure | | | |
| (947) | 1,240 | 293 | (867) | (4,398) | (5,265) |
| | | Financing and Investment Income and Expenditure | | | |
| (19,055) | (864) | (19,919) | (31,010) | 10,930 | (20,080) |
| | | Taxation and Non-Specific Grant Income and Expenditure | | | |
| (3,677) | 5,444 | 1,767 | (10,901) | 11,933 | 1,032 |
| | | (Surplus) or Deficit on Provision of Services | | | |
| (7,862) | | Opening General Fund Balance | (9,378) | | |
| | | (Surplus) or Deficit on General Fund Balance in year | | | |
| (3,677) | | | (10,901) | | |
| | | Transfers to / (from) Earmarked Reserves | | | |
| 2,161 | | | 11,414 | | |
| (9,378) | | Closing General Fund Balance at 31st March | (8,865) | | |

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and Movement in Reserves Statement.

| 2019/20 | | | Note | 2020/21 | | |
|-------------------|-----------------|-----------------|--|-------------------|-----------------|-----------------|
| Gross Expenditure | Gross Income | Net Expenditure | | Gross Expenditure | Gross Income | Net Expenditure |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| 1,094 | (70) | 1,024 | Managing Director | 1,445 | (58) | 1,387 |
| 1,681 | (379) | 1,302 | Commercialisation | 1,895 | (112) | 1,783 |
| 35,811 | (30,888) | 4,923 | Customers | 39,544 | (34,730) | 4,814 |
| 4,017 | (942) | 3,075 | Legal & Community | 3,419 | (479) | 2,940 |
| 10,820 | (4,627) | 6,193 | Place | 13,460 | (4,716) | 8,744 |
| 6,262 | (5,217) | 1,045 | Regulatory | 6,748 | (4,290) | 2,458 |
| 2,787 | (116) | 2,671 | Resources | 2,975 | (71) | 2,904 |
| 62,472 | (42,239) | 20,233 | Cost of Services | 69,486 | (44,456) | 25,030 |
| | | 1,160 | Other Operating Expenditure | 13 | | 1,347 |
| | | 293 | Financing and Investment Income & Expenditure | 14 | | (5,265) |
| | (19,919) | | Taxation and Non-Specific Grant Income & Expenditure | 15 | | (20,080) |
| | | 1,767 | (Surplus) or Deficit on Provision of Services | | | 1,032 |
| | (3,920) | | (Surplus) or Deficit on revaluation of non-current assets | | | (10,143) |
| | (1,293) | | (Surplus) or Deficit on revaluation of available for sale assets | | | 111 |
| | (23,191) | | Re-measurements of the net defined benefit liability | 39 | | 14,207 |
| | (28,404) | | Other Comprehensive Income and Expenditure | | | 4,175 |
| | (26,637) | | Total Comprehensive Income and Expenditure | | | 5,207 |

Service Reporting Code of Practice:

The above revenue service analysis is compliant with the latest accounting code of practice.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes and reflect the adjustments between the accounting basis and the funding basis under regulations. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

| | General Fund Balance £'000 | Earmarked Reserves £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | Total Usable Reserves £'000 | Unusable Reserves £'000 | Total Authority Reserves £'000 |
|--|-------------------------------------|--------------------------------|---|---|--------------------------------------|-------------------------------|---|
| Balance at 31 March 2019 | 7,862 | 7,183 | 2,580 | 938 | 18,563 | 69,383 | 87,946 |
| Movement in Reserve during 2019/20 | | | | | | | |
| Surplus or (deficit) on provision of services | (1,767) | 0 | 0 | 0 | (1,767) | 0 | (1,767) |
| Other Comprehensive Expenditure and Income | 0 | 0 | 0 | 0 | 0 | 28,404 | 28,404 |
| Total Comprehensive Expenditure and Income | (1,767) | 0 | 0 | 0 | (1,767) | 28,404 | 26,637 |
| Adjustments between accounting basis & funding basis under regulations (Note 12) | 5,444 | 0 | (639) | 0 | 4,805 | (4,805) | 0 |
| Net Increase/(Decrease) before Transfers to Earmarked Reserves | 3,677 | 0 | (639) | 0 | 3,038 | 23,599 | 26,637 |
| Transfers to/from Earmarked Reserves (Note 27) | (2,161) | 2,161 | 0 | 0 | 0 | 0 | 0 |
| Increase / (Decrease) in Year | 1,516 | 2,161 | (639) | 0 | 3,038 | 23,599 | 26,637 |
| Balance at 31 March 2020 | 9,378 | 9,344 | 1,941 | 938 | 21,601 | 92,982 | 114,583 |
| Movement in Reserve during 2020/21 | | | | | | | |
| Surplus or (deficit) on provision of services | (1,032) | 0 | 0 | 0 | (1,032) | 0 | (1,032) |
| Other Comprehensive Expenditure and Income | 0 | 0 | 0 | 0 | 0 | (4,175) | (4,175) |
| Total Comprehensive Expenditure and Income | (1,032) | 0 | 0 | 0 | (1,032) | (4,175) | (5,207) |
| Adjustments between accounting basis & funding basis under regulations (Note 12) | 11,933 | 0 | (808) | (39) | 11,086 | (11,086) | 0 |
| Net Increase/(Decrease) before Transfers to Earmarked Reserves | 10,901 | 0 | (808) | (39) | 10,054 | (15,261) | (5,207) |
| Transfers to/from Earmarked Reserves (Note 27) | (11,414) | 11,414 | 0 | 0 | 0 | 0 | 0 |
| Increase / (Decrease) in Year | (513) | 11,414 | (808) | (39) | 10,054 | (15,261) | (5,207) |
| Balance at 31 March 2021 | 8,865 | 20,758 | 1,133 | 899 | 31,655 | 77,721 | 109,376 |

Balance Sheet as at 31 March 2021

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

| 31 March 2020 £'000 | | Note | 31 March 2021 £'000 |
|---------------------------|--------------------------------------|------|---------------------------|
| 95,603 | Property, Plant and Equipment | 16 | 98,709 |
| 853 | Heritage Assets | 17 | 928 |
| 18,429 | Investment Property | 18 | 23,776 |
| 289 | Intangible Assets | 19 | 224 |
| 1,000 | Long Term Investments (non-property) | 20 | 0 |
| 1 | Mortgages | 20 | 0 |
| 17 | Loans | 20 | 0 |
| 320 | Other Long Term Debtors | | 320 |
| 116,512 | Long Term Assets | | 123,957 |
| 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 |
| 45,315 | Current Assets | | 75,450 |
| (25) | Short Term Borrowing | 20 | (26) |
| (4,653) | Short Term Creditors | 25 | (19,240) |
| (8,249) | Receipts in Advance | 25 | (19,700) |
| (12,927) | Current Liabilities | | (38,966) |
| (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 | (45,976) |
| 49 | Deferred Credits | | 37 |
| 0 | Capital Grants Receipt in Advance | 35 | 0 |
| (34,317) | Long Term Liabilities | | (51,065) |
| 114,583 | Net Assets | | 109,376 |
| 21,601 | Usable Reserves | 27 | 31,655 |
| 92,982 | Unusable Reserves | 28 | 77,721 |
| 114,583 | Total Reserves | | 109,376 |

The un-audited accounts were authorised for issue on 29th July 2021.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

| 2019/20 £'000 | 2020/21 £'000 |
|--|------------------|
| (1,767) Net surplus or (deficit) on the provision of services | (1,032) |
| 5,461 Adjustments for non-cash movements (Note 29) | 24,601 |
| (1,314) Adjustments for items that are investing and financing activities (Note 29) | 2,443 |
| 2,380 Net cash flows from operating activities | 26,012 |
| (601) Investing Activities (Note 29) | (847) |
| 1,019 Financing Activities (Note 29) | (13,163) |
| 2,797 Net Increase or (decrease) in cash and cash equivalents | 12,002 |
| 6,050 Cash and Cash Equivalents at the beginning of the year | 8,848 |
| 8,848 Cash and Cash Equivalents at the end of the year | 20,850 |

Notes to the Core Financial Statements

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Notes to the Core Financial Statements

INTRODUCTION

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and the accounting policies set out prior to the financial statements. The notes that follow (1 to 42) set out supplementary information to assist readers of the accounts.

1. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2021/22 Code:

- Definition of a Business: Amendments to IFRS 3 Business Combinations.
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The Code will require implementation from 1 April 2021 and there is therefore no impact on the 2020/21 Statement of Accounts. It is also considered that these standards and amendments will not have a material impact on the Council's Statement of Accounts when they become applicable.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies (see the Statement of Accounting Policies), the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication of the degree to which the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Authority has determined that the ownership of the freehold of the Churchgate Shopping Centre in Hitchin is an investment property (carrying value of £1.7million) as there is no alternative policy for ownership other than for rental income or capital appreciation.
- The Authority considers the vehicles used in the delivery of the refuse and recycling service as held under a finance lease, with the underlying assets included on the balance sheet (carrying value of £1.8 million). This reflects long-term leases economic benefits of ownership, through the performance of the contract. The seven-year contract commenced in May 2018, with the vehicle assets recognised at an initial value of £3.2 million.
- The Authority considers that the financial statements accurately reflect the financial consequence of the COVID-19 pandemic for the financial year 2020-2021. While many of the service impacts noted in the narrative report remain prevalent at the date of signing of the accounts, with the progress of the vaccination programme and anticipated easing of Covid-19 restrictions it is expected that the aggregate financial impact in the next financial year will be significantly less.

Notes to the Core Financial Statements

3. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2021 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|--|
| Property, Plant and Equipment | <p>Assets are depreciated over estimated useful lives. If, for any reason, an individual asset should deteriorate at a quicker rate than expected, then this could bring into doubt the useful lives assigned to individual assets. This could happen, for example, if the current period of austerity meant the necessary programme of repairs and maintenance was delayed.</p> <p>The underlying property valuations also continue to be affected by the economic uncertainty created as a result of COVID-19.</p> | <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £450,300 for every year that useful lives had to be reduced.</p> <p>If market conditions are impacted by the COVID-19 pandemic, every 1% change in value would equate to a change in the long-term assets of the Council of £1.24m.</p> |
| Investment Properties | Investment Properties are not depreciated but are revalued annually according to market conditions. In the current economic climate it is uncertain if there will be a significant change in property prices over the next 12 months. However, the majority of the Authority's investment properties are ground leases which are considered to be relatively secure investments and less liable to large swings in value. | An average yield of 7.0% has been used in the calculation of the value of investment properties. A 0.5% reduction in the yield would reduce the carrying value of investment property by approximately £1.8million (this is a simple estimation for illustration only and does not consider the complexities and circumstances of individual assets). |
| Debtors | At 31 March 2021 the Authority had a balance of short term debtors of £26.0million. A review of the trend in collection rates and the age profile of the outstanding debt suggested an impairment of £2.7million was appropriate. However, in the current economic climate it is not certain if such an allowance is sufficient. | If collection rates were to deteriorate, a doubling of the amount of impairment of the doubtful debt would require an additional £2.7million to be set aside. |
| National Non Domestic Rates – Provision for Appeals | <p>The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The arrangements came into effect on 1 April 2013.</p> <p>The Authority, acting as an agent on behalf of the major preceptors, central government and itself (as principal) is required to make provisions in accordance with the requirements of the Code and legislation for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This includes amounts relating to non-domestic rates charged to businesses in 2012-13 and earlier financial years.</p> | A provision of £2.7m has been made, as at 31 March 2021, for the Authority's share of refunding outstanding appeals that are ultimately successful. This amount is based on the details of outstanding appeals with the Valuation Office Agency as at 31 March 2021, after applying a success factor of 25% and likely reduction in RV between 18.8% and 20%, and also includes an allowance for appeals not yet lodged. An increase of 1% in the success factor would increase the amount of provision required by £43,000. |
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements. A firm of actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. | The assumptions interact in complex ways. Actuarial valuations are carried out every three years, with the latest undertaken in 2019/20. The Authority's actuaries advised that the net pensions liability in 2020/21 had increased by £15.3million. This is due to a lower than expected discount rate when working out the financial assumptions. |

Notes to the Core Financial Statements

4. GOING CONCERN

The accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue.

The Council's accounts for 2020/21 include the early impacts of COVID-19 on its financial position up until 31st March 2021. The impacts on the Council have been significant but have been partly off-set by additional funding from Government. The accounts show that as at the 31st March the Council had a General Fund balance of £8.9m.

The progress of the vaccination programme and easing of Covid-19 restrictions provides optimism that income and expenditure will return towards normal levels. However the Council is aware that the return towards normal could take some time, and also that normal post-pandemic might be different to what it was pre-pandemic. In setting its budget for 2021/22, the Council reflected the following:

- Lost income (£0.8m) and additional expenditure (£1.2m) in relation to the Council's leisure services contract. This is a mid-case assumption, with the range of estimated impacts being between £1.3m to £3m. The lowest impact was based on a quicker easing of restrictions compared to what has happened, but so far the regular monitoring reports provided by the leisure contractor are monitoring against this lowest impact level. For the period April to June it was assumed that the lost income would be covered by the Government's 75% Sales, Fees and Charges Income Guarantee.
- The Minimum Recommended General Fund Balance was increased by around £1m to include uncertainties in relation to income. This will be kept under review as to whether it is needed on an ongoing basis.
- The other significant income losses were likely to be in relation to car parking and Hitchin Town Hall. These are expected to be linked to the level of Covid-19 restrictions, and also covered by the Government's 75% Sales, Fees and Charges Income Guarantee. No specific budget impact was incorporated.
- Assumed net zero Council Tax Base growth, with any growth in properties off-set by increased eligibility for the Council Tax Reduction Scheme.
- The receipt of the general Covid-19 expenditure grant from Government covering the period April – June 2021 of £0.6m.
- No budget impact was included for additional expenditure.

The Council knows that the Covid-19 situation is volatile and can change quickly. It has therefore continued to carry out regular reviews of its forecast financial position during 2021/22, which includes a specific focus on the following:

- Regular tracking of parking income.
- Monthly updates from the leisure contractor.
- Review of costs for accommodation homeless people and the extent to which they will be covered by recoverable Housing Benefit.
- The overall estimated impact on the Council's General Fund balance.
- The impact on the Business Rates and Council Tax Collection Fund, and the future forecast impact on the General Fund.

These reviews were carried out on a monthly basis. Any significant impacts would have been reported to Cabinet and/ or Council as soon as possible. Otherwise the cumulative impact were reported through the quarterly budget monitoring reports to Cabinet (and reviewed by the Finance, Audit and Risk Committee).

The Council published an update to its Medium Term Financial Strategy in September 2021. The assessments carried out in preparing this considered the potential for impacts on key areas of income and expenditure continuing in to 2022/23. It also considered the impact on funding in terms of:

- Deficits on the Collection Funds in 2021/22 that would need to be funded in later years.
- The implications of a decline in Business Rate income down to safety net levels.

Notes to the Core Financial Statements

- Reviewing the assumptions around growth in the Council Tax base, due to reductions in the building of new properties and increased eligibility for Council Tax Reduction Scheme.

Based on current forecasts and the current General Fund balance, the Strategy **shows** that the impact of Covid-19 continues to be affordable in 2022/23 by using some reserve balances, even when more negative scenarios are considered. This gives the Council time to focus on recovery and hopefully get some more certainty on funding (in relation to tax base and ongoing Central Government funding) before embarking on a strategy to achieve a balanced in-year budget by the end of the 5 year period.

It is therefore noted that there is significant headroom within the General Fund to absorb the estimated financial impact of COVID-19 in the short to medium-term. Furthermore, the Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription. For these reasons, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern for the foreseeable future.

The Council has made projections of its cash balances and reserves up until the end of May 2023 (12 months from the date of the audit report relating to these accounts) and has concluded that these also demonstrate that the accounts can be prepared on a Going Concern basis.

5. MATERIAL ITEMS OF INCOME AND EXPENSE

The Code of Practice requires the disclosure of the nature and amount of any material items of income and expenditure which are not separately disclosed on the face of the Comprehensive Income and Expenditure Statement.

The following material items of income and expenditure are included in the Cost of Services in the Comprehensive Income and Expenditure Statement:

| Directorate | Description of Material Item | Comment |
|-------------|---|---|
| Customers | Careline Service – Contribution from Hertfordshire County Council | Total income receivable under the terms of the contractual agreement with Hertfordshire County Council was £1.3million in 2020/21 (£1.1m in 2019/20). |
| Customers | Covid-19 Discretionary Grants Fund | A total of £1.4m of grants were paid to businesses operating in the District under the Discretionary Grants Fund scheme in 2020/21 (£0 in 2019/20). The Council was responsible for designing the scheme, including eligibility criteria and the value of individual grant amounts. The Council received an equivalent income contribution of £1.4m for the cost of the grants from the Ministry for Housing, Communities and Local Government (MHCLG). |
| Customers | Covid-19 Additional Restrictions Grant | £1.4m of payments to businesses in the District were made under the Additional Restrictions Grant scheme in 2020/21 (£0 in 2019/20). The Council developed the details of the grant scheme internally, while ensuring compliance with criteria laid down by the Department for Business, Energy and Industrial Strategy (BEIS). The grant expenditure was fully funded by an income contribution of £1.4m for the cost of the grants from BEIS. |
| Customers | Housing and Council Tax Benefits | The Authority paid a total of £27.8million of Housing Benefit payments in 2020/21 (£27.4million in 2019/20). This was funded by a grant subsidy from the Department for Work and Pensions of £27.2million (£26.9million in 2019/20). |
| Place | Grounds Maintenance Contract | Contract payments for the core service maintenance of amenity areas, burial grounds and rivers totalled £1.3million in 2020/21 (£1.3million in 2019/20). |
| Place | Waste and Recycling Contract | Waste and Recycling Contract expenditure totalled £3.6million in 2020/21 (£3.5million in 2019/20). |
| Place | Leisure Centre Management | Expenditure of £1.4m to maintain operations at the Council's Leisure Centres in 2020/21 ((£0.7m) [net income] in 19/20). |

Notes to the Core Financial Statements

6. EVENTS AFTER THE REPORTING PERIOD

There were no events that occurred after the reporting period that need disclosing in 2020/21.

7. PRIOR PERIOD ADJUSTMENTS

There were no prior period adjustments that needed disclosing in 2020/21.

8. ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired or discontinued operations during 2020/21 or 2019/20. These would normally arise following boundary changes or from legislation, neither of which affected North Hertfordshire District Council during 2020/21. All operations are therefore classified as '*continuing operations*'.

9. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis presents the total adjustments required to the amounts chargeable to the General Fund in order to arrive at the Net Expenditure in the Comprehensive Income and Expenditure Statement. The main adjustments required are detailed and explained below.

| 2019/20 | | | | 2020/21 | | | | |
|---------------------------------------|---|----------------------------|-------------------|--|---------------------------------------|---|----------------------------|-------------------|
| Adjustments for the Purposes (Note 1) | Net Change for the Pension Adjustments (Note 2) | Other Differences (Note 3) | Total Adjustments | Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts | Adjustments for the Purposes (Note 1) | Net Change for the Pension Adjustments (Note 2) | Other Differences (Note 3) | Total Adjustments |
| £'000 | £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 | £'000 |
| 0 | (1,021) | 40 | (981) | Managing Director | 0 | (932) | 428 | (504) |
| 368 | 151 | 0 | 519 | Commercialisation | 604 | 83 | 0 | 687 |
| 278 | 784 | 0 | 1,062 | Customers | 330 | 471 | 0 | 801 |
| 566 | 279 | 0 | 845 | Legal & Community | 661 | 157 | 0 | 818 |
| 2,446 | 186 | 0 | 2,632 | Place | 2,661 | 115 | 0 | 2,776 |
| 59 | 571 | 0 | 630 | Regulatory | 95 | 314 | 0 | 409 |
| 129 | 232 | 0 | 361 | Resources | 106 | 161 | 0 | 267 |
| 3,846 | 1,182 | 40 | 5,068 | Net Cost of Services | 4,457 | 369 | 428 | 5,254 |
| 0 | 0 | 0 | 0 | Other Operating Expenditure | 147 | 0 | 0 | 147 |
| (11) | 1,251 | 0 | 1,240 | Financing and Investment Income and Expenditure | (5,107) | 709 | 0 | (4,398) |
| (267) | 0 | (597) | (864) | Taxation and Non-Specific Grant Income and Expenditure | (54) | 0 | 10,984 | 10,930 |
| (278) | 1,251 | (597) | 376 | Other Income and Expenditure from the Expenditure and Funding Analysis | (5,014) | 709 | 10,984 | 6,679 |
| 3,568 | 2,433 | (557) | 5,444 | Difference between the General Fund Surplus or Deficit and the CIES surplus or deficit on the provision of services | (557) | 1,078 | 11,412 | 11,933 |

Notes to the Core Financial Statements

1) Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the Services lines, and for the following items in Other Income and Expenditure:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year. The gain to the authority on receipt of a donated asset is also credited to this line.

2) Net Change for the Pensions Adjustments

This column reflects the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure — the net interest on the defined benefit liability is charged to the CIES.

3) Other Differences

This includes those other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council Tax and NNDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Notes to the Core Financial Statements

10. SEGMENTAL INCOME

Income received on a segmental basis is analysed below.

| | 2019/20 | 2020/21 |
|--|-----------------|-----------------|
| | £'000 | £'000 |
| Directorate | | |
| Managing Director | (752) | (307) |
| Commercialisation | (1,544) | (1,351) |
| Customers | (30,889) | (34,730) |
| Legal & Community | (942) | (479) |
| Place | (4,627) | (4,716) |
| Regulatory | (5,218) | (4,290) |
| Resources | (116) | (71) |
| Total Directorate Income | (44,088) | (45,944) |
| Other Income Received | | |
| Non-Ringfenced Government Grants | (2,982) | (16,277) |
| Income from Council Tax and Business Rates | (16,670) | (3,749) |
| Total Income within Surplus or Deficit on the Provision of Services | (63,740) | (65,970) |

11. EXPENDITURE AND INCOME ANALYSED BY NATURE

The authority's expenditure and income is analysed as follows:

| | 2019/20 | 2020/21 |
|--|-----------------|-----------------|
| | £000 | £000 |
| Employee costs | 15,441 | 15,643 |
| Other Service Expenditure | 16,172 | 21,948 |
| Housing Benefit Payments | 27,351 | 27,768 |
| Interest Payments | 612 | 555 |
| Net Pension Costs | 1,251 | 709 |
| Capital Charges: | | |
| - Depreciation of Property, Plant & Equipment | 3,370 | 3,775 |
| - Amortisation of Intangible Assets | 150 | 166 |
| - Impairment / Downward Revaluation of Assets | 0 | 194 |
| (Increase) / Decrease in Fair Value of Investment Properties | 0 | (5,103) |
| (Gain) / Loss on the Disposal of Assets | 0 | 147 |
| Parish Council Precepts | 1,160 | 1,200 |
| Total Expenditure | 65,507 | 67,002 |
| Fees and Charges | (9,549) | (7,383) |
| Interest and Rental Income | (1,795) | (1,559) |
| Housing Benefit Subsidy | (26,921) | (27,188) |
| Grants and Contributions | (8,805) | (26,091) |
| Income from Council Tax and Business Rates | (16,670) | (3,749) |
| Total Income | (63,740) | (65,970) |
| | | |
| (Surplus) or Deficit on the Provision of Services | 1,767 | 1,032 |

Notes to the Core Financial Statements

12. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

The first table shows the adjustments made in the comparative year 2019/20:

| 2019/20 | Usable Reserves | | | Movement in Unusable Reserves £'000 |
|--|-------------------------------------|---|---|---|
| | General Fund Balance £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | |
| | | | | |
| Adjustments Primarily involving the Capital Adjustment Account: Reversal of items debited or credited to the comprehensive Income and Expenditure Statement: | | | | |
| Charges for depreciation and impairment of non-current assets | (3,370) | 0 | 0 | 3,370 |
| Movements in the market value of Investment Properties | 0 | 0 | 0 | 0 |
| Amortisation of Intangible Assets | (150) | 0 | 0 | 150 |
| Capital Grants and contributions applied | 429 | 0 | 0 | (429) |
| Revenue Expenditure funded from capital under statute | (488) | 0 | 0 | 488 |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account | 0 | 0 | 0 | 0 |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement: | | | | |
| Statutory Provision for the financing of capital investment | 3 | 0 | 0 | (3) |
| Capital expenditure charged against the General Fund | 8 | 0 | 0 | (8) |
| Adjustments involving the Capital Receipts Reserve: | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account | 0 | 0 | 0 | 0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 0 | 639 | 0 | (639) |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | 0 | 0 | 0 | 0 |
| Adjustments primarily involving the Pension Reserve: | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (5,103) | 0 | 0 | 5,103 |
| Employers pensions contributions and direct payments to pensioners payable in year | 2,670 | 0 | 0 | (2,670) |
| Adjustments primarily involving the Collection Fund Account: | | | | |
| Movement in the Authority's share of the Collection Fund surplus / deficit | 597 | 0 | 0 | (597) |
| Adjustments primarily involving the Accumulated Absences Account: | | | | |
| Accrued employee absence adjustment | (40) | 0 | 0 | 40 |
| Total Adjustments | (5,444) | 639 | 0 | 4,805 |

Notes to the Core Financial Statements

The following table shows the adjustments made in 2020/21:

| 2020/21 | Usable Reserves | | | Movement in Unusable Reserves £'000 |
|--|-------------------------------------|---|---|---|
| | General Fund Balance £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | |
| Adjustments Primarily involving the Capital Adjustment Account: | | | | |
| Reversal of items debited or credited to the comprehensive Income and Expenditure Statement: | | | | |
| Charges for depreciation and impairment of non-current assets | (3,969) | 0 | 0 | 3,969 |
| Movements in the market value of Investment Properties | 5,103 | 0 | 0 | (5,103) |
| Amortisation of Intangible Assets | (166) | 0 | 0 | 166 |
| Capital Grants and contributions applied | 228 | 0 | 39 | (267) |
| Revenue Expenditure funded from capital under statute | (496) | 0 | 0 | 496 |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account | (562) | 0 | 0 | 562 |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement: | | | | |
| Statutory Provision for the financing of capital investment | 4 | 0 | 0 | (4) |
| Capital expenditure charged against the General Fund | 0 | 0 | 0 | 0 |
| Adjustments involving the Capital Receipts Reserve: | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account | 455 | (455) | 0 | 0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 0 | 1,223 | 0 | (1,223) |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | (40) | 40 | 0 | 0 |
| Adjustments primarily involving the Pension Reserve: | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (3,855) | 0 | 0 | 3,855 |
| Employers pensions contributions and direct payments to pensioners payable in year | 2,777 | 0 | 0 | (2,777) |
| Adjustments primarily involving the Collection Fund Account: | | | | |
| Movement in the Authority's share of the Collection Fund surplus / deficit | (10,984) | 0 | 0 | 10,984 |
| Adjustments primarily involving the Accumulated Absences Account: | | | | |
| Accrued employee absence adjustment | (428) | 0 | 0 | 428 |
| Total Adjustments | (11,933) | 808 | 39 | 11,086 |

Notes to the Core Financial Statements

13. OTHER OPERATING EXPENDITURE

| 2019/20 | | 2020/21 |
|--------------|--|--------------|
| £000 | | £000 |
| 1,160 | Parish council precepts | 1,200 |
| 0 | (Gains) / losses on disposal of non-current assets | 147 |
| 1,160 | Total | 1,347 |

14. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| 2019/20 | | 2020/21 |
|------------|---|----------------|
| £000 | | £000 |
| 612 | Interest payable and similar charges | 555 |
| 1,251 | Pensions interest cost and expected return on pensions assets | 709 |
| (416) | Interest receivable and similar income | (195) |
| 0 | Change in Fair Value of Investment Properties | (5,103) |
| (1,154) | Income and expenditure in relation to investment properties | (1,231) |
| 293 | Total | (5,265) |

15. TAXATION & NON-SPECIFIC GRANT INCOME AND EXPENDITURE

| 2019/20 | | 2020/21 | 2020/21 |
|-----------------|---|----------|-----------------|
| £000 | | £000 | £000 |
| (12,491) | Council Tax Income | | (11,983) |
| 0 | Council Tax Covid-19 Hardship Fund Grant | | (679) |
| 0 | Covid-19 Emergency Grant Funding | | (1,602) |
| 0 | Covid-19 Sales, Fees and Charges Compensation | | (1,899) |
| 0 | Covid-19 Local Tax Income Guarantee | | (1,347) |
| (1,998) | Section 31 Business Rates Reliefs Grant | | (10,037) |
| (984) | New Homes Bonus | | (713) |
| | National Non-Domestic Business Rates (NNDR) | | |
| (13,745) | Share of total collectible income | (15,153) | |
| 10,848 | NNDR Tariff and Levy | 12,998 | |
| (365) | NNDR Collection Fund (Surplus) / Deficit | 10,389 | |
| (917) | Share of Hertfordshire Pilot Gain | 0 | |
| (4,179) | Net Recognised NNDR | | 8,234 |
| (267) | Capital Grants and Contributions (see below) | | (54) |
| (19,919) | | | (20,080) |

| 2019/20 | Capital Grants and Contributions | 2020/21 |
|------------|--|-----------|
| £000 | | £000 |
| 186 | S106 Developer Contributions | 28 |
| 0 | Arts Council England | 13 |
| 0 | Art Fund | 11 |
| 0 | Hertfordshire Heritage Fund | 2 |
| 21 | Museum Heritage Lottery Funding | 0 |
| 60 | Bancroft Rec MUGA – Sports England Grant | 0 |
| 267 | Total | 54 |

Notes to the Core Financial Statements

16. PROPERTY, PLANT AND EQUIPMENT

The movement on property, plant and equipment balances during the year and in the 2019/20 comparable year is detailed in the following tables.

Within each classification heading are the following types of assets:

| | |
|-----------------------|---|
| Land & Buildings | – Offices, Depots, Leisure Facilities, Community Centres, Museums and Pavilions |
| Infrastructure Assets | – Capital Works to Public Roads and Drainage Schemes |
| Community Assets | – Commons and Parks |

REVALUATIONS

The Authority has a 5 year rolling revaluation programme for its properties. The Authority's Investment properties are valued annually. Revaluations completed during the year are reflected as at 1 April of the financial year when the valuation takes place. Valuations of the Authority's properties are overseen by the Senior Estates Surveyor, who is a professional member of the Royal Institution of Chartered Surveyors. When necessary, specialist external valuers are used for assets which require particular knowledge of the asset valued.

Revaluations have been undertaken in 2020/21 in line with the 5 year rolling programme. These have resulted in a net increase to the carrying value of property, plant and equipment of just over £9.880million.

The following table shows which class of assets have been scheduled for revaluation over the last 4 years:

| 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|-----------------------|-----------------------|-----------------------|-----------------------|
| Industrial Properties | Industrial Properties | Industrial Properties | Investment Properties |
| Investment Properties | Investment Properties | Investment Properties | Assets Held for Sale |
| Burial Ground | Agricultural | Assets Held for Sale | Surplus Assets |
| Car Park | Allotments | Surplus Assets | |
| Community Centres | Amenity Land | | Operational Assets: |
| Leisure Centres | Recreation Grounds | | Amenity Land * |
| Markets | | | Burial Ground * |
| Museum | | | Car Park * |
| Pavilions | | | Community Centres |
| Play Areas | | | Industrial |
| Public Conveniences | | | Leisure Centres |
| Public Halls | | | Market * |
| Public Open Spaces | | | Museums |
| Storage | | | Offices * |
| Swimming Pools | | | Pavilions * |
| Trust Property | | | Play Areas * |
| | | | Public Conveniences |
| | | | Public Halls |
| | | | Public Open Space * |
| | | | Recreation Ground * |
| | | | Storage * |
| | | | Swimming Pools |
| | | | Trust Properties * |

* Selected assets were valued in this category.

Notes to the Core Financial Statements

The Authority measures some of its non-financial assets, such as surplus assets and investment properties, at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The Authority uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. The three widely used valuation techniques are:

- the market approach - uses prices and other relevant data generated by market transactions involving identical or comparable (i.e. similar) assets or group of assets.
- the cost approach - reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
- the income approach - converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

The market approach and the cost approach were both employed for the valuation of all surplus assets. The use of more than one valuation technique in the measurement of an asset is to ensure as far as possible that the valuation is most representative of fair value in the circumstances.

The market approach was employed for the valuation of all investment properties. For certain investment properties, where sufficient data was available, the income approach was also employed for valuation corroboration purposes, in accordance with valuation good practice.

The fair value measurements take into account the three levels of categories for inputs to valuations for fair value assets:

Level 1 Quoted Prices in active markets for identical assets accessible at the measurement date.

Level 2 Observable (either directly or indirectly) other than quoted prices at Level 1

Level 3 Unobservable

The Authority's investment properties and surplus assets have been assessed as Level 2 for valuation purposes.

An impairment review was completed as at 31 March 2021 to ascertain if the carrying value of the assets had decreased materially since the last revaluation. No impairments were identified.

SURPLUS ASSETS

The authority has non-operational land and buildings with a total carrying value of £10.138m at 31 March 2021. The three sites of material value included within the total are:

- Land at The Snipe, Weston
- Land off Yeomanry Drive, Clothall Common, Baldock
- Land at Radburn Way, Letchworth

DISPOSALS

The Authority sold three sites during 2020/21:

- Town Lodge Site, Gernon Road, Letchworth
- Land at Treacle Lane, Rushden
- 1 North End Kelshal

The combined carrying value of these assets at the time of disposal was £0.562million. The combined total of receipts received was £0.455million.

Notes to the Core Financial Statements

MOVEMENT ON BALANCES OF PROPERTY, PLANT AND EQUIPMENT IN 2019/20

| | Land & Buildings | Vehicles, Plant & Equipment | Infra-structure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant & Equipment |
|--|------------------|-----------------------------|------------------------|------------------|----------------|---------------------------|-----------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost of Valuation | | | | | | | |
| At 1 April 2019 | 86,441 | 14,189 | 93 | 5,795 | 10,465 | 100 | 117,083 |
| Additions | 112 | 331 | 0 | 0 | 0 | 141 | 584 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | (619) | 71 | 0 | 0 | 40 | (71) | (579) |
| Write Off to Revenue | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Upward and Downward Revaluations taken to Revaluation Reserve | 0 | 0 | 0 | 0 | 3,912 | 0 | 3,912 |
| Upward Revaluations recognized in the Surplus/Deficit on Provision of Services | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Impairments / Downward Revaluations recognized in the Surplus/Deficit on the Provision of Services | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2020 | 85,934 | 14,591 | 93 | 5,795 | 14,417 | 170 | 121,000 |
| Depreciation & Impairments | | | | | | | |
| At 1 April 2019 | (11,039) | (9,541) | (40) | (1,395) | (20) | 0 | (22,035) |
| Depreciation Charge for 2019/20 | (2,172) | (1,057) | (2) | (131) | (8) | 0 | (3,370) |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation written out to the Revaluation Reserve | 0 | 0 | 0 | 0 | 8 | 0 | 8 |
| At 31 March 2020 | (13,211) | (10,598) | (42) | (1,526) | (20) | 0 | (25,397) |
| Balance Sheet amount at 31 March 2020 | 72,723 | 3,993 | 51 | 4,269 | 14,397 | 170 | 95,603 |
| Balance Sheet amount at 1 April 2019 | 75,402 | 4,648 | 53 | 4,400 | 10,445 | 100 | 95,048 |

Included in the Land and Buildings total is a donated asset with a carrying value of £1.8 million.

Notes to the Core Financial Statements

MOVEMENT ON BALANCES OF PROPERTY, PLANT AND EQUIPMENT IN 2020/21

| | Land & Buildings | Vehicles, Plant & Equipment | Infra-structure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant & Equipment |
|--|------------------|-----------------------------|------------------------|------------------|----------------|---------------------------|-----------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost of Valuation | | | | | | | |
| At 1 April 2020 | 85,934 | 14,591 | 93 | 5,795 | 14,417 | 170 | 121,000 |
| Additions | 484 | 537 | 0 | 2 | 0 | 262 | 1,285 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 84 | 30 | 0 | 0 | (4,285) | (114) | (4,285) |
| Write Off to Revenue | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Upward and Downward Revaluations taken to Revaluation Reserve | 2,904 | 0 | 0 | 0 | 26 | 0 | 2,930 |
| Upward Revaluations recognized in the Surplus/Deficit on Provision of Services | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Impairments / Downward Revaluations recognized in the Surplus/Deficit on the Provision of Services | (194) | 0 | 0 | 0 | 0 | 0 | (194) |
| At 31 March 2021 | 89,212 | 15,158 | 93 | 5,797 | 10,158 | 318 | 120,736 |
| Depreciation & Impairments | | | | | | | |
| At 1 April 2020 | (13,211) | (10,598) | (42) | (1,526) | (20) | 0 | (25,397) |
| Depreciation Charge for 2020/21 | (2,565) | (1,078) | (2) | (128) | (1) | 0 | (3,774) |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation written out to the Revaluation Reserve | 7,143 | 0 | 0 | 0 | 1 | 0 | 7,144 |
| At 31 March 2021 | (8,633) | (11,676) | (44) | (1,654) | (20) | 0 | (22,027) |
| Balance Sheet amount at 31 March 2021 | 80,579 | 3,482 | 49 | 4,143 | 10,138 | 318 | 98,709 |
| Balance Sheet amount at 1 April 2020 | 72,723 | 3,993 | 51 | 4,269 | 14,397 | 170 | 95,603 |

Included in the Land and Buildings total is a donated asset with a carrying value of £1.4 million.

Notes to the Core Financial Statements

17. HERITAGE ASSETS

Reconciliation of the Carrying Value of Heritage Assets Held by the Authority.

| | Museum Collections | Public Sculpture / Artwork | Total Heritage Assets |
|----------------------|-------------------------------|---|--------------------------------------|
| | £'000 | £'000 | £'000 |
| 1 April 2019 | 807 | 46 | 853 |
| Additions | 0 | 0 | 0 |
| 31 March 2020 | 807 | 46 | 853 |
| 1 April 2020 | 807 | 46 | 853 |
| Additions | 75 | 0 | 75 |
| 31 March 2021 | 882 | 46 | 928 |

Museum Collections

A small number of items in the Authority's art collection and one item of the Authority's archaeology collection are reported in the Balance Sheet at insurance valuations which are based on market values. These valuations are reviewed annually and updated where relevant.

Many of the paintings owned by the Authority have been donated by local painting societies and are, therefore, not by artists who would attract value for their work. Of the grand total of 2,600 items in the art collection many of them are simple sketches which have no value.

The items of the art collection recognised on the Balance Sheet include eight paintings of note by William Ratcliffe. The Authority has been donated a number of Ratcliffe paintings, prints and drawings and has added to the collection by the occasional purchase. The collection is documented in a book on William Ratcliffe published by the Authority in 2011.

Other individual items of the Museum's collections, recognised on the Balance Sheet, include a Henry Moore Sculpture, an oil painting by Spencer Gore called The Road and "The Wymondley Hoard", which consists of 600 silver Tudor coins. There are a number of other paintings in the collection, of the local area. These are of local interest but do not have a significant monetary value to a national audience.

The Authority's Museums Manager carried out a full valuation of the collections as at 31 March 2012 and reviewed these valuations as at 31 March 2020. The valuations were based on commercial markets, including transaction information from auctions where similar paintings are regularly being purchased.

The principal museum collections are not considered to have a significant monetary value and include (all numbers are approximations):

- Archaeological (small finds such as coins, jewellery, nails) – 10,000 items
- Archaeological (other finds such as pots and broken pottery, human and animal bone, building materials) – 350,000 items
- Art collection – 2,600 items
- Ceramics and glass – 600 items
- Costume and costume accessories – 4,500 items
- Documents – 20,000 items
- Military – 1,000 items
- Natural Sciences – 500,000 items
- Photography – 500,000 items
- Social History – 22,000 items

The majority of the collections are not recognised in the Authority's Balance Sheet since there is no readily available information on the cost or market value of such items and to obtain such information would involve a disproportionate cost in comparison to the benefits to the users of the Authority's financial statements. The unvalued collections are insured for £2million as at 31 March 2020.

Notes to the Core Financial Statements

Public Sculpture / Artwork

The Authority has two items of public sculpture in Letchworth. These are the Bronze Statue of Sappho installed in Howard Gardens during 2011 and the centenary artwork 'Paradise Is' located next to the Town Hall on Gernon Road.

The Authority's civic regalia is not recognised in the financial statements. There are four ceremonial chains, which are insured in total for £19,180.

The Authority's sculpture of a bronze bust of Erica Lee by Reginald Hine and an M4 painting by Richard Smith are not recognised in the financial statements. These are each insured for £5,000.

The Authority has piece of granite toe of an Egyptian Pharaoh statue, which is 6 inches wide. This was donated by the Sculptor John Mills and has been insured for £8,000.

There are other Authority assets which could be considered to have attributes consistent with the definition of Heritage Assets. However, because it is deemed that they are maintained for purposes other than for their contribution to knowledge and culture, they have been classified in the financial statements as Community Assets. These include the Hitchin War Memorial and open spaces and parks such as Priory Memorial Gardens in Royston and Broadway Gardens in Letchworth.

Heritage Asset Transactions

A summary of the transactions relating to Heritage Assets over the period 1 April 2020 to 31 March 2021 is as follows:

The Museum purchased 45 watercolours of North Herts town and countryside views by members of Letchworth's Haggio family for £200 total. The museum also purchased an oil painting by William Ratcliffe, The Red Curtain. This cost £25,800 ex vat at auction, and the museum paid 1%, £258, with the rest coming from grant-aid (Arts Council/V & A; Art Fund; Hertfordshire Heritage Fund)

The Authority received the following separate donations or groups of donations in the year:

- Coby the Covid Cobra; 100+ stones painted by pupils and neighbours of Whitehill School, Hitchin, which formed a long lockdown snake.
- 5 Victorian carved letter bricks from a Biblical inscription around the former St Mary's School, Hitchin
- Red Cross blanket from the Jewish Refugees Boys' Hostel, Hitchin, c.1938-39
- Foster Instruments (Letchworth) pyrometer used by a Baldock toolmaker
- Documentation and finds from four excavations (near Whitwell, Royston and Baldock) by Albion Archaeology
- 3 framed photographs of Russell's Tannery, Hitchin
- Letchworth and Baldock Directory 1947

Plus 7 groups of photographs and paper archive, including:

- Hitchin Civil Defence ephemera
- 1963 Local Yokels Hospital Carnival programme
- Booklet on Willian village
- FL Griggs catalogue 1974 and booklet illustrated by Griggs
- Various Hitchin photographs, papers and archives
- Local Board Minute Books, 1873 -90, and Hitchin UDC Minute Books 1938-9 and 1973 (saved from skip in 1974 by Jim Turner, former NHDC employee)

2 items or groups of items left the permanent collections, transferred to other museums:

- Stevenage Museum leaflet 1993, transferred to Stevenage Museum
- Medal, medal box and medal ribbon along with soldier's release book and Liberation of Norway certificate, belonging to P Bailey of the Hampshire Regiment. Transferred to Royal Hampshire Regiment Museum.

Notes to the Core Financial Statements

18. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

| | 2019/20 £'000 | 2020/21 £'000 |
|--|------------------|------------------|
| Rental Income from Investment Property | (1,165) | (1,239) |
| Direct Operating Expenses arising from Investment Property | 11 | 8 |
| Net Gain / (Loss) | (1,154) | (1,231) |

There are no restrictions on the Authority's ability to realise the value inherent in investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

| | 2019/20 £'000 | 2020/21 £'000 |
|---|------------------|------------------|
| Balance at Start of the Year | 18,839 | 18,429 |
| Net Gains / (Losses) from Fair Value adjustments | 0 | 5,103 |
| Transfers (to) / from Assets Held for Sale | (410) | 0 |
| Transfers (to) / from Property, Plant and Equipment | 0 | 244 |
| Balance at End of Year | 18,429 | 23,776 |

19. INTANGIBLE ASSETS

| | Purchased Software Licences £'000 |
|--------------------------------|--|
| Original Cost | 2,374 |
| Amortisations to 1 April 2020 | (2,085) |
| Balance at 1 April 2020 | 289 |
| Expenditure in Year | 101 |
| Written off to Revenue in Year | (166) |
| Balance at 1 April 2021 | 224 |

Notes to the Core Financial Statements

20. FINANCIAL INSTRUMENTS

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

| | Long-term | | Current | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 31 March 2020 £'000 | 31 March 2021 £'000 | 31 March 2020 £'000 | 31 March 2021 £'000 |
| Financial Liabilities at amortised cost: | | | | |
| Creditors payable in one year | 0 | 0 | 1,457 | 4,955 |
| Borrowing | 405 | 386 | 25 | 26 |
| Total Financial Liabilities: | 405 | 386 | 1,482 | 4,981 |
| Financial Assets: | | | | |
| Debtors (loans and receivables) | 338 | 320 | 3,166 | 7,852 |
| Investments | 1,000 | 0 | 26,627 | 24,539 |
| Cash & Cash Equivalents | 0 | 0 | 8,848 | 20,850 |
| Total Financial Assets: | 1,338 | 320 | 38,641 | 53,241 |

The gains and losses recognised in the Comprehensive Income and Expenditure Account in relation to financial instruments are made up as follows:

| | Financial Liabilities At amortised cost £'000 | | Financial Assets Loans & Receivables £'000 | | Total £'000 | |
|---|---|--------------|--|------------|----------------|--------------|
| | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 |
| Interest Expense | (611) | (552) | 0 | 0 | (611) | (552) |
| Interest Payable & Similar Charges | (611) | (552) | 0 | 0 | (611) | (552) |
| Interest Income | 0 | 0 | 411 | 184 | 411 | 184 |
| Interest & investment income | 0 | 0 | 411 | 184 | 411 | 184 |
| Net gain/(loss) for year | (611) | (552) | 411 | 184 | (200) | (368) |

Financial Liabilities and financial assets represented by loans and receivables are carried on the Balance Sheet at amortised cost. Their fair value is assessed as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, using the following assumptions:

- A 'premature repayment' set of rates, supplied by the Council's financial advisors, in force on the 31 March 2021 has been used to supply the fair value for loans
- Transaction costs on all financial liabilities and financial assets are immaterial (transaction costs do not include internal administrative costs)
- Interest payable and receivable reflects market rates
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The Council is required to classify the valuation of financial instruments into three levels according to the quality and reliability of information used to determine fair value:

- Level 1 Quoted Prices in active markets for identical assets accessible at the measurement date.
- Level 2 Observable (either directly or indirectly) other than quoted prices at Level 1
- Level 3 Unobservable

Notes to the Core Financial Statements

The valuation basis adopted below uses Level 2 inputs – i.e. inputs other than quoted prices that are observable for the financial asset/liability.

The fair values are calculated as follows:

| | 31 March 2020 | | 31 March 2021 | |
|------------------------------|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | £'000 | £'000 | £'000 | £'000 |
| Financial Liabilities | 1,887 | 2,304 | 5,367 | 5,808 |

The fair value of the financial liabilities is more than the carrying amount because the Authority's portfolio of loans includes fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the Authority would have to pay if the lender requested or agreed to early repayment of the loans.

| | 31 March 2020 | | 31 March 2021 | |
|--------------------------------|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | £'000 | £'000 | £'000 | £'000 |
| Loans & Receivables | 39,872 | 40,009 | 53,454 | 53,507 |

The fair value of the loans & receivables is more than the carrying amount because valuation is made by comparison of the fixed term investment with a comparable investment with the same/similar lender for the remaining period of the deposit.

Nature and Extent of Risks Arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a Central Treasury Team, under policies approved in the annual Investment Strategy (Integrated Capital and Treasury Strategy). The Authority provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, the Investment Strategy (Integrated Capital and Treasury Strategy) ensured that its counterparty lists and limits reflected a prudent attitude towards organisations with whom funds were deposited, and limited its investment activities to the instruments, methods and techniques referred to in the Treasury Management Practices adopted by the Authority. It also maintains a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements. There were no defaults on investments in 2020/21 or 2019/20. The table below details the investment limits for 2020/21.

Notes to the Core Financial Statements

| Investment Category | Maximum amount of investment allowable in category | Investment Type | Maximum Amount of Investment Allowable in any one Institution | Amount Invested as at 31 March 2021* £'000 |
|--|--|---|---|---|
| Banks | £20M | UK Clearing Banks | £3M | 0 |
| | | UK Clearing Banks (Wholly owned Subsidiaries) | £3M | 0 |
| | | Non-UK Clearing Banks | £3M | 0 |
| UK Building Societies and UK Property Market Funds | £19M | Building Societies (Assets £4.5bn) | £3M | 6,000 |
| | | Building Societies (Assets £2.5bn - £4.5bn) | £3M | 1,000 |
| | | Building Societies (Assets £1bn to £2.5bn) | £3M | 1,000 |
| | | Building Societies (Assets £0.3bn to £1bn) | £2M | 2,500 |
| | | Property Market Funds | £3M | 0 |
| Money Market Funds | £7M | Money Market Funds | £3M | 0 |
| UK Local Authorities | No limit | Other Local Authorities | £3M | 20,000 |
| UK Government | No limit | Debt Management Office | No limit | 12,000 |
| Total Invested | | | | 42,500 |

* This column shows the total invested in all counterparties in the group (for example, there was £6.0million invested in two separate building societies, assets £4.5bn as at 31 March 2021).

The analysis of the £42.5million of investments by credit rating at year end is as follows:

| AAA or equivalent | AA / AA- or equivalent | A+ / A- or equivalent | BBB+ / BBB or equivalent | AAA money market fund | Other Local Authorities | Not rated* | Total Investments |
|-------------------|------------------------|-----------------------|--------------------------|-----------------------|-------------------------|------------|-------------------|
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| 0 | 0 | 15,000 | 3,000 | 0 | 20,000 | 4,500 | 42,500 |

* Many Building Societies do not pay to be credit rated. The Authority has chosen not to exclude Building Societies from its counterparty list for this reason alone and has continued to make cash deposits with Building Societies during the year.

The Authority does not allow credit facilities for customers with relation to payments for the provision of services. £1.056M of the total £2.037M sundry debtor balance at 31 March 2021 has passed its due date for payment. The risk of default is accounted for through the corresponding bad debt provision, which is determined primarily by the age of the sundry debtor outstanding. The sundry debtor balance and corresponding provision is presented in the table below.

| Age of Debt | Sundry Debtors | Provision Percentage | Provision Required | Net Sundry Debtors |
|-------------------------------|----------------|----------------------|--------------------|--------------------|
| | £'000 | | £'000 | £'000 |
| Within payment terms | 981 | 0% | 0 | 981 |
| 1-3 months over term | 711 | 0% | 0 | 711 |
| 3-12 months overdue | 223 | 25% | (56) | 167 |
| 12-24 months overdue | 24 | 75% | (18) | 6 |
| More than 24 months overdue | 98 | 100% | (98) | 0 |
| Total at 31 March 2021 | 2,037 | | (172) | 1,865 |

The equivalent position at the end of 2019/20 is shown in the table below:

| Age of Debt | Sundry Debtors | Provision Percentage | Provision Required | Net Sundry Debtors |
|-------------------------------|----------------|----------------------|--------------------|--------------------|
| | £'000 | | £'000 | £'000 |
| Within payment terms | 807 | 0% | 0 | 807 |
| 1-3 months over term | 144 | 0% | 0 | 144 |
| 3-12 months overdue | 40 | 25% | (10) | 30 |
| 12-24 months overdue | 19 | 75% | (14) | 5 |
| More than 24 months overdue | 85 | 100% | (85) | 0 |
| Total at 31 March 2020 | 1,095 | | (109) | 986 |

Notes to the Core Financial Statements

Liquidity Risk

As the Authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority reviews its borrowing requirements as part of its annual Investment Strategy (Integrated Capital and Treasury Strategy) and the standard policy has been to limit the amount of borrowing and reduce the exposure to liquidity risk. The strategy for 2020/21 was to utilise capital receipts and set aside reserves and no new borrowing was taken out.

The total financial liability is made up as follows:

| | 31 March 2020 £'000 | 31 March 2021 £'000 |
|----------------------------------|---------------------------|---------------------------|
| Public Works Loan Board | 423 | 405 |
| Banks and Other Monetary Sectors | 0 | 0 |
| Total Borrowing | 423 | 405 |
| Less: Debt Maturing in 12 Months | 18 | 19 |
| Total Long Term Borrowing | 405 | 386 |

At 31 March 2021 the average rates of interest on the different varieties of loans were as follows:

| | % |
|-------------------------|------|
| Public Works Loan Board | 9.96 |

The consolidated rate of interest, the rate used for internal transactions, was 13.43%.

The maturity analysis of the long term financial liabilities is as follows:

| | £'000 |
|--|------------|
| Maturing in more than 1 and less than 2 years | 19 |
| Maturing in more than 2 and less than 5 years | 62 |
| Maturing in more than 5 and less than 10 years | 55 |
| Maturing in more than 10 years | 250 |
| Total | 386 |

Market Risk

Interest rate risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise
- Investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Account. However, changes in interest payable and receivable on variable rate borrowings and investments will be included in the Surplus or Deficit on Provision of Services and affect the General Fund Balance pound for pound. Movements in the fair value of fixed rate investments will be reflected in the Other Comprehensive Income and Expenditure.

The Authority has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 30% of borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is mitigated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

Notes to the Core Financial Statements

The Authority has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2021 if interest rates had been 1% higher with all other variables held constant, the effects seen in the Income and Expenditure Statement would have been an increase of £41k in interest receivable from cash investments. The fair value of the loans outstanding would have been £9k higher (cost of repayment would have increased). This is shown below:

| | £'000 |
|--|-------------|
| Increase in interest receivable on variable rate investments | (41) |
| Impact on Income and Expenditure Account | (41) |
| Increase in fair value of fixed rate loans | <u>9</u> |

Price risk

The Council does not have any equity shares or shareholdings and thus has no exposure to a loss arising from movements in the prices of shares.

Foreign exchange risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus have no exposure to loss arising from movements in exchange rates.

21. INVENTORIES

| | 31 March 2020 £'000 | 31 March 2021 £'000 |
|-------------------------------------|---------------------------|---------------------------|
| Inventory: | | |
| Paper and Stationery | 1 | 0 |
| Postage | 8 | 3 |
| Waste & Recycling equipment | 35 | 45 |
| Museum merchandise | 6 | 5 |
| Careline Telecare equipment | 243 | 360 |
| Hitchin Town Hall Bar/Café Supplies | 5 | 2 |
| Electrical equipment | 1 | 1 |
| Total | 299 | 416 |

22. DEBTORS

| | 31 March 2020 £'000 | 31 March 2021 £'000 |
|--|---------------------------|---------------------------|
| Central Government Bodies | 458 | 14,880 |
| Impairment | 0 | 0 |
| Net Total Central Government Bodies | 458 | 14,880 |
| Other Local Authorities | 2,819 | 5,549 |
| Impairment | 0 | 0 |
| Net Total Other Local Authorities | 2,819 | 5,549 |
| Ratepayers / Council Tax Payers | 1,539 | 2,164 |
| Impairment | (605) | (1,547) |
| Net Total Ratepayers / Council Tax Payers | 934 | 617 |
| Housing Benefit Overpayments | 1,641 | 1,403 |
| Impairment | (848) | (894) |
| Net Total Housing Benefit Overpayments | 793 | 509 |
| Other Entities and Individuals | 1,785 | 2,045 |
| Impairment | (157) | (251) |
| Net Total Other Entities and Individuals | 1,628 | 1,794 |
| Total Net Debtors | 6,632 | 23,349 |

Notes to the Core Financial Statements

23. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

| 31 March 2020 £000 | | 31 March 2021 £000 |
|--------------------------|---|--------------------------|
| 5 | Cash held by the Authority | 16 |
| 6,843 | Bank current accounts | 2,834 |
| 0 | Short-term Deposits with Banks/Building Societies | 6,000 |
| 2,000 | Short-term Deposits with Central Government | 12,000 |
| 8,848 | Total | 20,850 |

24. ASSETS HELD FOR SALE (Non-Current)

| | 2019/20 £'000 | 2020/21 £'000 |
|---|------------------|------------------|
| Balance Outstanding at Start of Year | 627 | 2,909 |
| Assets newly classified as held for sale: | | |
| Property Plant & Equipment | 579 | 4,060 |
| Investment Properties | 410 | 0 |
| Impairment losses | (157) | (111) |
| Revaluation gains | 1,450 | 0 |
| Assets Sold | 0 | (562) |
| Balance Outstanding at End of Year | 2,909 | 6,296 |

25. SHORT TERM CREDITORS AND RECEIPTS IN ADVANCE

| Short Term Creditors | 31 March 2020 £000 | 31 March 2021 £000 |
|---------------------------------|--------------------------|--------------------------|
| Central government bodies | 783 | 14,285 |
| Other local authorities | 2,182 | 536 |
| Other entities and individuals* | 1,688 | 4,419 |
| Total | 4,653 | 19,240 |

* As at 31 March 2021 there was £10k of prepayments received in the last few days of the year (£8k as at 31 March 2020).

| Receipts in Advance | 31 March 2020 £000 | 31 March 2021 £000 |
|--------------------------------|--------------------------|--------------------------|
| Central government bodies | 2,466 | 11,470 |
| Other local authorities | 140 | 642 |
| Other entities and individuals | 5,643 | 7,588 |
| Total | 8,249 | 19,700 |

Notes to the Core Financial Statements

26. PROVISIONS

| | Provisions > 1 year | | Total £'000 |
|---------------------------------------|---------------------|----------------|----------------|
| | Insurance Fund | NNDR Appeals | |
| | £'000 | £'000 | |
| Balance at 1 April 2020 | (40) | (842) | (882) |
| Additional provisions made in 2020/21 | (33) | (1,915) | (1,948) |
| Amounts used in 2020/21 | 30 | 17 | 47 |
| Unused amounts reversed in 2020/21 | 0 | 0 | 0 |
| Balance at 31 March 2021 | (43) | (2,740) | (2,783) |

Insurance Provision

The insurance provision covers the uninsured aspect of outstanding insurance claims (the amount of our policy excess and any self-insured losses to be covered by the Insurance Fund). This varies throughout the year and the provision amount is adjusted at the end of each quarter on receipt of revised estimates from insurers.

NNDR Appeals Provision

The Authority is required to recognise a provision for NNDR appeals liabilities. The balance includes provision for both; lodged appeals against the 2010 and 2017 published ratings; appeals not yet lodged against the 2017 ratings. The calculation is based on both information from the Valuation Office (VOA) and an underlying assumption, in line with the expectation of MHCLG, that the annual cost of appeals against the 2017 ratings will ultimately be equivalent to 4.7% of net rates payable. The total at the end of 2020/21 was £6.9million (£2.4million in 2019/20) and, as this is shared between North Herts, Herts County Council and Central Government, the North Herts proportion reflected in the balance sheet was £2.7million (£842k in 2019/20). The additional provisions made in 2020/21 primarily relate to the provision for appeals not yet lodged. The authority considers that further appeals will be submitted in the coming years, as was the experience following the 2005 and 2010 revaluations.

27. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and the following notes.

| | Balance at 1 April 2020 £'000 | Net Movement in Year £'000 | Balance at 31 March 2021 £'000 |
|------------------------------|---|----------------------------------|--|
| Usable Capital Receipts | 1,941 | (808) | 1,133 |
| Earmarked Reserves | 9,344 | 11,414 | 20,758 |
| Capital Grants Unapplied | 938 | (39) | 899 |
| General Fund Reserve | 9,378 | (513) | 8,865 |
| Total Usable Reserves | 21,601 | 10,054 | 31,655 |

Usable Capital Receipts

| | 2019/20 £'000 | 2020/21 £'000 |
|--|------------------|------------------|
| Amounts receivable | 0 | 455 |
| Amounts applied to finance new capital investment | (639) | (1,223) |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | 0 | (40) |
| Total increase / (decrease) in realised capital resources | (639) | (808) |
| Balance brought forward at 1 April | 2,580 | 1,941 |
| Balance carried forward at 31 March | 1,941 | 1,133 |

Notes to the Core Financial Statements

Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure.

| Earmarked Reserve | Balance as at 31st March 2019 | Transfers out 2019/20 | Transfers in 2019/20 | Balance at 31st March 2020 | Transfers out 2020/21 | Transfers in 2020/21 | Balance at 31st March 2021 |
|--|-------------------------------|-----------------------|----------------------|----------------------------|-----------------------|----------------------|----------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cemetery Mausoleum Reserve | 161 | (1) | 7 | 167 | (2) | 10 | 175 |
| Childrens Services Reserve | 7 | (2) | 52 | 57 | (9) | 43 | 91 |
| Climate Change Grant Reserve | 28 | (2) | 0 | 26 | (1) | 0 | 25 |
| Community Right to Challenge Reserve | 45 | (45) | 0 | 0 | 0 | 0 | 0 |
| Environmental Warranty Reserve | 209 | (209) | 0 | 0 | 0 | 0 | 0 |
| Funding Equalisation Reserve | 0 | 0 | 68 | 68 | 0 | 329 | 397 |
| Growth Area Fund Reserve | 53 | 0 | 0 | 53 | 0 | 0 | 53 |
| Hitchin Museum Donations | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Homelessness Grants Reserve | 262 | (59) | 210 | 413 | (208) | 276 | 481 |
| Housing & Planning Delivery Reserve | 1,142 | (168) | 95 | 1,069 | (101) | 54 | 1,022 |
| Information Technology Reserve | 82 | (4) | 0 | 78 | (20) | 0 | 58 |
| Insurance Reserve | 34 | 0 | 0 | 34 | 0 | 0 | 34 |
| Land Charges Reserve | 94 | 0 | 0 | 94 | (28) | 0 | 66 |
| Leisure Management Maintenance Reserve | 47 | 0 | 30 | 77 | (51) | 0 | 26 |
| MHCLG Grants Reserve | 1,814 | (77) | 2,004 | 3,741 | (685) | 11,242 | 14,298 |
| Museum Exhibits Reserve | 12 | 0 | 1 | 13 | 0 | 1 | 14 |
| Neighbourhood Plan Reserve | 41 | (3) | 40 | 78 | 0 | 20 | 98 |
| Office Move IT Works | 7 | (7) | 0 | 0 | 0 | 0 | 0 |
| Paintings Conservation Reserve | 11 | 0 | 0 | 11 | 0 | 0 | 11 |
| Property Maintenance Reserve | 72 | (72) | 0 | 0 | 0 | 0 | 0 |
| S106 Monitoring Reserve | 36 | (17) | 0 | 19 | (19) | 0 | 0 |
| Special Reserve | 1,395 | (220) | 0 | 1,175 | (432) | 0 | 743 |
| Street Furniture | 21 | (21) | 0 | 0 | 0 | 0 | 0 |
| Street Name Plates | 16 | 0 | 0 | 16 | 0 | 0 | 16 |
| Syrian Refugee Project | 115 | (182) | 339 | 272 | (16) | 194 | 450 |
| Taxi Licences Reserve | 13 | 0 | 2 | 15 | (8) | 0 | 7 |
| Town Centre Maintenance | 45 | 0 | 8 | 53 | 0 | 8 | 61 |
| Traffic Regulation Orders | 347 | (1) | 0 | 346 | 0 | 40 | 386 |
| Waste Reserve | 631 | 0 | 99 | 730 | 0 | 19 | 749 |
| Waste Vehicles Reserve | 253 | 0 | 301 | 554 | 0 | 359 | 913 |
| Welfare Reform Grants Reserve | 190 | (121) | 116 | 185 | (122) | 521 | 584 |
| Total Earmarked Reserves | 7,183 | (1,211) | 3,372 | 9,344 | (1,702) | 13,116 | 20,758 |

Notes to the Core Financial Statements

The Authority has taken the decision to set aside resources in a number of Earmarked Reserves to be used for specific purposes. The Reserves are reviewed annually during the budget estimate process to ensure the balance available is appropriate for the purpose. A description of each earmarked reserve is provided below:

The **Cemetery Mausoleum reserve** is held to cover the Authority's obligation to supply Mausoleum niches at the Wilbury Hills Cemetery and is funded from the sale of currently available niches.

The **Children's Services Reserve** is being used to help fund Active Communities projects in the district and is funded from grant income.

The **Climate Change Grant** was awarded to help combat the effects of climate change. The grant is currently being used to fund work on Climate Strategy.

Community Development Reserve – various grants for Community Development.

Community Right to Challenge represents the one-off grant funding received to recognize the additional burden of the new legislation. With the legislation in place for 5 years and with no significant burden transpiring, the Council has transferred the amount held in the earmarked reserve to the General Fund balance in 2019/20.

The **Environmental Warranty Reserve** relates to an environmental warranty provided to North Herts Homes on the transfer of the Housing stock, equivalent to the cost of obtaining insurance for 10 years. Council approved the release of this amount to the General Fund balance in 2019/20, with the potential liability instead recognized as a financial risk in future years.

Where anticipated annual revenue funding has exceeded estimated net expenditure, the Council has opted to contribute the surplus amount to the **Funding Equalisation Reserve**, rather than raise Council Tax by less than the maximum amount allowed. The reserve balance will be used to cushion the impact of future expected funding reductions and provide more time to implement the savings that are likely to be required to address the future forecast budget gap.

Growth Area Fund Reserve is the reserve where revenue Growth Area Grant has been transferred.

The **Homelessness Grant** is awarded to help prevent homelessness in the district. The entire grant is earmarked for different homelessness projects or resources.

The **Housing & Planning Delivery Reserve** holds unspent Housing & Planning Delivery grant to fund Cabinet approved spending plans in subsequent years. The Authority has also made a commitment to the Local Development Framework and funds are held in this reserve for this purpose. Additional income from the 20% increase in statutory planning fees is also transferred here to fund the development of Planning Services.

The **Information Technology Reserve** is used to help ensure the Authority has adequate resources to purchase hardware and software items when they are required.

The **Insurance Reserve** is used to finance potential claims for risks that are not covered by external policies together with higher excesses currently being borne by the Authority.

Land Charges Reserve was established to help meet the potential cost should the financial risk of the repayment of personal search fees occur.

The **Leisure Management Maintenance Reserve** is to cover the cost of any future repairs liabilities on the leisure facilities. The Leisure Contract requires a contribution from the Council for maintenance items over £5k.

MHCLG Grants Reserve holds unapplied Section 31 business rate relief grants, which will be used to fund NNDR Collection Fund deficit contributions and levy payments in future years. It also provides some protection against potential future reductions in NNDR receipts.

The **Museum Exhibits Reserve** funds the purchase of museum exhibits and is funded from donations.

The **Neighbourhood Plan Reserve** is where funds received for neighbourhood plans from MHCLG have been transferred. The funding has been provided from government to local authorities who have received neighbourhood plans from Parishes, as funding will be needed in future years as plans are formalised and public examinations and public referendums are required

Notes to the Core Financial Statements

Office Move IT Works is a reserve to cover the cost of moving cabling between Authority buildings when required.

The **Paintings Conservation Reserve** is being used to help restore paintings. This is funded through donations and publication income.

The **Property Maintenance Reserve** is to cover the cost of any unplanned emergency maintenance costs that may occur at any of the Authority's properties. The Council considers this reserve to no longer be required and the balance has been transferred to the General Fund in 2019/20.

The **S106 Planning Monitoring** reserve is used to cover the cost of monitoring s106 obligations in future years.

The **Special Reserve** was originally the residual balance from the Housing Revenue Account that was used to fund the realignment of costs of the Authority following stock transfer. This reserve is maintained for any special financial pressures such as pump priming for initiatives for shared services, changes in working practice, major contract renewals, unexpected contract variation, support the response to and reduce the impact of major incidents and other financial pressures.

Street Furniture is a reserve to fund new street furniture as and when required. The Council considered this reserve to no longer be needed and the balance held has been transferred to the General Fund in 2019/20.

Street Name Plate Reserve is a reserve to fund Street Name Plates as and when required.

Syrian Refugee Project - The council has agreed to house Syrian Refugees over five years under the government's resettlement scheme. The scheme is fully funded by the government and the reserve enables the multiple year funding for each household to be maintained for future expenditure associated with their placement in the district, such as housing and support costs.

Taxi Reserve is a reserve where any surplus from the taxi service will be transferred to the earmarked reserve where it can be used to offset any future deficit or to fund investment in the taxi service.

Town Centre Maintenance reserve is for the implementation of the Town Wide Reviews and ad hoc town centre maintenance.

Traffic Regulation Orders. An audit was done to identify TRO work to be carried out in the district. However due to other priorities this work was delayed and the budget has been transferred to a reserve, to be drawn down as and when the work is done.

Waste Reserve – is a reserve where unspent AFM monies are transferred to help mitigate any potential risk to the waste service, for example the construction of a Northern Transfer Station.

Waste Vehicles Reserve – as repayment of the finance lease principal embedded within the waste contract is funded from the Council's cash reserves, the saving on the revenue account is transferred to this reserve to fund the purchase of vehicles when they next need to be replaced.

Welfare Reform Grants are awarded to the Authority for different initiatives or changes relating to Housing & Council Tax benefit scheme. These grants will be used when the initiatives or changes are carried out.

Notes to the Core Financial Statements

28. UNUSABLE RESERVES

| | Balance at 1 April 2020 | Net Movement in Year | Balance at 31 March 2021 |
|---|-------------------------------|----------------------------|--------------------------------|
| | £'000 | £'000 | £'000 |
| Revaluation Reserve (note 28A) | 53,504 | 8,525 | 62,029 |
| Capital Adjustment Account (note 28B) | 70,082 | 2,911 | 72,993 |
| Pensions Reserve (note 28C) | (30,691) | (15,285) | (45,976) |
| Collection Fund Adjustment Account (note 28D) | 283 | (10,984) | (10,701) |
| Short Term Accumulating Compensated Absences Account (note 28E) | (196) | (428) | (624) |
| Total Unusable Reserves | 92,982 | (15,261) | 77,721 |

Note 28A – Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

| 2019/20 £'000 | | 2020/21 £'000 |
|------------------|--|------------------|
| 49,306 | Balance at 1 April | 53,504 |
| 5,843 | Upward revaluation of assets | 10,584 |
| (630) | Downward revaluation of assets and Impairment losses not charged to the surplus/deficit on the Provision of Services. | (552) |
| 5,213 | Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services | 10,032 |
| (1,015) | Difference between fair value depreciation and historical cost depreciation. | (1,387) |
| 0 | Accumulated gains on assets sold or scrapped. | (120) |
| (1,015) | Amount written off to the capital adjustment account | (1,507) |
| 53,504 | Balance at 31 March | 62,029 |

Note 28B – Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations which are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement. The Account has also been credited with all the Housing capital receipts required by regulation to be set aside at the time of the Housing stock transfer in 2003.

Notes to the Core Financial Statements

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 11 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2019/20 | | 2020/21 |
|----------------|--|----------------|
| £'000 | | £'000 |
| 71,996 | Balance at 1 April | 70,082 |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | |
| (3,370) | Depreciation and impairment of non-current assets | (3,969) |
| (150) | Amortisation of Intangible assets | (166) |
| (488) | Revenue expenditure funded from capital under statute | (496) |
| | Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement | (442) |
| 0 | | (442) |
| (4,008) | | (5,073) |
| 1,015 | Adjusting amounts written out of the Revaluation Reserve. | 1,387 |
| (2,993) | Net written out amount of the cost of non-current assets consumed in the year | (3,686) |
| | Capital financing applied in the year: | |
| 639 | Use of the Capital Receipts Reserve to finance new capital expenditure | 1,223 |
| 429 | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement | 228 |
| 0 | Application of grants to capital financing from the Capital Grants Unapplied Account | 39 |
| 3 | Statutory provision for the financing of capital investment charged against the General Fund | 4 |
| 8 | Capital expenditure charged against the General Fund | 0 |
| 1,079 | | 1,494 |
| 0 | Movements in the market value of investment properties | 5,103 |
| 70,082 | Balance carried forward at 31 March | 72,993 |

Notes to the Core Financial Statements

Note 28C – Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned, to be financed as the Authority makes employer's contributions to pension funds, or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2019/20 £'000 | | 2020/21 £'000 |
|------------------|--|------------------|
| (51,449) | Balance at 1st April | (30,691) |
| 23,191 | Actuarial gains or losses on pension assets and liabilities | (14,207) |
| (5,103) | Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement | (3,855) |
| 2,670 | Employer's pensions contributions and direct payments to pensioners payable in the year. | 2,777 |
| (30,691) | Balance at 31st March | (45,976) |

Note 28D – Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rate income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and non-domestic rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| 2019/20 £'000 | | 2020/21 £'000 |
|------------------|--|------------------|
| (314) | Balance at 1 April | 283 |
| 597 | Movement in the Authority's share of the Collection Fund surplus / deficit | (10,984) |
| 283 | Balance at 31 March | (10,701) |

Note 28E Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| 2019/20 £'000 | | 2020/21 £'000 |
|------------------|--|------------------|
| (156) | Balance at 1 April | (196) |
| (40) | Amounts accrued at the end of the current year | (428) |
| (196) | Balance at 31 March | (624) |

Notes to the Core Financial Statements

29. NOTES RELATING TO THE CASH FLOW STATEMENT

Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

| 2019/20 | | 2020/21 |
|--------------|---|--------------|
| £'000 | | £'000 |
| 405 | Interest Received | 283 |
| (612) | Interest Paid | (555) |
| (207) | Net cash flows from operating activities | (272) |

The adjustments for non-cash movements are as follows:

| 2019/20 | | 2020/21 |
|--------------|--|---------------|
| £'000 | | £'000 |
| 3,370 | Depreciation | 3,775 |
| 0 | Impairments and downward revaluations | 194 |
| 150 | Amortisation of intangible assets | 167 |
| 2,211 | Movement in Creditors | 29,222 |
| (1,938) | Movement in Debtors | (7,078) |
| (62) | Movement in Inventories | (117) |
| 2,433 | Pension Liability | 1,078 |
| 0 | Carrying amount of non-current assets sold | 562 |
| (703) | Movement in other provisions | (3,202) |
| 5,461 | Net Adjustment for non-cash movements | 24,601 |

The adjustments for items that are investing or financing activities are as follows:

| 2019/20 | | 2020/21 |
|----------------|---|--------------|
| £'000 | | £'000 |
| (429) | Grants applied to the financing of capital expenditure | (229) |
| (885) | Proceeds from the sale of non-current assets | 2,672 |
| (1,314) | Net Adjustment for investing or financing activities | 2,443 |

Cash Flow Statement - Investing Activities

| 2019/20 | | 2020/21 |
|--------------|--|--------------|
| £'000 | | £'000 |
| (1,080) | Purchase of property, plant and equipment, investment property and intangible assets | (1,530) |
| (121,135) | Purchase of short-term and long-term investments | (602,373) |
| 0 | Other payments for investing activities | 0 |
| 0 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 455 |
| 121,135 | Proceeds from short-term and long-term Investments | 602,373 |
| 479 | Other receipts from investing activities | 228 |
| (601) | Net cash flows from investing activities | (847) |

Cash Flow Statement - Financing Activities

| 2019/20 | | 2020/21 |
|--------------|---|-----------------|
| £'000 | | £'000 |
| 0 | Cash receipts of short and long-term borrowing | 0 |
| 1,039 | Council Tax and NNDR adjustments | (12,783) |
| (3) | Cash payments for the reduction of finance leases liabilities | (362) |
| (17) | Repayments of short and long-term borrowing | (18) |
| 1,019 | Net Cash flows from financing activities | (13,163) |

Notes to the Core Financial Statements

30. TRADING OPERATIONS

The Council has no trading operations.

31. MEMBERS' ALLOWANCES

The following table shows the amount of Members' allowances paid in 2020/21 compared to the previous financial year:

| | 2019/20 | 2020/21 |
|--------------|----------------|----------------|
| | £'000 | £'000 |
| Allowances | 339 | 331 |
| Expenses | 10 | 1 |
| Total | 349 | 332 |

Notes to the Core Financial Statements

32. EMPLOYEES REMUNERATION

Senior Employee Remuneration in 2020/21

The Authority is required to disclose individual remuneration details for senior employees. The first table that follows details the individual remuneration for senior employees in 2020/21. The second table details the equivalent information for the comparative year, 2019/20. The Authority is voluntarily opting to disclose the name of the Chief Executive, Managing Director and Deputy Chief Executive. For senior employees, compensation for loss of office comprises the employer pension contribution amount calculated as part of the redundancy or termination package, as well as any other payments receivable on termination of employment (e.g. redundancy payments and payment in lieu of notice).

| Post Title | Note | Salary (including fees & allowances) £ | Expense Allowances £ | Compensation for loss of office £ | Total Remuneration (excluding pension contributions) £ | Pension Contributions £ | Total Remuneration (including pension contributions 2020/21) £ |
|---|------|---|--------------------------------|---|---|-----------------------------------|---|
| David Scholes Chief Executive | 1 | 37,696 | 0 | 116,037 | 153,733 | 6,791 | 160,524 |
| Anthony Roche Managing Director | 2 | 86,694 | 0 | 0 | 86,694 | 15,878 | 102,572 |
| Anthony Roche Deputy Chief Executive | | 33,207 | 0 | 0 | 33,207 | 5,644 | 38,851 |
| Service Director - Regulatory | 3 | 86,250 | 0 | 0 | 86,250 | 15,365 | 101,615 |
| Service Director - Resources | | 76,838 | 0 | 0 | 76,838 | 13,908 | 90,746 |
| Service Director - Customers | 4 | 44,848 | 0 | 0 | 44,848 | 7,170 | 52,018 |
| Service Director - Customers | 5 | 34,563 | 0 | 0 | 34,563 | 6,103 | 40,666 |
| Service Director - Place | | 80,725 | 0 | 0 | 80,725 | 14,341 | 95,066 |
| Service Director - Legal and Community | | 79,034 | 0 | 0 | 79,034 | 14,011 | 93,045 |
| Service Director - Commercialisation | | 73,980 | 0 | 0 | 73,980 | 13,077 | 87,057 |
| Service Director - Transformation | 6 | 14,560 | 0 | 0 | 14,560 | 0 | 14,560 |

1. The Chief Executive left the post on 17th July 2020. Amounts paid for Compensation for Loss of Office were disclosed in the Termination and Exit Packages note of the 2019/20 accounts as the departure had been approved in February 2020. The annualised salary excluding fees and allowances was £123,480.
2. The Deputy Chief Executive left the post on 17th July 2020 for which the annualised salary excluding fees and allowances was £102,612. The officer was appointed to the new post of Managing Director on 18th July 2020 for which the annualised salary excluding fees and allowances was £120,672.
3. The Service Director Regulatory was appointed as Deputy to the Managing Director on 18 July 2020 and received additional payments of £5,430, equivalent to 10% of the Service Director salary, as compensation for the additional responsibility.
4. The Service Director – Customers left the post on 30th September 2020. The annualised salary excluding fees and allowances was £77,100.
5. The Service Director – Customers was appointed to the post on 1st October 2020. The annualised salary excluding fees and allowances was £65,556.
6. The Service Director Transformation was appointed to a fixed term 0.4 FTE post on 1st October 2020. The annualised salary excluding fees and allowances was £30,480.

Notes to the Core Financial Statements

Senior Employee Remuneration in 2019/20

| Post Title | Note | Salary (including fees & allowances) £ | Expense Allowances £ | Compensation for loss of office £ | Total Remuneration (excluding pension contributions) £ | Pension Contributions £ | Total Remuneration (including pension contributions 2019/20) £ |
|---|------|---|--------------------------------|---|---|-----------------------------------|---|
| David Scholes Chief Executive | 1 | 113,565 | 0 | 0 | 113,565 | 20,379 | 133,944 |
| Anthony Roche Deputy Chief Executive | | 103,001 | 0 | 0 | 103,001 | 18,360 | 121,361 |
| Service Director - Resources | | 74,024 | 0 | 0 | 74,024 | 13,117 | 87,141 |
| Service Director - Regulatory | | 78,767 | 0 | 0 | 78,767 | 13,991 | 92,758 |
| Service Director - Customers | | 79,064 | 0 | 0 | 79,064 | 14,055 | 93,119 |
| Service Director - Place | | 78,597 | 0 | 0 | 78,597 | 13,957 | 92,554 |
| Service Director - Legal and Community | | 74,496 | 0 | 0 | 74,496 | 13,183 | 87,679 |
| Service Director - Commercialisation | | 69,783 | 0 | 0 | 69,783 | 12,297 | 82,080 |

1. The Chief Executive also held the position of Returning Officer for the Council and received £9,012 of expense allowances for this role in 2019/20.

Notes to the Core Financial Statements

The Authority is also required to disclose the number of employees, in addition to the senior employees included in the note above, whose remuneration was £50,000 or more in the accounting period. For this purpose, remuneration comprises all amounts paid to or receivable by an employee, other than employers pension contributions, and includes sums due by way of taxable expenses, the estimated monetary value of any benefit, and compensation for loss of office. The remuneration is shown in each bracket of a scale in multiples of £5,000.

| Remuneration Band | 2019/20 | 2020/21 |
|-------------------|-----------|-----------|
| | Employees | Employees |
| £50,000-£54,999 | 13 | 10 |
| £55,000-£59,999 | 10 | 13 |
| £60,000-£64,999 | 0 | 1 |
| £65,000-£69,999 | 1 | 1 |
| Total | 24 | 25 |

33. TERMINATION BENEFITS AND EXIT PACKAGES

The Authority terminated the contracts of 2 employees in 2020/21, incurring liabilities of £181,446 (£144,168 in 2019/20) that have been charged to the Comprehensive Income and Expenditure Statement in the current year.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below. The amounts disclosed in the table include redundancy cost and early retirement pension costs.

| Exit package cost band (including special payments) | (a) | | (b) | | (c) | | (d) | | (e) | |
|---|---|---------|--------------------------------------|---------|--|---------|--|----------------|---------|---------|
| | Number of compulsory redundancies | | Number of other agreed departures | | Total number of exit packages by cost band | | Total cost of exit packages in each band | | | |
| | 2019/20 | 2020/21 | 2019/20 | 2020/21 | 2019/20 | 2020/21 | 2019/20 | 2020/21 | 2019/20 | 2020/21 |
| | | | | | | | | | £ | £ |
| £0 - £19,999 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 1,515 | | |
| £20,000 - £39,999 | 1 | 0 | 0 | 0 | 1 | 0 | 31,243 | 0 | | |
| £40,000 - £59,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| £60,000 - £79,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| £80,000 - £99,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| £100,000 - £149,999 | 0 | 0 | 1 | 0 | 1 | 0 | 112,925 | 0 | | |
| £150,000 - £199,999 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 179,931 | | |
| Total Cost included in bandings and in CIES | | | | | | | 144,168 | 181,446 | | |

Notes to the Core Financial Statements

34. FEES PAYABLE TO THE AUTHORITY'S APPOINTED EXTERNAL AUDITORS

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and for non-audit services provided by the Authority's external auditors.

| | 2019/20 £'000 | 2020/21 £'000 |
|---|------------------|------------------|
| Fees payable with regard to external audit services carried out by the appointed auditor for the year | 36 | 70 |
| Fees payable for non-audit services: reporting accountant for the Housing Benefit subsidy claim | 13 | 10 |
| Total | 49 | 80 |

The costs incurred for each year, as noted above, are prepared prior to the agreement of any additional fees for variation in services provided by the external auditor. Where anticipated, additional amounts are included in the total for the year, but these amounts may differ to the final fees agreed. The total for 2020/21 includes the audit scale fee of £40,068 and anticipated additional fees of £14,877 to reflect the increased level of audit work required.

The final fee payable to the external auditor in respect of financial year 2019/20, for the provision of both external audit services and non-audit services, was £69,170, as presented to the Council's Finance, Audit and Risk Committee in March 2022. This comprised the audit scale fee of £40,068, additional audit fees of £19,962, and £9,140 for non-audit services provided as the reporting accountant for the Housing Benefit subsidy claim.

35. GRANT INCOME RECOGNISED IN THE COST OF SERVICES

The Authority credited the following **capital** grants, contributions and donations to the net cost of services in the Comprehensive Income and Expenditure Statement:

| | 2019/20 £'000 | 2020/21 £'000 |
|---------------------------|------------------|------------------|
| Disabled Facilities Grant | 2 | 82 |
| Developer Contribution | 160 | 93 |
| Total | 162 | 175 |

The Authority credited the following **revenue** grants, contributions and donations to the net cost of services in the Comprehensive Income and Expenditure Statement:

| | 2019/20 £'000 | 2020/21 £'000 |
|--|------------------|------------------|
| Benefits Administration and Fraud Initiative Grants | 757 | 792 |
| Housing and Council Tax Benefit Subsidy | 26,921 | 27,188 |
| Waste minimisation – Herts County Council contribution | 577 | 572 |
| Waste Service Transport Subsidy | 3 | 5 |
| National Non-Domestic Rates Administration Grant | 176 | 186 |
| Refugees Syrian Project | 339 | 194 |
| Community Safety Grant | 2 | 0 |
| Homelessness Prevention Grant | 212 | 549 |
| Individual Electronic Registration Grant | 18 | 11 |
| Planning Control Grants – MHCLG | 133 | 12 |
| MHCLG Neighbourhood Plans | 40 | 20 |
| Public Health Grant | 2 | 7 |
| Get Active Grant | 23 | 1 |
| Spring In Your Step Grant | 7 | 4 |
| MHCLG Waste Grants for Flats Recycling | 33 | 0 |
| Hertfordshire Museums – Lottery Fund | 23 | 8 |
| Brexit Preparations | 35 | 0 |
| Flu Pandemic - MHCLG | 48 | 0 |
| Healthy Hub | 13 | 42 |
| Council Tax Hardship New Burdens | 0 | 14 |

Notes to the Core Financial Statements

| | 2019/20 | 2020/21 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Business Support Grant New Burdens | 0 | 337 |
| Discretionary Fund MHCLG | 0 | 1,449 |
| Self Isolation Fund MHCLG | 0 | 133 |
| Self Isolation Fund HCC | 0 | 23 |
| Additional Restrictions Grant BEIS | 0 | 1,391 |
| Tier 2 Open Business MHCLG | 0 | 384 |
| Corona Virus Community Support HCC | 0 | 10 |
| Reopening High Streets Safely MHCLG | 0 | 20 |
| Winter Support Grant HCC | 0 | 2 |
| Leisure Centre Support Grant | 0 | 236 |
| Environmental Health Covid Support HCC | 0 | 50 |
| Total | 29,362 | 33,640 |

36. RELATED PARTY TRANSACTIONS

The Authority is required to disclose material transactions with related parties, bodies or individuals that have potential to control or influence the Authority or to be controlled or influenced by the Authority.

Central Government

Central Government has significant influence over the general operations of the Authority - it is responsible for providing the statutory framework within which the Authority operates, provides the majority of funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. housing benefits). Grants received from government departments are detailed in Note 35.

Members

Members have direct control over the Authority's financial and operating policies. The total of members' allowances paid in the year is shown in Note 31.

During 2020/21, the Authority made grants payments totalling £263k under Memorandum of Understanding (MOU) agreements to organisations in which 9 members are Trustees, board members or otherwise involved. The support provided by these grants helps maintain the wellbeing and resilience of the District's communities. The most significant MOU grant payments were £223k to Citizens Advice North Herts, £20k to North Herts CVS and £10k to North Herts Minority Ethnic Forum.

Grant payments totalling £34k were paid from the Coronavirus Support Fund to organisations in which 10 members declared an involvement. These grants provide support in the provision of food and essentials, mental health and domestic abuse.

Other grants totalling £196k were paid to organisations in which 6 members declared an involvement. This includes a payment of £75k to the Black Squirrel Credit Union from grant funding received from the Ministry of Housing, Communities and Local Government for homelessness prevention and £90k Community Facilities Refurbishment grants paid to three organisations.

Works and services to the value of £64k were commissioned from organisations in which 10 members had an interest.

Two members are also elected members of Royston Town Council. Payments recorded under a Service Level Agreement between the Authority and Royston Town Council totalled £32k (2019/20: £55k). Six members are also members of Hertfordshire County Council.

Details of all these transactions are recorded in the Register of Members' Interest and Disclosure of Personal Interest at Meetings. Both these documents are available for public inspection at Council Offices, Gernon Road, Letchworth Garden City, Hertfordshire.

Officers

Officers are obliged under the code of conduct in the Council's constitution to declare any personal interest, financial and/or otherwise, in any business of the Council. They are also required to record any gifts and/or hospitality received in a format prescribed and held by the Monitoring Officer. In addition, senior officers are required to complete an annual return disclosing the details of any interest of themselves or close family members which may have an impact on their activities on behalf of the Council. No payments have been made to any entities in which Officers disclosed an interest during 2020/21.

Notes to the Core Financial Statements

Hertfordshire Building Control Limited

The Council partnered with six local authorities across Hertfordshire to create a new fully integrated building control service, which was launched in August 2016. An additional local authority joined in 2019, so eight local authorities have equal control. The Council holds 13% of the share capital (£8) and is represented on the board. The company aims to provide a more flexible and efficient response to building control issues across the county. NHDC's share of the profit (or loss) generated for the year ended 31 March 2021 is £TBC (2019/20: £13.2k loss restated in line with audited financial statements). In August 2016 the council made a loan to the company of £107k, which is held in Long Term Debtors (other loans) on the balance sheet.

Hertfordshire CCTV Partnership

The Authority is engaged in a jointly controlled operation for the provision and management of CCTV in the Hertfordshire area. This arrangement is with Stevenage Borough Council, North Hertfordshire Council, East Hertfordshire Council and Hertsmeire Borough Council. Each member of the partnership arrangement accounts for their share of the assets, liabilities and cash flows of the CCTV in their accounts. In 2020/21 total payments to the Partnership of £104k (£105k 2019/20) were charged to the Council's Comprehensive Income and Expenditure Statement. In 2020/21 the Partnership reported a deficit of which NHDC share is £5k.

Hertfordshire CCTV Partnership Limited

In 2013/14 all partner authorities within the Hertfordshire CCTV Partnership agreed to incorporate a new company to conduct the commercial trading affairs of the CCTV partnership. The new limited company, Hertfordshire CCTV Partnership Ltd, started trading on the 1 April 2015. The Council holds 27% of the share capital (£27) and is represented on the board. NHDC's share of the **loss** generated for the year ended 31 March 2021 is **£7.5k** (2019/20: £2.1k loss). In 2020/21 £16k (£19k 2019/20) was paid by the Council for services provided by Hertfordshire CCTV Partnership Limited and charged to the CIES.

37. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Of the total expenditure of £1.883million, only £1.466million has been financed immediately, resulting in an increase of £0.417million in the Capital Financing Requirement (CFR). This is a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR remains negative (£5.2million at 31 March 2021) because the Authority has set aside capital receipts that exceed the amount of outstanding loans and borrowings.

| | 2019/20 £'000 | 2020/21 £'000 |
|---|------------------|------------------|
| Capital Investment: | | |
| Operational Assets | | |
| Land & Buildings | 112 | 484 |
| Vehicles, Plant & Equipment | 331 | 537 |
| Community Assets | 0 | 2 |
| Non-Operational Assets | | |
| Assets Under Construction | 141 | 263 |
| Intangible Assets - Software | 401 | 101 |
| Revenue Expenditure Funded from Capital under Statute | 488 | 496 |
| Total Capital Investment | 1,473 | 1,883 |
| Sources of Finance: | | |
| Capital Receipts | 639 | 1,224 |
| Government Grants and Other Contributions | 429 | 242 |
| Sums set aside from Revenue | 8 | 0 |
| Total Finance Sources | 1,076 | 1,466 |
| Increase / (Decrease) in CFR | 397 | 417 |

Capital expenditure and income is accounted for on an accruals basis and is financed in the year the accrual appears in the accounts.

Notes to the Core Financial Statements

38. ASSETS HELD UNDER LEASE AND FOR LEASE

Assets held under lease

Operating Leases

Vehicles, Plant and Equipment

The Authority uses service vans and I.T. equipment financed under terms of an operating lease. The amount paid under these arrangements in 2020/21 was £33,614 (2019/20 £50,292).

Property

The Authority paid £58,142 in rent / leasing charges for properties in 2020/21. The most significant amount of £30,846 was paid for the King James Way Car Park, which included backdated rent due from 2019. This agreement is due to expire in January 2024.

Commitments under operating leases

The Authority was committed at 31 March 2020 to making payments of £1.249 million under operating leases over the following periods:

| | 31 March 2020 £'000 | 31 March 2021 £'000 |
|---|------------------------------------|------------------------------------|
| Not later than one year | 89 | 90 |
| Later than one year and not later than five years | 191 | 127 |
| Later than five years | 969 | 957 |
| | 1,249 | 1,174 |

Finance leases

The Authority leases the Letchworth multi-storey car park from the Letchworth Garden City Heritage Foundation. The lease term is 60 years from 19 April 1977.

The Authority considers the vehicles used in the delivery of the refuse and recycling service as held under a finance lease. This reflects long-term leases economic benefits of ownership, through the performance of the contract. The seven year contract commenced in May 2018 and the vehicles had an initial value of £3.178 million.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts.

| | 31 March 2020 £'000 | 31 March 2021 £'000 |
|-----------------------------|------------------------------------|------------------------------------|
| Land and Buildings | 10 | 13 |
| Vehicles, Plant & Equipment | 2,270 | 1,816 |
| | 2,280 | 1,829 |

The Council is committed to making minimum payments under these leases, comprising settlement of the long term liability for the interest and the finance costs payable in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

| | 31 March 2020 £'000 | 31 March 2021 £'000 |
|-------------------------------|------------------------------------|------------------------------------|
| Finance Lease Liabilities | 2,750 | 2,388 |
| Finance costs in future years | 1,792 | 1,281 |
| Minimum Lease Payments | 4,542 | 3,669 |

Notes to the Core Financial Statements

The minimum lease payments will be payable over the following periods:

| | Minimum Lease Payments | | Finance Lease Liabilities | |
|---|------------------------|---------------|---------------------------|---------------|
| | 31 March 2020 | 31 March 2021 | 31 March 2020 | 31 March 2021 |
| | £'000 | £'000 | £'000 | £'000 |
| Not later than one year | 874 | 874 | 362 | 431 |
| Later than one year and not later than five years | 3,496 | 2,636 | 2,282 | 1,856 |
| Later than five years | 173 | 158 | 106 | 100 |
| | 4,543 | 3,668 | 2,750 | 2,387 |

Assets held for lease

Operating Leases

The Authority has granted various leases to community, commercial and industrial organisations under terms of an operating lease. The future minimum lease payments (rental income) expected from contractual obligations are:

| | 2019/20 | 2020/21 |
|---|----------|----------|
| | £'000 | £'000 |
| Not later than one year | (1,282) | (1,287) |
| Later than one year and not later than five years | (4,860) | (4,772) |
| Later than five years | (63,363) | (61,978) |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2020/21 no material contingent rents were receivable by the Council.

39. PENSION SCHEMES

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in one pension scheme; the Local Government Pension Scheme (LGPS), administered locally by Hertfordshire County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Further information concerning the scheme can be found in Hertfordshire County Council Pension Fund's Annual Report, which is available upon request from Herts Finance Service, Hertfordshire County Council, County Hall, Hertford, Herts. SG13 8DQ.

The Authority recognises the cost of retirement benefits in the Cost of Services when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge the Authority is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| Local Government Pension Scheme | 2019/20 | 2020/21 |
|---|--------------|--------------|
| Comprehensive Income and Expenditure Account: | £'000 | £'000 |
| Cost of Services: | | |
| Service cost comprising: | | |
| Current Service Cost * | 3,965 | 3,094 |
| Past Service Costs | (113) | 52 |
| Financing and Investment Income and Expenditure: | | |
| Net Interest Expense | 1,251 | 709 |
| Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | 5,103 | 3,855 |

Notes to the Core Financial Statements

Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:

Re-measurement of the net defined liability comprising:

| | | |
|--|-----------------|---------------|
| Return on Plan Assets | 2,320 | (24,126) |
| Actuarial (gains) and losses arising on changes in demographic assumptions | (4,005) | 2,317 |
| Actuarial (gains) and losses arising on changes in financial assumptions | (12,911) | 37,745 |
| Other | (8,358) | (1,729) |
| Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | (17,851) | 18,062 |

* The service cost figures include an allowance for administration expenses of 0.5% of payroll.

| | | |
|---|----------------|----------------|
| Movement in Reserves Statement: | 2019/20 | 2020/21 |
| | £'000 | £'000 |
| Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | (5,103) | (3,855) |
| Actual Amount charged against the General Fund balance for pensions in the year: | | |
| • Employers' contributions payable to the scheme ** | 2,907 | 2,777 |
| Net chargeable amount against the General Fund balance | 2,907 | 2,777 |

** The figure of £2.777million for employer's contributions are the actual contributions paid for 2020/21.

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

| | | |
|--|-----------------|-----------------|
| Local Government Pension Scheme | 2019/20 | 2020/21 |
| | £'000 | £'000 |
| Present value of the defined benefit obligation | (156,375) | (197,431) |
| Fair Value of plan assets | 125,684 | 151,455 |
| Sub-total | (30,691) | (45,976) |
| Other movements in the liability (asset) | 0 | 0 |
| Net liability arising from defined benefit obligation | (30,691) | (45,976) |

Reconciliation of the Movements in the Fair Value of Scheme Assets:

| | | |
|--|----------------|----------------|
| Local Government Pension Scheme | 2019/20 | 2020/21 |
| | £'000 | £'000 |
| Opening fair value of scheme assets | 126,580 | 125,684 |
| Interest Income | 3,025 | 2,875 |
| Re-measurement gain / (loss): | | |
| The return on plan assets, excluding the amount included in the net interest expense | (2,320) | 24,126 |
| Other | | |
| The effect of changes in foreign exchange rates | | |
| Contributions from employer | 2,907 | 2,777 |
| Contributions from employees into the scheme | 610 | 643 |
| Benefits paid | (5,118) | (4,650) |
| Closing fair value of scheme assets | 125,684 | 151,455 |

Notes to the Core Financial Statements

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

| Local Government Pension Scheme | 2019/20 | 2020/21 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Opening balance at 1 April | 178,029 | 156,375 |
| Current service cost | 3,965 | 3,094 |
| Interest cost | 4,276 | 3,584 |
| Contributions from scheme participants | 610 | 643 |
| Re-measurement (gains) and losses: | | |
| Actuarial (gains) / losses arising from changes in demographic assumptions | (4,005) | 2,317 |
| Actuarial (gains) / losses arising from changes in financial assumptions | (12,911) | 37,745 |
| Other | (8,358) | (1,729) |
| Past Service Cost | (113) | 52 |
| Benefits paid | (5,118) | (4,650) |
| Closing balance at 31 March | 156,375 | 197,431 |

Local Government Pension Scheme assets comprised:

| | Fair Value of scheme assets (Quoted Prices) | | | | | |
|------------------------------------|---|-------------------------------|-------------------|-------------------------|-------------------------------|-------------------|
| | 31 March 2020 | | | 31 March 2021 | | |
| | Active Markets £'000 | Not in Active Markets £000 | % of total assets | Active Markets £'000 | Not in Active Markets £000 | % of total assets |
| Cash and cash equivalents | 2,714 | 0 | 2% | 4,263.9 | 0 | 3% |
| Equity instruments: | | | | | | |
| Consumer | 2,399 | 0 | 2% | 1,345.7 | 0 | 1% |
| Manufacturing | 1,916 | 0 | 2% | 1,187.1 | 0 | 1% |
| Energy and utilities | 0 | 0 | 0% | 0 | 0 | 0% |
| Financial Institutions | 1,841 | 0 | 1% | 970.5 | 0 | 1% |
| Health and care | 1,131 | 0 | 1% | 599.5 | 0 | 0% |
| Information technology | 4,306 | 0 | 3% | 3,453.4 | 0 | 2% |
| Other | 206 | 0 | 0% | 134.9 | 0 | 0% |
| Sub-total equity | 11,799 | 0 | 9% | 7,691.1 | 0 | 5% |
| Bonds: | 0 | 3,257 | 3% | 7,760.0 | 3,455.7 | 7% |
| Private equity: | | | | | | |
| All | 0 | 6,724 | 5% | 0 | 9,104 | 6% |
| Real Estate: | | | | | | |
| UK Property | 0 | 3,800 | 3% | 0 | 8,381 | 6% |
| Overseas Property | 0 | 7,500 | 6% | 0 | 6,979.5 | 5% |
| Sub-total real estate | 0 | 11,300 | 9% | 0 | 15,360.5 | 11% |
| Investment funds and Unit Trusts: | | | | | | |
| Equities | 39,099 | 0 | 31% | 69,674.9 | 0 | 46% |
| Bonds | 41,206 | 0 | 33% | 24,491.7 | 0 | 16% |
| Commodities | 0 | 0 | 0% | 0 | 0 | 0% |
| Infrastructure | 0 | 115 | 0% | 0 | 63.1 | 0% |
| Other | 1,060 | 8,542 | 8% | 1,401.7 | 8,248.2 | 6% |
| Sub-total other investment funds | 81,365 | 8,657 | 72% | 95,568.3 | 8,311.3 | 68% |
| Derivatives: | | | | | | |
| Forward foreign exchange contracts | 0 | (132) | 0% | 0 | (59.8) | 0% |
| Total assets | 95,878 | 29,806 | | 115,283.3 | 36,171.7 | |

Notes to the Core Financial Statements

All scheme assets have fair values based on quoted prices. Some of these assets are in active markets and some are in non-active markets. An active market has a high volume and frequency of transactions which provides better pricing information and means that the asset is more liquid.

The scheme history is as follows:

| | 31 March 2017 £'000 | 31 March 2018 £'000 | 31 March 2019 £'000 | 31 March 2020 £'000 | 31 March 2021 £'000 |
|------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Present Value of Liabilities | (165,071) | (165,274) | (178,029) | (156,375) | (197,431) |
| Fair Value of Assets | 115,748 | 120,245 | 126,580 | 125,684 | 151,455 |
| Deficit in the scheme | (49,323) | (45,029) | (51,449) | (30,691) | (45,976) |

The liabilities show the underlying commitments that the Authority has in the long run to pay for post employment (retirement) benefits. The total liability of £197.431million has a substantial impact on the net worth of the Authority, as recorded in the Balance Sheet, resulting in a negative overall balance of £45,976million. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The contributions paid by the Authority are set by the Fund following an actuarial valuation. Further details on the approach adopted to set contribution rates for the Authority are available in the latest formal valuation report and Funding Strategy Statement.

The total contributions expected to be made to the Local Government Pension scheme by the Authority in the year to 31 March 2022 is £2,805,000.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The pension fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. The significant assumptions used in their calculations are:

| | 31 March 2020 % | 31 March 2021 % |
|---|-----------------------|-----------------------|
| Mortality Assumptions: | | |
| Longevity at 65 for current pensioners*: | | |
| Men | 21.9 | 22.1 |
| Women | 24.1 | 24.5 |
| Longevity at 65 for future pensioners** | | |
| Men | 22.8 | 23.2 |
| Women | 25.5 | 26.2 |
| Rate of increase in salaries | 2.3 | 3.25 |
| Rate of increase in pensions | 1.9 | 2.85 |
| Rate for discounting scheme liabilities | 2.3 | 2.0 |
| Proportion of Employees opting to take a commuted sum | | |
| - pre April 2008 service | 50.0 | 50.0 |
| - post April 2008 service | 75.0 | 75.0 |

* Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2018 model assuming current rates of improvement have peaked and will converge to a long term rate 1.25% p.a. Based on these assumptions the average future life expectancies at age 65 are as shown.

** Figures assume members aged 45 as at the last formal valuation date.

Notes to the Core Financial Statements

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, is on an actuarial basis using the projected unit credit method.

| | Impact on the Defined Benefit Obligation in the scheme | |
|---|--|-----------------|
| | % Increase to Liability | Monetary amount |
| | £'000 | £'000 |
| Real Discount Rate (decrease by 0.1%) | 2% | 3,513 |
| Member Life Expectancy (increase by 1yr) | 4% | 7,897 |
| Rate of increase in salaries (increase by 0.1%) | 0% | 316 |
| Rate of increase in pensions (increase by 0.1%) | 2% | 3,159 |

40. CONTINGENT ASSETS

There are no contingent assets for 2020/21.

41. CONTINGENT LIABILITIES

Contractor Pension Fund Contributions

The Council has transferred the management of its waste collection service, leisure centres and grounds maintenance services to Urbaser, Stevenage Leisure Ltd and John O'Connor Ltd, respectively. All of these bodies administer contributions to the Hertfordshire Local Government Pension Fund. In order for these bodies to be admitted to the Pension Fund the Council has given a commitment to be ultimately liable for payments to the fund. In the event that the Contractor fails to make payment and there is no bond in place to cover the default, the Council would seek to offset the amount due from the contract price in the first instance. With regards to the contract with John O'Connor Ltd there is a bond in place with a value of £182,000 and that value is due for reassessment after 31 March 2022. The Council is liable only for the existing staff at the time of transfer of services to these bodies and as at the 31 March 2021 the Council has not been called upon to make any such payments.

Municipal Mutual Insurance Ltd Scheme of Arrangement

The Council has paid a 25% levy for the claw-back of claims under the MMI Scheme of Arrangement. The Council will still be liable to pay a levy on any future claims and could also be required to pay an increased levy on the claims settled so far. As at 31st March 2021 the council had one outstanding liability claim with MMI with a value of £3,257.

Notes to the Core Financial Statements

42. TRUST FUNDS AND THIRD PARTY FUNDS

Trust Funds

The Authority acts as the sole managing trustee for the following trusts:

- Hitchin Town Hall Gymnasium and Workman's Hall Trust
- King George V Playing Fields Trust.
- Smithson Recreation Ground Trust

Without the annual contribution from the Council, the Trusts would not have had adequate resources to manage the facilities during the year. The Trust's accounts reflect the fixed assets and the in-year expenditure and income incurred in running the facilities. The net balance of these transactions, as at the 31 March 2021, is included in the Authority's accounts. A summary of the value of assets held by the trusts and the amounts administered by the authority is provided in the table below;

| | Fixed Assets Closing Net Book Value £'000 | Directly Attributable Expenditure £'000 | Externally Generated Income £'000 |
|--|--|--|--|
| Hitchin Town Hall Gymnasium and Workman's Hall Trust | 2,736 | 111 | 10 |
| King George V Playing Fields Trust | 101 | 35 | - |
| Smithson Recreation Ground Trust | 21 | 3 | - |

Third Party Funds

The Authority holds income received for S106 legal agreements or unilateral undertakings relating to the submission of planning applications. This income is 'ring-fenced' to different types of capital expenditure/locations within the district. The funds will be used to finance the Council's capital programme, when schemes meet the funding criteria. Until then the funds are treated as a receipt in advance in the Balance Sheet, under current liabilities.

The total value of all S106 contributions, as at the 31 March 2021, available to fund capital and revenue activities is £4,241,948 (2019/20 £3,740,972).

Collection Fund Accounts

The Collection Fund is a separate statutory fund under the provisions of the Local Government Act 1988. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and National Non-Domestic Rates and its distribution to local government bodies and the Government. The Authority's share of the assets and liabilities are included in the Authority's Balance Sheet and its income and expenditure is included within the cash flow statement.

The accounts have been prepared on an accruals basis.

INCOME AND EXPENDITURE ACCOUNT

| Council Tax £'000 | 2019/20 Business Rates £'000 | Total £'000 | | Note | Council Tax £'000 | 2020/21 Business Rates £'000 | Total £'000 |
|---|------------------------------------|----------------|--|------|----------------------|------------------------------------|----------------|
| Income | | | | | | | |
| (89,309) | | (89,309) | Council Tax Receivable | 2 | (92,109) | | (92,109) |
| | | | Council Tax Hardship Scheme | | (679) | | (679) |
| | (39,096) | (39,096) | Business Rates Receivable | 1 | | (18,727) | (18,727) |
| Contribution towards previous year deficit: | | | | | | | |
| 0 | (14) | (14) | Hertfordshire County Council | 3 | (320) | 152 | (168) |
| 0 | | 0 | Hertfordshire Police Authority | 3 | (43) | | (43) |
| | (72) | (72) | MHCLG | 3 | | (503) | (503) |
| 0 | (58) | (58) | North Hertfordshire District Council | 3 | (59) | (294) | (353) |
| (89,309) | (39,240) | (128,549) | Total Income | | (93,210) | (19,372) | (112,582) |
| Expenditure | | | | | | | |
| Precepts, Demands and Shares | | | | | | | |
| 67,315 | 15,037 | 82,352 | Hertfordshire County Council | 4 | 70,681 | 3,944 | 74,625 |
| 9,306 | | 9,306 | Hertfordshire Police Authority | | 9,896 | | 9,896 |
| 11,391 | 13,157 | 24,548 | North Hertfordshire District Council | | 11,752 | 15,778 | 27,530 |
| 1,160 | | 1,160 | Parishes, Town & Community Councils | | 1,200 | | 1,200 |
| | 9,398 | 9,398 | Central Government | | | 19,722 | 19,722 |
| Distribution of previous years Surplus | | | | | | | |
| 162 | | 162 | Hertfordshire County Council | | 0 | | 0 |
| 20 | | 20 | Hertfordshire Police Authority | | 0 | | 0 |
| 301 | | 301 | North Hertfordshire District Council | | 0 | | 0 |
| Charges to Collection Fund | | | | | | | |
| 0 | 176 | 176 | Cost of Collection Allowance | 1 | 0 | 175 | 175 |
| | (216) | (216) | Transitional relief Payable | | | (27) | (27) |
| | 33 | 33 | Energy Payments | | | 35 | 35 |
| 651 | 379 | 1,030 | Write off uncollectible amounts | 1/2 | 460 | 176 | 636 |
| | (1,344) | (1,344) | Increase / (decrease) in provision for appeals | 1 | | 4,443 | 4,443 |
| (85) | (127) | (212) | Increase / (decrease) in bad debt provision | 1/2 | 890 | 2,102 | 2,992 |
| 90,221 | 36,493 | 126,714 | Total Expenditure | | 94,879 | 46,348 | 141,227 |
| 912 | (2,747) | (1,835) | Movement on Fund Balance | | 1,669 | 26,976 | 28,645 |
| (325) | 1,509 | 1,184 | Balance at beginning of year | | 587 | (1,238) | (651) |
| 587 | (1,238) | (651) | Balance at end of year | | 2,256 | 25,738 | 27,994 |
| Share of Balance: | | | | | | | |
| 445 | (905) | (460) | Hertfordshire County Council | | 1,705 | 2,009 | 3,714 |
| 60 | | 60 | Hertfordshire Police Authority | | 238 | | 238 |
| 82 | (365) | (283) | North Hertfordshire District Council | | 313 | 10,389 | 10,702 |
| | 32 | 32 | Central Government | | | 13,340 | 13,340 |
| 587 | (1,238) | (651) | | | 2,256 | 25,738 | 27,994 |

Collection Fund Accounts

1. INCOME FROM BUSINESS RATES

The Council collects non-domestic rates (NNDR) from business across the District based on local rateable values provided by the Valuation Office Agency (VOA) and multiplied by a uniform rate set nationally by Central Government. The total non-domestic rateable value for North Hertfordshire District Council is £102.7 million, (£103.3 million 2019/2020). The NNDR multiplier is 51.2p in the pound (50.4p in the pound in 2019/2020). The small business non-domestic rating multiplier is 49.9p in the pound (49.1p in the pound in 2019/2020).

The business rates retention scheme was introduced in 2013/14. The main aim of the scheme is to give Councils a greater incentive to grow businesses in the District. It does, however, also increase the financial risk to Councils, due to non-collection and the volatility of the NNDR tax base.

The business rates retention scheme allows the Council to retain a proportion of the total NNDR collected. In 2020/21, North Herts share was 40% with the remainder paid over to Hertfordshire County Council (10%) and Central Government (50%). In 2019/20 North Herts was part of the Business Rates Pilot, which allowed Hertfordshire Local Authorities to retain a total of 75% of business rates income recorded for the year. The design of the Pilot scheme changed the income proportions retained in 2019/20; North Herts (35%), Hertfordshire County Council (40%) and Central Government (25%).

The business rate shares payable for 2020/21 were estimated before the start of the financial year as £19.722 million to Central Government, £3.944 million to Hertfordshire County Council and £15.778 million to North Hertfordshire District Council. These sums have been paid in 2020/21 and charged to the Collection Fund.

When the scheme was introduced, Central Government set a baseline level for each Authority, identifying the expected level of retained business rates, and a top up or tariff amount to ensure that all authorities receive the set baseline amount. In addition, the requirement of the retention scheme was that the Council must pay a levy of 50% to Central Government for income recorded above the baseline. A corresponding 'safety net' built into the scheme means that the Council would be reimbursed by Government up to 92.5% of the set baseline for the year should rates income fall below this.

North Hertfordshire paid a tariff of £12.974 million to Central Government from the General Fund in 2020/21. In 2020/21 the authority was part of the Hertfordshire Business Rates Pool, which has reduced the levy amount payable. If North Herts was not in the business rates pool, the levy due to MHCLG would have been £77k. The Council's contribution required to the Business Rates Pool to meet the cost of the levy in 20/21, as calculated by the pool lead authority Hertfordshire County Council, is £23k. The financial benefit to the Authority from membership of the Pool, known as the 'pooling gain', is therefore £54k. As part of a Business Rates Pilot in 2019/20, the Council benefitted from the removal of the requirement to pay any levy to Central Government for income recorded above baseline.

The total net amount of NNDR income collectable in 2020/21, after all reliefs and deductions, was £18.727 million. This is significantly less than the estimated income of £39.444 million declared to Government in January 2020, which has resulted in a deficit of £25.738 million. To help businesses during the Coronavirus pandemic, many businesses were entitled to 100% business rates relief, which reduced the income to the Council. Central Government has paid Local Authorities Section 31 grants to compensate for the lost income. The additional amount of Section 31 grant North Herts received in the year for the additional reliefs introduced due to the pandemic was £7.818million. The grants have been transferred to an earmarked reserve and will finance the repayment of the deficit for 2020/21 amount payable in 2021/22. The government have also legislated for Local Authorities to spread the proportion of the deficit for 2020/21 that does not relate to reliefs (£1.247 million for North Herts), as estimated in January 2021, over the next three financial years to 2023/24, rather than total repayment in the following financial year, as had been required under existing legislation.

Collection Fund Accounts

As a further response to the financial impact of Covid-19 on Local Government finances, the Government also introduced a Local Tax Income Guarantee scheme, where Local Authorities will be compensated for 75% of their Council Tax and NNDR Collection Fund deficits recorded for 2020/21. The income guarantee amount receivable in respect of Business Rates is after deducting the element of the deficit that relates to Business Rate reliefs. The calculated value for North Herts is £1.2million.

Total provision for outstanding amounts that are not subsequently paid (bad debts) was £2.579 million at 31 March 2021 (£476k at 31 March 2020). A total of £176k of outstanding business rates were written off during 2020/21. The increase in the provision is primarily due to a more prudent approach taken to the calculation methodology, while the level of accumulated outstanding debt also increased significantly due to the impact of Covid-19.

The business rates retention scheme has also meant responsibility for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list has transferred to the Authority, as the agent. As such it is necessary for the Authority to make provision for future successful appeals on behalf of itself, the major preceptor Hertfordshire County Council, and Central Government. Based on the number of outstanding appeals and check/challenges with the Valuation Office Agency as at 31 March 2021, the provision for lodged appeals has increased by £0.9million to a total of £2.6 million. In addition an increase of £3.5 million was made to the provision for appeals not yet lodged against the 2017 ratings list, with further appeals expected to be submitted in the coming years, bringing the total movement in provision for appeals (both lodged and not yet lodged) to £4.44 million for 2020/21.

2. COUNCIL TAX

The amounts credited to the Collection Fund can be analysed as follows:

| | 2019/20 | | 2020/21 | |
|--|---------|----------------|---------|----------------|
| | £'000 | £'000 | £'000 | £'000 |
| Original Debt | 105,540 | | 110,139 | |
| Additional Debt | 10,394 | | 9,623 | |
| | | 115,934 | | 119,762 |
| Less: | | | | |
| Council Tax Reductions | | 6,926 | | 8,566 |
| Transitional Relief | | 0 | | 0 |
| Discounts | | 8,061 | | 8,502 |
| Amounts Written-off, Exemptions & Allowances | | 11,638 | | 10,585 |
| | | 89,309 | | 92,109 |

Council tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Hertfordshire County Council, The Police and Crime Commissioner and the Council for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts). This basic amount of council tax for a Band D property, £1,847.33, (£1,778.07 2019/2020) is multiplied by the proportion specified for a particular band to give an individual amount due.

Collection Fund Accounts

Council tax bills were based on the following proportions for Bands A to H:

Proportion of Band D charge

| Band | Property Numbers | Proportion | Basic Amount £ |
|--------------|------------------|------------|-------------------|
| A | 3,374 | 0.67 | 1,231.55 |
| B | 9,009 | 0.78 | 1,436.81 |
| C | 19,940 | 0.89 | 1,642.07 |
| D | 10,094 | 1.00 | 1,847.33 |
| E | 7,198 | 1.22 | 2,257.85 |
| F | 4,558 | 1.44 | 2,668.36 |
| G | 3,346 | 1.67 | 3,078.88 |
| H | 344 | 2.00 | 3,694.66 |
| Total | 57,863 | | |

An increase of £1.350 million has been made for the provision of outstanding amounts that are not subsequently paid (bad debts) bringing the total provision to £2.43million as at 31 March 2021. A total of £460k of outstanding council tax was written off during 2020/21. Due to the pandemic a review of the bad debt provision was carried out, and a more prudent approach has been taken, resulting in the increase to the provision.

3. PAYMENT OF SURPLUS/ DEFICITS FROM THE COLLECTION FUND

The element of the surplus/ deficit on the Collection Fund at 31 March 2021 will be distributed in subsequent financial years to Hertfordshire County Council, The Police and Crime Commissioner and the Council. The apportioned (surplus)/deficit is shown at the bottom of the Income and Expenditure Statement. Due to the Coronavirus pandemic the deficit on the collection fund has worsen. The total deficit reported in 2020/21 is £2.26million, North Herts share is £313k. Central Government have allowed an element of the estimated deficit as at 15th January 2021 to be spread over three years to 2023/24 rather than just one year. North Herts deficit to be spread is £162k. Central Government have also introduced a taxation income guarantee scheme, where LA's will be compensated for 75% of their deficits.. The value for North Herts is £141k.

4. PRECEPTS

| | 2019/20 £'000 | 2020/21 £'000 |
|---|------------------|------------------|
| Hertfordshire County Council | 67,315 | 70,681 |
| Hertfordshire Police | 9,306 | 9,896 |
| North Hertfordshire District Council and Local Town and Parish Councils | 12,551 | 12,952 |
| | 89,172 | 93,529 |

Following the introduction of Council Tax on 1 April 1993, parish precepts are payable from the Council's General Fund and not the Collection Fund.

Glossary of Financial Terms

| Term | Definition |
|-------------------------------|---|
| Accruals | The concept that Income & Expenditure are recognised as they are earned or incurred, not as money is received or paid. |
| Actuarial Gains and Losses | <p>For a defined benefit pension scheme the changes in actuarial deficits or surpluses that arise because:</p> <ul style="list-style-type: none"> • Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses). • The actuarial assumptions have changed. |
| Accumulated Absences | Holiday entitlements (or any form of leave such as time off in lieu) earned by employees but not taken before the year end which can be carried forward into the following year. |
| Agency Arrangements | Services which are performed by or for another Council or public body, where the agent is reimbursed for the cost of the work done. |
| Asset | Anything which somebody owns which can be given a monetary value, for example buildings, land, vehicles, machinery, cash, investments etc. It is always considered in comparison with liabilities in an organisation's accounts. |
| Balances | The capital or revenue reserves of the Council made up of the accumulated surplus of income over expenditure on the General Fund, Earmarked Reserves etc. |
| Capital Expenditure | Expenditure on the acquisition of a fixed asset, or expenditure, that adds to the life, or value, of an existing fixed asset. |
| Capital Financing Requirement | A measure of the capital expenditure incurred historically by an authority that has yet to be financed by capital receipts, capital grants or revenue financing. The Prudential Code requires that the Council monitors and controls its CFR through its Investment Strategy (Integrated Capital and Treasury Strategy) and Medium Term Financial Strategies. |
| Capital Receipts | Monies received from the sale of assets, which may be used to finance capital expenditure or to repay outstanding loan debt as prescribed by Central Government, but they cannot be used to finance day-to-day spending. |

Glossary of Financial Terms

| Term | Definition |
|------------------------------------|---|
| Cash Equivalents | Cash investments which are held on deposit and are repayable on demand without financial penalty. |
| CIPFA | Chartered Institute of Public Finance and Accountancy. The principal accountancy body dealing with local government finance |
| Collection Fund | A fund administered by charging authorities into which Council Tax income and Business Rates collected locally are paid. Precepts are paid from the fund as is a charge in respect of the Council's own requirements. |
| Collection Fund Adjustment Account | This account holds the difference between the income (including accruals) held in the Comprehensive Income and Expenditure Statement and the amount required by statutory regulation to be credited to the Collection Fund. |
| Community Assets | Assets that a local Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings. |
| Consistency | The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same. |
| Contingent Assets | A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the local authority's control. |
| Contingent Liability | A contingent liability is a possible liability arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the local authority's control. |
| Council Tax | This is a local tax set by local Councils to help pay for local services. |
| Creditor | An amount owed by the Council for work done, goods received, or services rendered to the Council within the accounting period and for which payment has not been made at the Balance Sheet date. |

Glossary of Financial Terms

| Term | Definition |
|---------------------------------|--|
| Current Assets | Assets which can be classified as cash or cash equivalents, assets held primarily for the purposes of trading (e.g. inventories), or any asset which is expected to be realised within the next financial year. |
| Current Service Cost (Pensions) | The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period. |
| Curtailment | <p>For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:</p> <ul style="list-style-type: none"> • Termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business. • Termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees no longer qualifies or only qualifies for a reduced benefit. |
| Deficit | An excess of expenditure over income (or liabilities over assets) |
| Debtors | Amounts due to the Council before the end of the accounting period but for which payments have not yet been received by the end of that accounting period. |
| Defined Benefits Scheme | A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded). |
| Depreciation | The measure of the cost or revalued amount of the benefit of the non-current assets that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time obsolescence through either changes in technology or demand for the goods and services produced by the asset. |
| MHCLG (DCLG) | Ministry for Housing, Communities and Local Government, successor to Department for Communities & Local Government (DCLG). |

Glossary of Financial Terms

| Term | Definition |
|---|--|
| Earmarked Reserves | These are reserves set aside for a specific purpose or a particular service or type of expenditure. |
| Employee Benefits | Entitlements accrued by employees as part of their employment rights, e.g. annual leave (holiday), sick pay and payments as a result of their employment being terminated before normal retirement age. |
| Exceptional Items | Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts. |
| Expected Rate of Return on Pension Assets | For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme. |
| Extraordinary Items | Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur. They do not include exceptional items, nor do they include prior period items merely because they relate to a prior period. |
| Finance and Operating Lease | A finance lease transfers all of the risks and rewards of ownership of a fixed asset to the lessee and such assets have been valued and included within Non-current assets in the Balance Sheet. With an operating lease the ownership of the asset remains with the Leasing Company and the annual rent is charged to the relevant service account. |
| Financial Instruments | Any document with monetary value. For example, securities such as bonds and stocks which have value and may be traded in exchange for money. |
| General Fund | The main revenue account of the Council. It contains the excess to date of income over expenditure in the Income and Expenditure Account. |
| Government Grants | Assistance by Central Government and inter-government agencies and similar bodies, whether local, national or international, towards either revenue or capital expenditure incurred in providing local Council services. |

Glossary of Financial Terms

| Term | Definition |
|--------------------------|---|
| Heritage Asset | An asset which is held solely for its cultural, environmental or historic associations. This encompasses such things as civic regalia, historical buildings and monuments, museum collections and works of art. Any asset which is used for operational purposes would not be classified as a Heritage Asset. |
| Housing Benefits | A system of financial assistance to individuals towards certain housing costs, which is administered by Local Authorities. Assistance takes the form of rent rebates, rent allowances, and council tax rebates toward which central government pays a subsidy. |
| Impairment | A reduction in the value of a non current asset below its carrying amount on the balance sheet. |
| Infrastructure Assets | Expenditure on works of drainage, construction or improvement to highways, cycle ways, footpaths or other land owned by the Council. |
| Intangible Assets | An asset that brings benefit for more than one financial year, that does not have physical substance but is identifiable and controlled by the owner (e.g. software licences). |
| Interest Cost (Pensions) | For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement. |
| Inventories | <p>The amount of unused or unconsumed inventories (stock) held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Stocks comprise the following categories:</p> <ul style="list-style-type: none"> • Goods or other assets purchased for resale; • Consumable stores; • Raw materials and components purchased for incorporation into products for sale; • Products and services in intermediate stages of completion • Long term contract balances; and • Finished goods. |

Glossary of Financial Terms

| Term | Definition |
|--------------------------------|--|
| Investments (Non-Pension Fund) | A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments, other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets. |
| Investments (Pension Fund) | The investments of the Pensions Fund will be accounted for in the statements of that fund. However, authorities (other than Town Parish and Community Councils) are required to disclose, as part of the transitional disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations. |
| Investment Property | Property which is held solely to earn rentals and/or for capital appreciation but not used for the purpose of service delivery. |
| Levy | The Council's Comprehensive Income and Expenditure Statement include a share of any surplus or deficit arising for the year on the collection of business rates. Where, after taking into account any surpluses on collection, the Council's income exceeds a threshold set by Central Government, a levy is payable to Central Government, but the Council may retain a proportion of the surplus. |
| Liabilities | Money owed to somebody else. |
| Minimum Revenue Provision | A charge made to the General Fund to repay borrowing taken out for capital expenditure, effectively replacing depreciation (which is reversed out in the MiRS). Authorities determine their own prudent MRP charge. |
| Net Book Value | The amount at which non-current assets are included in the Balance Sheet, i.e. their historical or current value less the cumulative amounts provided for depreciation. |
| Net current replacement cost | The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or the nearest equivalent, adjusted to reflect the current condition of the existing asset. |

Glossary of Financial Terms

| Term | Definition |
|------------------------------------|---|
| Net Realisable Value | The open market value of the asset in its existing use (or open market value in the case of non operational assets), less the expenses to be incurred in realising the asset. |
| NNDR (National Non Domestic Rates) | These are rates charged on properties other than domestic property. The business rate poundage is set annually by Central Government and is a flat rate throughout the country. |
| Non-current assets | Tangible assets that yield benefits to the Council for a period of more than one year. |
| Non-operational assets | Non-current assets held by a local Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are commercial and industrial properties. |
| Obligating Event | An event which creates a legal or constructive obligation that results in the Council having no realistic alternative to settling that obligation. |
| Operational assets | Non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility. |
| Past service cost | For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits. |
| Post balance sheet events | Those events, both favourable and unfavourable, which occur between Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible officer. |
| Precepts | The levy made by one Council on another. Hertfordshire County Council and Police and Crime Commissioner, who do not administer the council tax system, each levy an amount on North Herts, which collects the required income from local taxpayers on their behalf. |
| Prior year adjustments | Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. |
| Projected unit method | An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. |

Glossary of Financial Terms

| Term | Definition |
|---------------------------|--|
| Provisions | An amount set aside to provide for a liability that is likely to be incurred but the exact amount and the date on which it will arise is uncertain. |
| Prudence | The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty. The overall objective of this principle is not to overstate the net worth shown in the Statement of Accounts. |
| Related Parties | <p>Two or more parties are related parties when at any time during the financial period:</p> <ul style="list-style-type: none"> • One party has direct or indirect control of the other party. • The parties are subject to common control from the same source. • One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests. • The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests. |
| Related Party Transaction | <p>A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for a related party irrespective of whether a charge is made. Examples of related party transactions include:</p> <ul style="list-style-type: none"> • The purchase, sale lease, rental or hire of assets or loans, irrespective of any direct economic benefit to the pension fund. • The provision of a guarantee to a third party in relation to a liability or obligation of a related party. • The provision of services to a related party, including the provision of pension fund administration services. • Transactions with individuals who are related parties of the Council or a pension fund, except those applicable to other members of the community or pension fund, such as council tax, rents and payments of benefits. • The materiality of related party transactions is judged not only in terms of their significance to the Council, but also in relation to its related party. |

Glossary of Financial Terms

| Term | Definition |
|---|--|
| Rent Allowances | Subsidies payable by local authorities to tenants in private rented accommodation (either furnished or unfurnished) whose incomes fall below prescribed amounts. |
| Rent Rebates | Subsidies payable by local authorities to their own housing tenants whose incomes fall below prescribed amounts. |
| Reserves | A reserve is an amount set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years. |
| Retirement Benefits | All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees. |
| Revaluation Reserve | An account containing any unrecognised gains or losses arising from the revaluation of non current assets held by the Council. When assets are sold, the gain or loss on sale will be recognised in the Comprehensive Income and Expenditure Statement once all previous entries relating to unrecognised gains or losses have been removed from the accounts. |
| Revenue Expenditure | Day to day expenses, mainly salaries and wages, general running costs and debt charges. |
| Revenue Expenditure Funded from Capital Under Statute | Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non current asset. |
| Revenue Support Grant | Central Government Grant towards the cost of Local Council Services. |
| Scheme Liabilities | The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date. |
| Surplus | An excess of income over expenditure (or assets over liabilities) |

Glossary of Financial Terms

| Term | Definition |
|-------------------------|--|
| Usable Capital Receipts | This is generally the balance of any capital receipt after deducting the reserved part and any repayment to the Central Government of grants made to the Council on disposal of the asset. |
| Useful Life | The period over which the authority will derive benefits from the use of a non current asset. |

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| FINANCE AUDIT AND RISK COMMITTEE 15 June 2022 |
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| *PART 1 – PUBLIC DOCUMENT |
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TITLE OF REPORT: RISK MANAGEMENT UPDATE

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND IT

COUNCIL PRIORITY: ALL

1. EXECUTIVE SUMMARY

To provide the Committee with an update on risk management, including the Annual Report on Risk Management for 2021-22.

2. RECOMMENDATIONS

- 2.1. That the Committee recommends to Cabinet the introduction of a new Corporate Risk relating to Council Resourcing.
- 2.2. That the Committee notes and refers the Annual report on Risk Management to Cabinet and then Full Council.

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 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 10 May 2022.

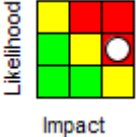

7. BACKGROUND

- 7.1 At the March meeting, the Committee discussed:
- The proposed Council Delivery Plan for 2022-23 and the implications for Risk Management
 - The situation in Ukraine, and whether there should be a corporate risk.

8. RELEVANT CONSIDERATIONS

- 8.1. The Risk Management Group met on 11 May 2022. The agenda included:
- Discussion about resilience planning
 - Annual report on Risk Management 2021-22
 - Proposed new risks
 - Updates from Internal Audit (SIAS), Health and Safety and Insurance
 - Highlighting the need to discuss the Terms of Reference of the group at the next meeting- to include the wider focus on the Council Delivery Plan
- 8.2 The Annual Report on Risk Management for 2021-22 is attached at Appendix A and the Committee are asked to recommend the report to Cabinet, who in turn will be asked to recommend it on to Full Council. The production of this report helps to emphasise the importance of Risk Management, and the activities that are put in place to support it.
- 8.3 A new risk was presented to the Risk Management Group in relation to Council Resourcing. The Pentana extract for the new risk is shown below. The risk was originally considered in relation to the conflict in Ukraine, but deliberately takes a wider focus to include wider implications (e.g. Cost of Living). It also reflects that the Council generally has very little spare capacity to take on additional burdens, and where it does it will have an impact on the delivery of other work. It is proposed that this is adopted as a over-arching Corporate risk, given the potential impacts on the delivery of the Council Delivery Plan.

| | | | |
|-------------------------|--|--------------------------|--------------|
| Risk Code | RR578 | Risk Title | Resourcing |
| Risk Owner | Ian Couper | Updated By | |
| Year Identified | 2022 | Council Objective | People First |
| Risk Description | Vital additional actions require resources (e.g., staff and financial) to be redirected to enable them to be provided, which affects the delivery of other projects within the Council Delivery Plan. In the short-term, this is likely to include supporting the Homes for Ukraine scheme and providing financial hardship support. | | |
| Ongoing Work | Risk mitigations: | | |

| | | | |
|-----------------------------------|---|---------------------------------|---|
| | <ul style="list-style-type: none"> - Consider getting in additional staffing resource (especially where New Burdens funding available). - Signposting to external resources and support. - Process automation. | | |
| Current Overall Risk Score | 8 | | |
| Current Impact Score | 3 | Current Likelihood Score | 2 |
| Current Risk Matrix |  | Target Risk Matrix |  |
| Date Reviewed | 29-Apr-2022 | Next Review Date | 29-Jul-2022 |

- 8.4 Under the new process for the monitoring of the Council Delivery Plan, the Overview and Scrutiny Committee will take on the monitoring of those risks affecting the delivery of the Plan. This Committee will focus on its role (as set out in the Constitution) of “monitor[ing] the effective development and operation of risk management”. To achieve this, the Committee will receive a mid-year (in December) and end of year (in June) report. The June report will focus on the Annual Report of Risk Management. It was highlighted that the next meeting of the Risk Management Group will need to consider the content of the mid-year update. Members of this Committee will also asked to comment.

9. LEGAL IMPLICATIONS

- 9.1. The Committee’s Terms of Reference include “to monitor the effective development and operation of risk management and corporate governance, agree actions (where appropriate) and make recommendations to Cabinet” (Constitution 10.1.5 (u)).

10. FINANCIAL IMPLICATIONS

- 10.1 There are no direct financial implications arising from this report. However, it should be noted that there are issues linked to the Resourcing risk (e.g. Cost of Living and inflation) that will affect the Council’s financial situation.

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 The proposed Resourcing risk highlights the potential impact on staff of taking on new tasks.

16. APPENDICES

- 16.1. Appendix A – Annual report on Risk Management

17. CONTACT OFFICERS

- 17.1. Rachel Cooper, Controls, Risk & Performance Manager
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18. BACKGROUND PAPERS

18.1. None

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Annual Report on Risk Management

April 2021 to March 2022

**A progress report on Risk Management at
North Herts Council**

Annual Report on Risk Management **April 2021 to March 2022**

1. Introduction
2. Recommendations
3. Overview
4. Significant Changes to Corporate Risks
5. Review of the Risk Management Framework
6. Risk Awareness and Appetite
7. Insurance Review
8. Business Continuity
9. Health and Safety
10. Achieving the Key Actions for 2021/22
11. Key Actions for 2022/23
12. Conclusion
13. Definitions
14. Summary Matrix of Corporate Risks – March 2022

Annual Report on Risk Management April 2021 to March 2022

1 Introduction

- 1.1 This report provides Council with a summary of risk management at North Herts Council during 2021/22. The 2020/21 report was presented to Council on 8 July 2021.
- 1.2 It aims to:
- Confirm the Council's commitment to managing risks and considering associated opportunities to enable the achievement of its objectives and the successful delivery of its projects, initiatives, and services.
 - Summarise changes to the Council's Corporate Risks.
 - Summarise the progress of previously identified actions and propose additional actions for 2022/23 that will further enhance the Council's Risk Management Framework.

2 Recommendations

- 2.1 Council notes the continuing development of the Risk Management Framework, which supports the overarching governance framework.
- 2.2 Council notes the changes to the Corporate Risks during 2021/22.

3 Overview

- 3.1 Throughout 2021/22, the Finance, Audit and Risk (FAR) Committee received quarterly reports on the management of Corporate Risks and associated risk issues, and where necessary, referred items to Cabinet.
- 3.2 From 2022/23, the reporting arrangements for key risks will change. In March 2022, Cabinet agreed that risks impacting on the delivery of the Council Plan and linked projects will now be reported to the Overview and Scrutiny (O&S) Committee, along with details of projects and associated performance indicators. This forms part of the new Council Delivery Plan combined performance monitoring arrangements. Although the FAR Committee will no longer receive quarterly reports on specific risks, it will receive reports relating to the development and operation of the Council's strategic approach to risk management. In addition, the Chairs of both the FAR and O&S Committees will be invited to quarterly Risk Management Group (RMG) meetings, so they will have the opportunity to comment on specific items there.
- 3.3 The Executive Member for Finance and IT in their role as the Member Risk Management Champion was a regular attendee at the quarterly RMG meetings. The items discussed at these meetings informed the content of the committee reports.
- 3.4 The RMG is chaired by the Service Director – Resources, the Officer Champion for Risk Management, who is responsible for the risk management function at a strategic and operational level. This function is delivered by the Controls, Risk and Performance Manager and the Performance and Risk Officer, including the provision of training and support to Officers and Members.

- 3.5 During the year, no new Corporate Risks were introduced, none were archived, and one overall risk score was changed. One Corporate Risk was reclassified as an Operational Risk. Section 4 provides further details.
- 3.6 Hertfordshire County Council (HCC) delivers the Council's insurance services and their Risk and Insurance Manager attends RMG meetings. This enables the Council to obtain an insight into emerging risks and issues at both HCC and other Hertfordshire local authorities. The SIAS Client Audit Manager also attends RMG meetings, helping to inform the group's understanding of wider risk issues.

4 Significant Changes to Corporate Risks

- 4.1 The Corporate Risks are the responsibility of the Leadership Team and Cabinet, with Cabinet ensuring the risks are managed appropriately and proportionately. These key risks were those that cut across the delivery of all services, related to key projects or could significantly affect the delivery of Council objectives. They were likely to require a high level of resources to manage and needed to be monitored at a strategic level.
- 4.2 The quarterly reporting of Corporate Risks to Cabinet via the FAR Committee allowed details of the top risks facing the Council and how we were managing them to be approved and monitored accordingly.
- 4.3 The following paragraphs highlight significant changes to Corporate Risks reported to the FAR Committee and Cabinet last year.

Reclassified Corporate Risks

- 4.4 **Impact of Anti-Social Behaviour on Council Facilities (December 2021)**
The proposal to downgrade the risk from a Corporate Risk to an Operational Risk was approved, as actions implemented had resulted in a positive impact, evidenced by a reduction in the number and scale of issues.

Changes to Corporate Risk Scores

- 4.5 As part of the regular review process, officers re-assessed the impact and likelihood scores of the Corporate Risks. Section 13 of this report details the definitions used for assessing these scores, which aim to ensure a consistent approach.
- 4.6 **Brexit (EU Transition) (June 2021)**
The FAR Committee recommended the proposal to reduce the risk score from 9 to 5, as although there were still complexities associated with the EU transition, the Council was dealing with the related issues in an effective way. Cabinet subsequently approved this.
- 4.7 Section 14 presents a summary risk matrix, which shows the position of each Corporate Risk as reported to and noted by the FAR Committee on 16 March 2022 (i.e., the last meeting of the year).

5 Review of the Risk Management Framework

- 5.1 This was reported to the FAR Committee and Cabinet in December 2021. As the Risk Management Framework was only introduced in 2020/21, the review was relatively light touch. The changes reflected the new Council identity, changes to job titles and group names, and the introduction of the e-learning module and risk toolkit intranet page. The updated Framework also included the introduction of a risk questionnaire to be completed as part of the annual service planning process, which has subsequently been incorporated into the new Council Delivery Plan data collection template. This formed part of wider proposals to create and monitor an integrated Council Delivery Plan, which aims to integrate performance, risk, and project monitoring procedures. These wider proposals were subsequently approved by Cabinet and introduced for 2022/23.

6 Risk Awareness and Appetite

- 6.1 The Council is committed to the proactive identification and management of key external and internal risks that may affect the delivery of objectives. This allows us to be risk aware, understanding that risks may increase as services evolve and more commercial opportunities are developed and undertaken.
- 6.2 The Council's risk appetite is its willingness to accept risks to realise opportunities and achieve objectives. We must take risks and 'be brave' to evolve and to continue to deliver services effectively, deciding what risks we want to take and what ones we want to avoid, whilst acknowledging that we cannot or should not avoid all risks. The Risk Management Framework recognises that risks accompany all new objectives and opportunities and it provides guidance on managing them appropriately.
- 6.3 The Council will have a range of different appetites for different risks depending on the circumstances and these will vary over time. The Risk Management Framework specifies that we will actively manage and monitor risks scoring 4 or higher on the risk matrix. This includes monitoring the completion of risk management activities and assessing their effectiveness.
- 6.4 As reported to the FAR Committee on 16 March 2022, 12 Corporate Risks had a score of 4 or above:
- Covid-19 -Leisure Management Contracts - 9
 - Local Plan - 9
 - Managing the Council's Finances - 9
 - Novel Coronavirus (Covid-19) - Recovery - 9
 - Cyber Risks - 8
 - Delivery of the Waste Collection and Street Cleansing Services Contract - 8
 - Sustainable Development - Neighbouring Authorities - 8
 - Income Generation - 7
 - Increased Homelessness - 7
 - Sustainable Development - National and Regional Planning Issues - 7
 - External Factors Affecting the Future Provision of Waste Services – 6
 - Brexit (EU Transition) - 5
- 6.5 The FAR Committee has a role in monitoring how effectively the Council delivers against its strategic approach to risk appetite.

7 Insurance Review

- 7.1 Hertfordshire County Council handles the Council's insurance arrangements under a shared service arrangement. The arrangement was subject to an internal audit review in 2019/20 and the final report gave a satisfactory overall assurance level.
- 7.2 The Council transfers some financial risks to its insurers. Public liability insurance provides the Council with insurance cover for claims made by the public for personal injury and/or property damage. These are each subject to a £10,000 excess that is charged to the responsible service area. Areas that have been subject to a claim are identified and wherever possible, action is taken to prevent future damage to property or personal injury.
- 7.3 Seven claims were received from the public relating to the policy year 2021/22, as at 31 March 2022. Although claims are made, these are not always successful for the claimant, as payments of compensation are made only when there is a proven legal liability.
- 7.4 The Municipal Mutual Insurance (MMI) Scheme of Arrangement was triggered in 2013 and the Council now pays 25% of any new claims dating back to the period that MMI was the Council's insurer (1974 to 1993). The Council's Financial Risks make provision for any new claims and any further levy demands relating to the period that MMI were the Council's insurers. As at 31 March 2022, there are no outstanding claims with MMI.

8 Business Continuity

Business Continuity Work Programme

- 8.1 A new Resilience Team structure is now in place, following a review in July 2021 and the retirement of the previous Emergency Planning Officer in September 2021, and includes a part-time Resilience Manager and full-time Resilience Officer. The Council has withdrawn from the Hertfordshire Authorities Resilience Partnership (HARP) with effect from April 2022. The new Resilience Manager will provide the training and exercise sessions that would have previously been facilitated by the HCC Resilience Officer under the HARP agreement.
- 8.2 Since early 2020 the annual work programme had been suspended due to the response to the Covid-19 pandemic. Following the establishment of the new Resilience structure in September 2021 the Resilience work programme has been reviewed and has now resumed.

Business Impact Analysis Review 2022

- 8.3 The Council has identified (from a Business Impact Analysis process) the critical service functions which must be continued in the event of severe internal business disruption. This is based upon identified risks to service delivery, safety, financial loss, performance, reputation and environment. Leadership Team monitor the critical service functions, while Service Directors have responsibility for lower level risks in their service areas. The critical functions identified are then included in Service Business Continuity Plans. The critical functions identified, with effect up to April 2022 were:
- Burials
 - Careline
 - Emergency Planning
 - Housing – Dealing with homelessness approaches and rough sleepers
 - Customer Service
 - Communications

- IT
 - Safeguarding – Managing alerts/concerns
 - Revenues and Benefits - Payments
 - Waste Management - Waste Contract/Loss of Buntingford Depot
 - Environmental Health response
- 8.4 A full Business Impact Analysis review was commenced by the Resilience Team in April 2022. The process will provide an updated list of critical service functions and lower level risks for each Directorate. Service Business Continuity Plans for critical functions will be reviewed and an updated template provided for services to use.
- 8.5 The Civil Contingencies Act places a statutory responsibility on the Council, and all Category 1 responders, to maintain business continuity plans to ensure that ‘they can continue to exercise their functions in the event of an emergency, so far as is reasonably practicable’. Our comprehensive Business Continuity Plan structure consists of a number of plans:
- The Resilience Plan providing direction on the Council’s response to an emergency or to a major business disruption
 - Corporate Level Cross Council Plans:
 - IT Recovery Plan
 - Recovery Plan
 - Pandemic Plan
 - Communications Plan
 - Mass Staff Absence Plan
 - Operational Service Continuity Plans for critical service functions
- These plans will be reviewed during 2022 taking into account learning from the response to the Covid-19 pandemic and recent audit reports. The development of a ‘Loss of Building’ plan being drafted pre-pandemic will also be reviewed in light of working experiences during the pandemic.
- 8.6 Once all the business continuity plans have been reviewed and updated, a training programme will be provided. The programme will include business continuity training for staff and a series of exercises to test the new arrangements. Exercises will include business continuity tabletop and discussion based exercises to test corporate arrangements, and service level exercises.
- Working in Partnership**
- 8.7 The Hertfordshire Local Resilience Forum takes a lead role in Business Continuity Planning and therefore promotes a broader understanding of issues. Council officers have good relationships with local organisations and contractors. The Council works closely with neighbouring authorities on other topics such as cybercrime, reception centres, managing equipment, and mutual aid.
- Business Continuity Promotion**
- 8.8 Business Continuity awareness work has been focused on promoting Government and Public Health guidelines regarding Covid-19. With the return to a normal work programme this year, awareness activities will be reviewed. Promotional work will include topics such as Business Continuity Awareness Week, which takes place on 16-20 May 2022 with the theme ‘Building Resilience in the Hybrid World’.
- 8.9 Business Continuity information is available on the Council website along with links to additional advice and guidance from HCC and Government.

9 Health and Safety

- 9.1 This section focuses on the latest Health and Safety updates and therefore includes activities that have continued in to the 2022-23 year.
- 9.2 The focus for elections was once again on delivering them in a Covid safe way. Health and Safety were involved in reviewing all the risk assessments that were produced last year and to make changes to the existing controls to ensure current legislation and Central Government guidance was considered. Following the review, the decision was taken to keep the majority of controls in place at the polling stations and for the count, with a few adjustments made to the provision of screens. Greater emphasis was placed on guidance and advice where the statutory requirement for certain controls had been lifted i.e., wearing of masks in indoor areas, social distancing etc.
- 9.3 Risk assessments around the use of the District Council Offices main building have also been subject to review following the decision to reopen the building for greater occupation. The risk assessment for the use of the Council Chamber and meeting rooms has also been reviewed and the controls updated to allow greater use of the areas with the move away from “you must” to “strongly advised” where there have been changes in guidance from Central Government.
- 9.4 A project is underway to review the Council’s approach to risk assessment. This will include a new risk assessment template design along with updated risk assessment guidance for managers.
- 9.5 Another project is looking at the Council’s Incident Register, including updated guidance around the use of the stored information to ensure it is in line with GDPR but still be able to provide important health and safety information to all staff that would need it. The project will also be looking at the suitability of the current “Incident register app”, which will consider the current design and which staff it is made available to. Communication of updated information will also be considered during the review.
- 9.6 The contract to provide statutory Display Screen Equipment (DSE) risk assessments to staff has been renewed for a further three years and this will allow staff to continue to access the software and carry out their own DSE self-assessments with after assessment support being supplied via the software and by the Council’s DSE assessor.

10 Achieving the Key Actions for 2021/22

- 10.1 Last year’s Annual Report detailed the following key actions for 2021/22 to enhance the Risk Management Framework:

| Action | Due Date |
|---|----------|
| Ensure that 100% of Risk Owners and Risk Assignees complete the Risk Management e-learning module. | 30/09/21 |
| Continue work with Officers and Councillors on what the Council’s risk appetite is and ensuring that actions reflect that target. | 31/03/22 |
| Ongoing development of the Risk Management toolkit. | 31/03/22 |
| Annual review of the Risk Management Framework documents. | 31/03/22 |

- 10.2 Further targeted promotion of the e-learning module is underway, as not all current Risk Owners and Risk Assignees have completed it (currently a 58% completion rate). In practical terms, the Performance & Risk Officer continues to provide guidance and support to officers undertaking risk reviews.
- 10.3 Discussions on risk appetite have taken place, particularly among the Officer Leadership Team and the Officer/Cabinet Leadership Team. This has determined that we will assess our risk appetite on a project-by-project basis. This allows the benefits of a project to be balanced against both the resources and risks involved. Overall the aim is for the Council to be risk aware, and take appropriate risks.
- 10.4 Although work to develop the Risk Management toolkit continued, only limited progress was made due to competing priorities. Development and enhancement of the toolkit will be a priority during the coming year, and it will then continue to be updated on an ongoing basis.
- 10.5 As detailed in Section 5, a review of the Risk Management Framework documentation was undertaken in late 2021 and this was reported to Members in December 2021.

11 Key Actions for 2022/23

- 11.1 The implementation of the following actions in 2022/23 will ensure the continued development of risk management at the Council:

| Action | Due Date |
|--|----------|
| Undertake the annual review of Risk Management Framework documentation. | 31/12/22 |
| Continue to develop the Risk Management toolkit throughout the year. | 31/03/23 |
| Refine the new Council Delivery Plan combined performance monitoring arrangements throughout the year. | 31/03/23 |
| Undertake Insurance tender. | 31/03/23 |
| Completion of Performance Management Framework guidance documents (action will span more than one year, as requirements evolve). | 31/03/24 |

12 Conclusion

- 12.1 The Council continued to implement the Risk Management Framework throughout 2021/22, including reviewing and reporting key risks. This, along with the further enhancement of related processes and practices, ensures a comprehensive understanding of the risks faced. This allows us to be risk aware and to determine the most cost-effective way to manage risks and exploit opportunities.

13 Definitions

- 13.1 The following diagram highlights the definitions of likelihood and impact used in the Risk Management Framework.

| | | |
|--|--|---|
| 4 Likelihood High (3) Impact Low (1) Chance of it happening -More than 60% Consequences - Minor | 7 Likelihood High (3) Impact Medium (2) Chance of it happening - More than 60% Consequences - Noticeable effect on the Council | 9 Likelihood High (3) Impact High (3) Chance of it happening - More than 60% Consequences - Significant impact on the Council |
| 2 Likelihood Medium (2) Impact Low (1) Chance of it happening – between 20 – 60% Consequences - Minor | 5 Likelihood Medium (2) Impact Medium (2) Chance of it happening – between 20 – 60% Consequences – Noticeable effect on the Council | 8 Likelihood Medium (2) Impact High (3) Chance of it happening – between 20 – 60% Consequences – Significant impact on the Council |
| 1 Likelihood Low (1) Impact Low (1) Chance of it happening – less than 20% Consequences - Minor | 3 Likelihood Low (1) Impact Medium (2) Chance of it happening – less than 20% Consequences – Noticeable effect on the Council | 6 Likelihood Low (1) Impact High (3) Chance of it happening – less than 20% Consequences – Significant impact on the Council |

14 Summary Matrix of Corporate Risks - March 2022

14.1 As reported to and noted by the FAR Committee on 16 March 2022.

| | | | | |
|------------|-------------|----------|---|---|
| Likelihood | 3 High | 4 | 7 <ul style="list-style-type: none"> Income Generation Increased Homelessness National and Regional Planning Issues | 9 <ul style="list-style-type: none"> Local Plan Managing the Council's Finances Novel Coronavirus (Covid-19) – Recovery Covid-19 - Leisure Management Contracts* |
| | 2 Medium | 2 | 5 <ul style="list-style-type: none"> Brexit (EU Transition) | 8 <ul style="list-style-type: none"> Cyber Risks Delivery of the Waste Collection and Street Cleansing Services Contract Sustainable Development - Neighbouring Authorities |
| | 1 Low | 1 | 3 | 6 <ul style="list-style-type: none"> External Factors Affecting the Future Provision of Waste Services |
| | | 1 Low | 2 Medium | 3 High |
| | | Impact | | |

* The Leisure Management Contracts risk score was reduced from 9 to 8 between the last Risk Management Group in February and the end of the year. This reflected the generally improving position. As this will no longer be a Corporate Risk (in this format) from April 2022, Cabinet are not being asked to approve this change in the risk score.

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| CABINET 21 June 2022 |
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| PART 1 – PUBLIC DOCUMENT |
|---------------------------------|

TITLE OF REPORT: REVENUE BUDGET OUTTURN 2021/22

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 as at the end of the financial year 2021/22. The net outturn of £16.865m represents a £619k decrease from the working budget of £17.484million. The significant variances are detailed and explained in table 4. There are corresponding requests to carry forward £172k (of underspends) to fund specific projects that will now take place in 2022/23. There is a further forecast impact on the 2022/23 base budget of a £7k increase.

2. RECOMMENDATIONS

- 2.1. That Cabinet note this report.
- 2.2. That Cabinet approves a decrease of £618k in the 2021/22 net General Fund expenditure, as identified in table 4 and paragraph 8.1, to a total of £16.865million.
- 2.3. That Cabinet approves the changes to the 2022/23 General Fund budget, as identified in table 4 and paragraph 8.3, a total £179k increase in net expenditure.

That Cabinet recommends to Council

- 2.4. That Council approves the net transfer from earmarked reserves, as identified in table 9, of £8.1million.

3. REASONS FOR RECOMMENDATIONS

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

4. ALTERNATIVE OPTIONS CONSIDERED

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

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

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

6. FORWARD PLAN

- 6.1. The report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 9th May 2022.

7. BACKGROUND

- 7.1. Council approved the revenue budget for 2021/22 of £18.441million in February 2021. At the end of the financial year the working budget has decreased to £17.484million. 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 |
| Quarter 1 2021/22 Revenue Monitoring report - 2021/22 variances approved by Cabinet (September 2021) | 560 |
| Quarter 2 2021/22 Revenue Monitoring report - 2021/22 variances approved by Cabinet (December 2021) | (1,256) |
| Month 8 revenue monitoring included within 2022/23 budget report – 2021/22 variances approved by Cabinet (January 2022) | (111) |
| Quarter 3 2021/22 Revenue Monitoring report - 2021/22 variances approved by Cabinet (March 2022) | (510) |
| Current Working Budget | 17,484 |

- 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 net direct budget allocations for 2021/22.

Table 2 – 2021/22 Service Directorate Budget Allocations

| | Managing Director | Commercial | Customers | Legal & Community | Place | Regulatory Services | Resources | Total |
|------------------------|-------------------|--------------|--------------|-------------------|--------------|---------------------|--------------|---------------|
| | £k | £k | £k | £k | £k | £k | £k | £k |
| Original Budget | 1,910 | (285) | 3,831 | 2,201 | 6,980 | 1,187 | 2,617 | 18,441 |
| Q3 2020/21 | 0 | 6 | 0 | 38 | (81) | 20 | 0 | (17) |
| Outturn 2020/21 | 324 | 12 | 45 | 4 | (8) | 0 | 0 | 377 |
| Q1 2021/22 | 96 | 27 | 162 | 11 | 144 | 131 | (11) | 560 |
| Q2 2021/22 | 11 | (64) | (281) | (107) | (1,263) | 460 | (12) | (1,256) |
| Month 8 2021/22 | 0 | 42 | 39 | (19) | (59) | (114) | 0 | (111) |
| Q3 2021/22 | (120) | 32 | 50 | (35) | (133) | (218) | (86) | (510) |
| Other Changes | (279) | 76 | 26 | 76 | 327 | (10) | (216) | 0 |
| Current Budget | 1,942 | (154) | 3,874 | 1,889 | 5,907 | 1,456 | 2,292 | 17,484 |

8. RELEVANT CONSIDERATIONS

- 8.1. Cabinet are asked to approve the net expenditure on the General Fund in 2021/22 of £16.865 million (recommendation 2.2). This is a net decrease of £619k on the working budget of £17.484million. Table 3 below confirms the net expenditure for each Service Directorate and the variance with the current working budget. The major changes reported during the year are recorded at Appendix A.

Table 3 – 2021/22 Revenue Outturn by Service Directorate

| Directorate | Net Direct Working Budget | Net Direct Outturn* | (Under) / Overspend |
|---------------------------------|----------------------------------|----------------------------|----------------------------|
| Managing Director | 2,039 | 1,806 | (233) |
| Commercialisation Directorate | (154) | (132) | 22 |
| Customers Directorate | 3,872 | 3,875 | 3 |
| Legal & Community Directorate | 2,169 | 2,155 | (14) |
| Place Directorate | 5,810 | 5,587 | (223) |
| Regulatory Services Directorate | 1,456 | 1,319 | (137) |
| Resources Directorate | 2,292 | 2,255 | (37) |
| TOTAL | 17,484 | 16,865 | (619) |

* Directorate outturn totals exclude year-end finance lease accounting entries. These entries have a net zero impact on the Council's General Fund but their inclusion would distort the Directorate performance indicated in the table.

- 8.2. Table 4 below highlights and explains 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 4 - Summary of significant variances

| Service Directorate & Budget Area | Working Budget £k | Outturn £k | Variance £k | Reason for difference | Carry Forward Request £k | Estimated Impact on 2022/23 £k |
|---|--------------------------|-------------------|--------------------|---|---------------------------------|---------------------------------------|
| Managing Director Unallocated Income Receipts | 0 | (30) | (30) | Outturn represents income received in the Council's bank account in 2019/20 and 2020/21 where it has since not been possible to allocate the funds due to there being no reference or details. Should a business or individual come forward with evidence of payment at some point in the future, the income receipt will be reallocated accordingly. | 0 | 0 |

| Service Directorate & Budget Area | Working Budget £k | Outturn £k | Variance £k | Reason for difference | Carry Forward Request £k | Estimated Impact on 2022/23 £k |
|--|------------------------------|-----------------------|------------------------|--|-------------------------------------|---|
| Managing Director Apprenticeship Scheme | 115 | 0 | (115) | This year there were a couple of apprentices who left the council before the end of their apprenticeships. There have also been some delays in advertising placements due to investigating new, more specialist, apprenticeship course options available to better match service area requirements. The time lapse between the allocation of placements to service areas and the appointment of successful applicants is now being tracked to allow for better planning. The number of apprenticeship placements has temporarily been increased to make best use of this underspend and therefore it is requested that the unspent budget is carried forward to finance these placements in the next financial year. | 115 | 0 |
| Managing Director NHC Website Development | 65 | 14 | (51) | The estimated investment required for the rebuild of the website, as approved by Council in February 2021, was based on some initial soft market testing, with the tender process at that point still to take place. The outcome of the procurement exercise was a significant reduction in the resource required to deliver the project. | 0 | 0 |
| Managing Director District Wide Survey Consultants Costs | 18 | 4 | (14) | The appointed consultants are behind schedule in conducting the survey, primarily due to sickness absence within their team. As at the end of March, 149 interviews had been completed, with at least another 100 to capture. A carry forward of the unspent budget is requested to fund the work undertaken by the consultants in the next financial year to complete the survey. | 14 | 0 |
| Customers Directorate Staffing Costs | 5,017 | 4,984 | (33) | Underspend is mainly due to the vacant Senior Benefits Officer post, which has subsequently been deleted in 2022/23 as per the efficiency proposal approved by Council in February. | 0 | 0 |

| Service Directorate & Budget Area | Working Budget £k | Outturn £k | Variance £k | Reason for difference | Carry Forward Request £k | Estimated Impact on 2022/23 £k |
|---|----------------------|---------------|----------------|---|-----------------------------|-----------------------------------|
| Customers Directorate Outbound Mail Contract | 130 | 173 | +43 | As reported to Cabinet at Q1 20/21, the renegotiation of the contract effective from August 2020 enabled the Council to realise further ongoing savings to the annual budget of approximately £50k from lower than originally estimated volumes of outbound post being processed by the contractor. Volumes have however subsequently risen across a range of services, most notably Elections, Careline and Income Recovery, with Covid-19 contributing to the increase. The Council is seeking to reduce its postal spend by making greater use of email, text alerts and online self-service, with a working group set up to maintain the focus on reducing postage spend. It is however anticipated that volumes in 2022/23 will be at a similar level to the current year. | 0 | 52 |
| Customers Directorate Contribution to Sales Ledger Bad Debt Provision | 70 | 106 | +36 | Increase in contribution to the bad debt provision is primarily due to several ageing commercial rents debts. As the debts age, it is considered less likely that the debt will be recovered in full and hence provision is made for a greater proportion of the debt outstanding. The government introduced restrictions in the recovery of commercial debt to help businesses struggling due to the pandemic. | 0 | 0 |
| Customers Directorate Court Fees Refund | 0 | (40) | (40) | The Ministry of Justice (MOJ) announced in 2018 that, following an administrative error, Councils had been overcharged for certain court fees between 1st April 2014 and 21 st July 2018. Councils had been charged £3.00 for a Council Tax Liability Order application, when this fee should instead have been set to £0.50 to reflect the actual costs incurred. For North Herts Council this has amounted to an eligible compensation amount of £39,580. The refund was received from the MOJ in March. | 0 | 0 |

| Service Directorate & Budget Area | Working Budget £k | Outturn £k | Variance £k | Reason for difference | Carry Forward Request £k | Estimated Impact on 2022/23 £k |
|--|------------------------------|-----------------------|------------------------|---|-------------------------------------|---|
| Customers Directorate Covid-19 Business Support Grant Payments | 0 | 39 | +39 | It was identified last year that £49k of Covid-19 grant payments had been paid incorrectly, due to either businesses providing the wrong bank details or input error. Specialist software was consequently put in place for future rounds of grants, offering the facility to check that account names matched with the bank details provided on the application. £10k has since been returned to North Herts, leaving £39k outstanding. The relevant details have been shared with the Hertfordshire Shared Anti-Fraud Service to try and recover the funds but, as the payments were made approximately two years ago, it is considered highly unlikely that the amounts will be retrieved. | 0 | 0 |
| Customers Directorate New Burdens Grant Income for administration of self-isolation payments | (26) | (158) | (132) | As this scheme was generally delivered using existing staff and technology, the administrative burden of processing self-isolation payments did not result in significant additional costs. The variance therefore reflects the unspent grant income. | 0 | 0 |
| Customers Directorate Net Housing Benefit Expenditure | 411 | 568 | +157 | Increase in net expenditure is due to an increase in the level of benefit overpayments identified in 2021/22 (as highlighted below). Overpaid amounts are eligible for only 40% reimbursement by government through Housing Benefit subsidy. | 0 | 0 |
| Customers Directorate Housing Benefit Overpayments Income | (325) | (359) | (34) | The increase in overpayments income raised in 2021/22 follows claimant reviews in the year undertaken by both the Council and the Department for Work and Pensions (DWP). The expectation however remains that the level of overpayments income will shrink in future years as working age housing benefit clients migrate to the Universal Credit scheme administered by the DWP. | 0 | 0 |

| Service Directorate & Budget Area | Working Budget £k | Outturn £k | Variance £k | Reason for difference | Carry Forward Request £k | Estimated Impact on 2022/23 £k |
|--|------------------------------|-----------------------|------------------------|---|-------------------------------------|---|
| Customers Directorate Housing Benefit Overpayments Income – Contribution to Bad Debt Provision | 0 | 35 | +35 | The outturn of £35k represents a significant reduction on the original budget expectation of £300k and the prior year outturn of £218k. At Quarter Two the working budget was reduced to zero, based on the much lower level of overpayments raised in 2020/21 relative to the years prior and the impact of this on the calculated provision required, as detailed and explained in the Quarter Two monitoring report. The variance at the end of the year is due to the ageing of debt in the final quarter, with outstanding debt relating to income raised towards the end of 2020/21 eligible to be included in the provision calculation as it reached 12 months old. | 0 | 0 |
| Place Directorate Waste Awareness Expenditure (AFM Funded) | 111 | 24 | (87) | This budget is used for improving communication and engaging with residents on waste related matters with the aim of improving recycling performance and our environment. The planned programme of events and activities has been limited due to Covid, while a proportion of the budget earmarked for additional staffing was instead funded from vacancies in the staffing budget. With AFM income receipts expected to reduce in the coming years, it is requested that the unspent budget is transferred to the Waste Earmarked Reserve. | 0 | 0 |
| Place Directorate Garden Waste Collection Service Subscription Income | (1,156) | (1,201) | (45) | Overachievement of the income budget reflects the continued high level of demand for the service, with a greater number of households than expected signing up to the service midway through the twelve-month subscription period. | 0 | (45) |
| Place Directorate Commingled Recycling – Haulage and Processing Costs | 381 | 138 | (243) | Amounts charged by the contractor for haulage and processing are net of income generated from the sale of the recycled materials collected. The underspend variance is a result of the higher prices achieved in recent months from the sale of the materials collected. | 0 | 0 |

| Service Directorate & Budget Area | Working Budget £k | Outturn £k | Variance £k | Reason for difference | Carry Forward Request £k | Estimated Impact on 2022/23 £k |
|---|------------------------------|-----------------------|------------------------|--|-------------------------------------|---|
| Place Directorate Leisure Centre management – additional finance support to Stevenage Leisure Limited (SLL) | 5 | (41) | (46) | The contribution from SLL is indicative of the continued recovery in activity at the Leisure Centres, with actual usage in quarter four exceeding the recovery target for the quarter. The original budget assumed net payments to SLL of £1.18m, as part of the additional £2m financial support approved by Council in January 2021 to keep the Leisure Centres open. The outturn therefore represents a financial loss to the Council in this year of £776k, when compared to the management contract fee income of £817k anticipated in budget estimates prior to the Covid-19 pandemic. | 0 | 0 |
| Place Directorate Hitchin and Royston Gym Equipment Loan to SLL – Contribution to Impairment Allowance | 0 | 158 | +158 | In August 2017 Council approved a loan of £510k to SLL for the purchase of gym and fitness equipment at Hitchin and Royston Leisure Centres. The loan principal was originally scheduled to be fully repaid by the end of March 2023, but repayments ceased at the onset of the Covid-19 related restrictions on leisure centre operations. Given the extended period of recovery anticipated for leisure centres, it is not certain when the loan repayments will resume. The contribution to the impairment allowance, equivalent to 50% of the loan principal outstanding, recognises this uncertainty in the Council's accounts. | 0 | 0 |
| Regulatory Services Directorate Traffic Regulation Orders | 15 | 4 | (11) | The Royston Parking review was not concluded by the end of March 2022 due to the need to undertake a further round of public consultation in December 2021/January 2022 on a revised scheme, and the subsequent time required to analyse the responses and assess the outputs. A carry forward is requested of the unspent budget to fund the completion of this project in the next financial year. | 11 | 0 |
| Regulatory Services Directorate On Street Parking Lines & Signs | 43 | 33 | (10) | Contractors were approached and quotations sought in respect of several projects, including lining work in Knebworth and replacement of street name plates, that were due to be completed in 2021/22. It is requested that the unspent budget is carried forward to fund the delivery of these works in the next financial year. | 10 | 0 |

| Service Directorate & Budget Area | Working Budget £k | Outturn £k | Variance £k | Reason for difference | Carry Forward Request £k | Estimated Impact on 2022/23 £k |
|--|-------------------|---------------|--------------|--|--------------------------|--------------------------------|
| Regulatory Services Directorate Car Park Season Ticket Income | (165) | (132) | +33 | While income from season ticket sales was more than 50% higher than the total achieved in 20/21, it still represents less than half that achieved in the years prior to the Covid-19 pandemic. The slow recovery has been recognised in the budget for 2022/23, with the central Covid-19 contingency budget providing for an underachievement of £120k, equivalent to 40% of the normal (pre-Covid) budget. | 0 | 0 |
| Regulatory Services Directorate Electric Vehicle Charging Strategy | 11 | 0 | (11) | Work was due to commence this year on the Ecostars scheme, which is a scheme to help fleet vehicle operators reduce fuel consumption and reduce vehicle emissions by switching to electric vehicles. Due to Covid-19 and the related restrictions in having face to face meetings, work has only just started on this scheme. It is therefore requested to carry forward the remaining £10,500 to continue the project in 2022/23. | 11 | 0 |
| Regulatory Services Directorate Homelessness Grant Income | (713) | (769) | (56) | Rough Sleeper Initiative funding received in the final quarter of 2021/22 was £56k more than anticipated in the working budget. It is recommended that this amount is transferred to the Homelessness reserve to finance service pressures in future years. | 0 | 0 |
| Regulatory Services Directorate Housing Stock Condition Survey | 20 | 0 | (20) | This project was earmarked to commence in 2021/22 but has been delayed in finalising procurement arrangements. It is expected that this will now be completed in the first 6 months of the financial year 2022/23 and therefore a carry-forward of the unspent budget in the current year is requested to fund the delivery of the survey in 22/23. | 20 | 0 |
| Regulatory Services Directorate Planning Application Income | (853) | (915) | (62) | The overachievement of planning income is due to the receipt of unexpected applications for solar farms. It is requested that the income surplus achieved is transferred to the Housing and Planning Delivery reserve to mitigate the financial impact of Local Plan adoption costs in 22/23. | 0 | 0 |
| Total of explained variances | 3,174 | 2,635 | (539) | | 181 | 7 |
| Other minor balances | 14,310 | 14,230 | (80) | | (9) | 0 |
| Overall Total | 17,484 | 16,865 | (619) | | 172 | 7 |

- 8.3. Cabinet are asked to approve the estimated impact on the 2022/23 budget, an overall increase in budget of £179k, which comprises;
- £172k of budget carry-forwards from 2021/22 to 2022/23 for projects that were not completed by the end of the financial year. These are shown in the penultimate column of table 4 above. This will take the total carry-forward to £712k, after including those reported and approved at quarter 1, quarter 2, month 8 and quarter 3.
 - £7k increase in budget to reflect the estimated net impact in 2022/23 and beyond of variances identified at Outturn. These are shown in the final column of table 4 above.
- 8.4. The original approved budget for 2021/22 included efficiencies totalling £286k, which were agreed by Council in February 2021. At the end of the year a net total of £286k of efficiencies have been achieved in 2021/22, as was forecast at Quarter Three.
- 8.5. At the start of the financial year, the working budget for 2021/22 included 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 Three it was forecast that £318k of the total carried forward would not be spent in 2021/22. At the end of the year, a total of £390k has not been spent in 2021/22, all of which has either been requested to be carried forward again into 2022/23 or the unspent budget has been requested to be transferred to an earmarked reserve. The increase in the final quarter relates to the Housing Stock Condition Survey and the AFM-funded expenditure budget for waste minimisation and awareness initiatives, as itemised and explained in table 4 above.
- 8.6. There are 4 key corporate 'financial health' indicators identified in relation to key sources of income for the Council. Table 5 below shows the performance for the year. A comparison is made to the original budget to give the complete picture for the year. Each indicator is given a status of red, amber or green. A green indicator means that income recorded matched or exceeded the budgeted level of income. A red indicator means that the outturn has not met the budgeted level of income. An amber indicator is only used during the year to highlight that there is a risk that the budgeted level of income may not be met.
- 8.7. At the end of the year, three of the indicators are red and one indicator is green. The summary indicators are therefore unchanged from that reported at Quarter Three. While the position in respect of planning application fees and car parking fees income did improve marginally during the final quarter, the totals achieved still represented a shortfall against the original budget expectation.

Table 5 - Corporate financial health indicators

| Indicator | Status | Original Budget | Outturn | Variance |
|---|--------|-----------------|---------|----------|
| | | £k | £k | £k |
| Planning Application Fees (including fees for pre-application advice) | Red | (953) | (915) | 38 |
| Land Charges | Red | (164) | (154) | 10 |
| Car Parking Fees | Red | (1,975) | (1,607) | 368 |
| Parking Penalty Charge Notices | Green | (573) | (582) | (9) |

FUNDING, RISK AND GENERAL FUND BALANCE

- 8.8. 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.
- 8.9. Council Tax and Business Rates are accounted for in the Collection Fund rather than directly in our accounts, as we also collect them on behalf of other bodies. Each organisation has a share of the balance on the Collection Fund account. In 2021/22 the Council has made a contribution from the General Fund of £77k to the Council Tax Collection Fund and £7.9m to the Business Rates Collection Fund. These amounts follow from the estimated deficits for 2020/21 declared to government in January 2021. As initially highlighted in the 2021/22 Revenue Budget Report, government legislation introduced in response to the impact of the Covid-19 pandemic on local government finances required the repayment of the estimated 20/21 Collection Fund deficits (after adjusting for certain elements), as estimated in January 2021, to be spread in equal instalments over the following three financial years.
- 8.10. An overall deficit of £62k has been recorded on the Council Tax Collection Fund at the end of the year, an increase of £6k on the forecast deficit of £56k estimated in January 2022. £54k of this deficit total is the spreading amount of the deficit for 2020/21, as estimated in January 2021, and will be charged in 2023/24 accordingly. A contribution from the General Fund of £2k will be required in 2022/23, as was explained in the Quarter Three Revenue Monitoring Report. The £6k deterioration in the position in the final quarter of 2021/22 will be incorporated in the calculation of the surplus/deficit position for 2022/23 and hence impact the level of Council Tax funding available in 2023/24.
- 8.11. At the time of writing this report the position on the Business Rates Collection Fund has not been finalised, with the declaration to government via the NNDR3 return not yet prepared and submitted. Initial calculations indicate a total deficit at the end of the year of around £5.5m. This represents a marginal improvement in the position detailed at Quarter Three, and as declared in the NNDR1 return submitted to Central Government in January 2022, where the forecast for 2021/22 was a total deficit of £5.76million. The total deficit includes the third and final 2020/21 deficit spreading amount of £416k that will be included in the surplus/deficit calculation for 2022/23 and repaid in 2023/24. The movement in the deficit position for 2021/22 in the final quarter of the year will not change the £5.344million contribution required in the next financial year and will instead impact the funding position for 2023/24.
- 8.12. The Council receives compensation in the form of a grant from Central Government for business rate reliefs introduced, which goes into our funds rather than the Collection Fund. The Council has received a grant allocation of £1.794m for non-Covid related reliefs in 2021/22, which includes an estimated amount of £142k received as compensation for the Government's decision to freeze the business rates multiplier for 2021/22, as well as expecting to retain a further £3.4m of s31 grants received as compensation for temporary rate reliefs introduced by government in response to the Covid-19 pandemic. The multiplier compensation is included in the funding total in table 7 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 has therefore been used to fund the £7.9m deficit repayment required in this year. A further £3m of the grant receivable is also expected to be applied in 2021/22 to ensure the level of business rates funding retained in the General Fund for 2021/22 matches the position declared to government in the NNDR1 return for 2021/22, submitted in January 2021, as required by statute.

- 8.13. The Council may also be eligible to retain further section 31 grant funding relating to the impact of the Covid-19 Additional Relief Fund (CARF). The Council has received a cash receipt of £2.6m from government to facilitate the scheme, the cost of which will be dependent on the level of applications received from local businesses. Reliefs awarded through the fund will result in a corresponding equivalent increase in the reported business rates collection fund deficit and hence, other than cashflow timings, there is a net nil effect on the Council's financial position. At the time of writing only 16 applications have been received and the value of these has not yet been established. Given therefore the likely low value of the amounts involved, at this stage the assumption in the calculated deficit for 2021/22 noted above is that the entire cash receipt will be returned to government next year, though this may change once the applications have been reviewed and the scheme is administered in the coming months.
- 8.14. The Council is also subject to a business rates levy from Central Government as we collect more in business rates than the baseline need determined by Central Government. In 2021/22 the Council was 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. There are however a range of potential outcomes for the current year, with the final outcome depending on the actual level of rates collected by both North Herts as well as the other collection authorities in the Pool. At the time of writing Hertfordshire County Council, the Pool lead authority, has not yet notified NHDC of the final outcome for 2021/22. In any case, the contribution required to the Pool to meet the total levy payable for the pooled authorities will be funded from the grant held in reserve and as such will have a net zero impact on the General Fund balance.
- 8.15. The Council has received 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 (now DLUHC) 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 was extended to cover the first quarter of 2021/22. The eligible income compensation for North Herts Council relating to 2021/22 was calculated to be £308k, as denoted in table 7 below, and the corresponding income receipt has been received. While the Council expects to retain this income compensation, it should be noted that all payments made under the scheme are currently subject to a reconciliation process (including those reported in the last financial year) and the outcome at this stage is unknown.
- 8.16. 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 2021, with additional budget provision of £2m included in the original revenue budget for 2021/22, which included the waiver of £817k of management fee income due to the Council. As noted in table 4, the additional support required by SLL has ultimately reduced from the budgeted total of £2m to a revised total of £776k for 2021/22. The impact has been slightly offset by £11k of Leisure Recovery grant received from Sport England for activity in 2021/22, therefore reducing the total overall impact to £765k.
- 8.17. The original revenue budget was however 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 6 below itemises those other service areas where the impact of Covid-19 in 2021/22 has been significant.

Table 6 – COVID-19 Financial Impact on General Fund

| Budget Area | Revenue Budget Impact reported at Q1 £k | Revenue Budget Impact reported at Q2 £k | Revenue Budget Impact reported at Q3 £k | Revenue Budget Impact reported at Outturn £k | Total Budget Impact 2021/22 £k | Eligible for Income guarantee* | Estimated Sales, Fees and Charges (SFC) Contribution £k | Balance not covered by SFC contribution £k |
|-------------------------------|--|--|--|---|-----------------------------------|--------------------------------|--|---|
| Homeless Accommodation | 160 | 72 | 0 | 0 | 232 | No | 0 | 232 |
| Hitchin Town Hall | 25 | 0 | 33 | 0 | 58 | Yes | 17 | 41 |
| Car Parking Fees Income | 102 | 288 | 0 | (22) | 368 | Yes | 78 | 290 |
| Car Park Season Ticket Income | 61 | 91 | 0 | 33 | 185 | Yes | 43 | 142 |
| Trade Waste and Recycling | 32 | 0 | 0 | 0 | 32 | Yes | 14 | 18 |
| Total | 380 | 451 | 33 | 11 | 875 | | 152 | 723 |

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

- 8.18. Table 7 below summarises the impact on the General Fund balance of the outturn position detailed in this report. The revision to the 'funding' total in the table relates to retained business rates income and follows the reconciliation of the General Fund entries to the position declared to government in the NNDR1 return for 2021/22. It should however also be noted at this point that the Statement of Accounts for 2021/22 is yet to be audited and changes to the General Fund balance may arise as a result of the final accounts audit.

Table 7 – General Fund impact

| | Working Budget £k | Outturn £k | Difference £k |
|---|----------------------|-----------------|------------------|
| Brought Forward balance (1st April 2021) | (8,865) | (8,865) | - |
| Net Expenditure | 17,484 | 16,865 | (619) |
| Funding (Council Tax, Business Rates, NHB, Lower Tier Services Grant) | (15,135) | (15,111) | 24 |
| Contribution from Funding Equalisation Reserve | (398) | (398) | 0 |
| Contribution to Business Rates 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 | (558) | (558) | 0 |
| Covid-19 related income losses compensation to June 2021 | (308) | (308) | 0 |
| Covid-19 Council Tax Support Grant | (230) | (230) | 0 |
| Carried Forward balance (31st March 2022) | (10,003) | (10,598) | (595) |

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 4). 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 came 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 year a total of £576k has come to fruition. The identified risk realised in the final quarter relates to;

- District by-election for the ward of Hitchin Highbury in March 2022 (included within “other minor variances” in table 4 above) - £9k.

Table 8 – Known financial risks

| | £'000 |
|--|--------------|
| Original allowance for known financial risks | 2,101 |
| Known financial risks realised in Quarter 1 | (217) |
| Known financial risks realised in Quarter 2 | (317) |
| Known financial risks realised in Quarter 3 | (33) |
| Known financial risks realised in Quarter 4 | (9) |
| Remaining allowance for known financial risks | 1,525 |

EARMARKED RESERVES

8.20. The Council has a number of earmarked reserves, which can be used to fund revenue expenditure. These are detailed in Table 9 below. At the time of writing this report, a total of £3.225million has been contributed to the reserves in 2021/22 and a total of £11.325million has been transferred out of the reserves to the General Fund. These totals will however change once the position on the Business Rates Collection fund is finalised, as explained in paragraphs 8.10 – 8.12.

Table 9 – Earmarked Reserves

| | Balance at 1 April 2021 | Contributions to reserve | Transfers out of reserves | Balance at 31 March 2022 |
|--|--------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Cemetery Mausoleum Reserve | 175 | 0 | 0 | 175 |
| Childrens Services Reserve | 91 | 0 | (45) | 46 |
| Climate Change Grant Reserve | 25 | 0 | (4) | 21 |
| Funding Equalisation Reserve | 397 | 0 | (397) | 0 |
| Growth Area Fund Reserve | 53 | 0 | (21) | 32 |
| Homelessness Grants Reserve | 481 | 434 | (413) | 502 |
| Housing & Planning Delivery Reserve | 1,022 | 113 | (96) | 1,039 |
| Information Technology Reserve | 58 | 0 | (35) | 23 |
| Insurance Reserve | 34 | 0 | 0 | 34 |
| Land Charges Reserve | 66 | 0 | (30) | 36 |
| Leisure Management Maintenance Reserve | 26 | 42 | 0 | 68 |
| MHCLG (now DLUHC) Grants Reserve | 14,298 | 1,694 | (9,925) | 6,067 |
| Museum Exhibits Reserve | 14 | 0 | 0 | 14 |

| | Balance at 1 April 2021 | Contributions to reserve | Transfers out of reserves | Balance at 31 March 2022 |
|--------------------------------|----------------------------|-----------------------------|------------------------------|-----------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Neighbourhood Plan Reserve | 98 | 45 | (23) | 120 |
| Paintings Conservation Reserve | 11 | 0 | 0 | 11 |
| Special Reserve | 743 | 0 | (103) | 640 |
| Street Name Plates | 16 | 0 | 0 | 16 |
| Syrian Refugee Project | 450 | 131 | (15) | 566 |
| Taxi Licences Reserve | 7 | 0 | 0 | 7 |
| Town Centre Maintenance | 61 | 8 | 0 | 69 |
| Traffic Regulation Orders | 386 | 0 | (5) | 381 |
| Waste Reserve | 749 | 87 | 0 | 836 |
| Waste Vehicles Reserve | 913 | 428 | 0 | 1,341 |
| Welfare Reform Grants Reserve | 584 | 243 | (213) | 614 |
| Total Revenue Reserves | 20,758 | 3,225 | (11,325) | 12,658 |

9. LEGAL IMPLICATIONS

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

10. FINANCIAL IMPLICATIONS

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

- 10.2. The General Fund balance of £10.598million (table 7) meets the recommended minimum balance of General Fund reserves agreed when the budget was set. The Statement of Accounts is however yet to be audited and changes to the General Fund balance may arise as a result of the final audit. As the Housing Benefit claim is also yet to be audited, the relevant values included in the reported outturn are based on unaudited figures.

11. RISK IMPLICATIONS

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

12. EQUALITIES IMPLICATIONS

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

13. SOCIAL VALUE IMPLICATIONS

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

14. ENVIRONMENTAL IMPLICATIONS

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

15. HUMAN RESOURCE IMPLICATIONS

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

16. APPENDICES

- 16.1. Appendix A – 2021/22 Significant Revenue Budget Variances

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

- 18.1. None.

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Appendix A - 2021/22 Significant Revenue Budget Variances

| Directorate | Significant Service Area Variances | Net Original Direct Budget | Net Direct Outturn | (Under) / Overspend | Summary Explanation | Relevant Report |
|---------------------------------|--|----------------------------|--------------------|---------------------|--|---|
| Managing Director | | | | | Original budget total includes carry forward approved at Q3 20/21 for comparison purposes. Underspend reflects delays in recruitment and two apprentices leaving before their contract end dates. | Q3 2020/21 & Outturn 2021/22 |
| | Apprenticeship Scheme | 290 | 175 | (115) | | |
| | Other budgets with variances under £100k | 1,620 | 1,631 | 11 | | |
| | Directorate Total | 1,910 | 1,806 | (104) | | |
| Commercialisation Directorate | Directorate Total (all budgets have variances under £100k) | (285) | (132) | 153 | | |
| Customers Directorate | Contribution to Bad Debt Provision for Housing Benefit Overpayments Income | 300 | 35 | (265) | Much lower level of overpayments income raised in 2020/21 relative to the years prior reduced outstanding debt amounts included in provision calculation. | Q2 & Outturn 2021/22 |
| | Net Housing Benefit Expenditure | 188 | 568 | 380 | Shortfall in Housing Benefit subsidy income primarily due to housing benefit payments in respect of temporary accommodation (approx. £0.5m in 21/22) not being eligible for full reimbursement through the subsidy. | Q1, Q2 & Outturn 2021/22 |
| | New Burdens Grant Income for administration of self-isolation payments | 0 | (132) | (132) | Unspent grant income as scheme was delivered using existing staff and technology. | Outturn 2021/22 |
| | Other budgets with variances under £100k | 3,343 | 3,404 | 61 | | |
| | Directorate Total | 3,831 | 3,875 | 44 | | |
| Legal & Community Directorate | Directorate Total (all budgets have variances under £100k) | 2,201 | 2,155 | (46) | | |
| Place Directorate | Domestic Waste & Recycling and Street Cleansing Contract Expenditure | 4,720 | 4,861 | 141 | Total excludes Garden Waste (included below). The budget for 21/22 assumed a contract indexation of 0.4%, based on the respective indices at that time. Subsequent increase in inflation indices resulted in actual indexation rate for 21/22 of 3.8%. | Q1 2021/22 |
| | Commingle Recycling Credits income | (473) | (579) | (106) | Tonnages remained higher than those recorded prior to the Covid-19 pandemic | Q2 2021/22 |
| | Commingle Recycling Haulage and Processing Costs | 381 | 138 | (243) | Higher prices achieved from the sale of the materials collected. | Outturn 2021/22 |
| | Net Direct Income from Garden Waste Service | (574) | (675) | (101) | High level of demand for the service. | Q3 2020/21 & Outturn 2021/22 |
| | Additional Financial Support to SLL | 1,183 | (41) | (1,224) | Activity recorded exceeded recovery target. £1.224m underspend against total support package of £2m (including waived management fee income) represents £776k loss to Council. | Q2, Q3 & Outturn 2021/22 |
| | Fitness Equipment Loan to SLL – Contribution to Impairment Allowance | 0 | 158 | 158 | Recognition in accounts of uncertainty as to when loan repayments will resume. | Outturn 2021/22 |
| | Other budgets with variances under £100k | 1,743 | 1,725 | (18) | | |
| | Directorate Total | 6,980 | 5,587 | (1,393) | | |
| | Staffing Costs | 3,540 | 3,363 | (177) | Several retirements and resignations. Posts were held vacant due to the delay in the Local Plan and, in the case of Parking Services, the reduction in parking activity associated with Covid-19. | Q2 & Q3 2021/22 |
| Regulatory Services Directorate | Supplementary Planning Documents | 167 | 0 | (167) | Progress delayed due to focus on masterplanning and secondment of staff to Development Management. Unspent budget carried forward to fund expenditure in 2022/23. | Q2 & M8 2021/22 (M8 within 2022/23 Budget Report) |
| | Car Parking Fees Income | (1,975) | (1,607) | 368 | Covid-19 related restrictions on social activity in place throughout Q1, with recovery ongoing. | Q1 & Q2 2021/22 |
| | Car Parking Season Tickets Income | (317) | (131) | 186 | Income reduction attributed to greater levels of home working adopted in response to the pandemic. | Q1, Q2 & Outturn 2021/22 |
| | Other budgets with variances under £100k | (228) | (306) | (78) | | |
| | Directorate Total | 1,187 | 1,319 | 132 | | |
| Resources Directorate | Directorate Total (all budgets have variances under £100k) | 2,617 | 2,255 | (362) | | |
| Overall TOTAL | | 18,441 | 16,865 | (1,576) | | |

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CABINET
21 June 2022

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: INVESTMENT STRATEGY (CAPITAL AND TREASURY) END OF YEAR REVIEW 2021/22

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T.

COUNCIL PRIORITY: SUSTAINABILITY

1 EXECUTIVE SUMMARY

- 1.1 As at the end of financial year 2021/22, there is a reduction in Capital spend compared to quarter 3 of **£0.990million**. The majority of this change is due to revisions to the profile of planned project spend, with **£0.979million** that will now instead be incurred in 2022/23.
- 1.2 During the year the Council has generated **£0.075million** of interest from its investments. This is more than the budgeted total of £0.066million.
- 1.3 The Council has repaid £0.018million of borrowing during the year as it has matured. The Council has £0.387million of remaining borrowing. This borrowing is at a fixed rate for a fixed period. The premium incurred from repaying this borrowing early means that it is not worthwhile to do so.
- 1.4 The Council complied with its legislative and regulatory requirements throughout the year.
- 1.5 The forecast for 2022/23 is that investment income will increase due to the recent increase in interest rates which is expected to rise again during the year.

2. RECOMMENDATIONS

- 2.1 That Cabinet notes expenditure of £1.434million in 2021/22 on the capital programme, paragraph 8.3 refers.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2022/23 as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in by £0.979million.

- | | |
|-----|--|
| 2.3 | That Cabinet notes the position of the availability of capital resources, as detailed in table 3 paragraph 8.7 and the requirement to keep the capital programme under review for affordability. |
| 2.4 | That Cabinet approves the application of £1.225million of capital receipts/set aside towards the 2021/22 capital programme, paragraph 8.7 refers. |
| 2.5 | Cabinet is asked to note the position of Treasury Management activity as at the end of March 2022. |
| 2.6 | Cabinet is asked to recommend this report to Council and ask Council to: 1) Approve the actual 2021/22 prudential and treasury indicators. 2) Note the annual Treasury Report for 2021/22. |

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 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 9th May 2022.

7. BACKGROUND

- 7.1 In February 2021, Council approved the Integrated Capital and Treasury Strategy for 2021/22 to 2030/31.
- 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 £128.0 million of capital assets that it currently owns (as at 31 March 2022). This has decreased from £129.0 million as at 31 March 2021. 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 actual spend from 2021/22 to 2031/32 and the funding source for each capital scheme.
- 8.3 The Outturn Capital expenditure for 2021/22 is **£1.434million**. This is a reduction of **£0.990million** on that reported at the end of the third quarter. The decrease in spend is largely due to re-profiling spend into future years. Table 1 below details the changes from what was reported at Quarter 3.

Table 1- Current Capital Estimates

| | 2021/22 £M | 2022/23 £M | 2023/24 to 2031/32 £M |
|---|-----------------------|-----------------------|--------------------------------------|
| Original Estimates approved by Full Council February 2021 | 14.718 | 7.919 | 21.114 |
| Changes approved by Cabinet in 3rd Qrt 2020/21 | 1.102 | 0.537 | 0 |
| Changes approved by Cabinet in 2020/21 Capital Outturn report | 0.473 | 0 | 0 |
| Revised Capital estimates at start of 2021/22 | 16.293 | 8.456 | 21.114 |
| Executive Member – Finance and I.T. approved additional Expenditure – Financial System upgrade | 0.082 | 0 | 0 |
| Executive Member – Finance and I.T. approved additional Expenditure – Installation of high-definition cameras in the Council Chamber | 0.018 | 0 | 0 |
| Changes at Q1 | -0.224 | 0.312 | 0 |
| Executive Member – Finance and I.T. approved additional Expenditure on Careline Servers | 0.015 | 0 | 0 |
| Changes at Q2 | -13.139 | -2.661 | -8.000 |
| Full Council 22/23 Budget | 0.150 | 1.439 | 9.719 |
| Changes at Q3 | -0.771 | 0.821 | 0 |
| Changes since Q3 (as detailed in this report) | -0.990 | 0.979 | |
| Outturn 2021/22 | 1.434 | 9.346 | 22.833 |

- 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)

| Scheme | 2021/22 Working Budget £'000 | 2021/22 Outtrun £'000 | Difference £'000 | Reason for Difference | Estimated impact on 2022/23 onwards £'000 |
|---|---|--------------------------------------|-----------------------------|--|--|
| North Herts Leisure Centre Sauna/Steam room Refurbishment | 150 | 0 | -150 | Design specification and cost of works pushed project start date into 2022/23. Work started onsite in April 2022. | 150 |
| Playground Renovation – District Wide | 180 | 57 | -123 | Installation is still ongoing. Works are complete at Bancroft and in progress at Priory memorial gardens (Royston) and Holroyd (Baldock). Tenders received exceeded budget which has been covered using s106 allocations that were not previously allocated to any specific project. | 123 |
| Community Facilities Refurbishments | 165 | 71 | -94 | The pandemic has severely impacted on the ability of community and voluntary sector organisations to consider small or large scale capital projects. Their usual activity has been diverted to supporting those vulnerable individuals in the community so has affected their capacity to apply at the present time. | 94 |
| Private Sector Grants | 91 | 22 | -60 | Due to staff shortages and the Covid restrictions we have not been able to visit the residents needing the assistance. The budget is needed to assist our vulnerable and elderly residents to ensure they are not left without heating or hot water as well as helping them to reduce their energy use. | 60 |
| Provide Housing at Market Rents | 103 | 51 | -52 | The major refurbishment work has been completed, however, there are some external and internal finishes (these include paving, landscaping and internal flooring) that need to be undertaken to enable the | 52 |

| Scheme | 2021/22 Working Budget £'000 | 2021/22 Outtrun £'000 | Difference £'000 | Reason for Difference | Estimated impact on 2022/23 onwards £'000 |
|--|---|--------------------------------------|-----------------------------|--|--|
| | | | | Council to rent out the four flats. This work will be completed by the end of August 2022. | |
| Centros Integra Upgrade | 82 | 31 | -51 | Project delayed due to the availability of the software provider's consultants. Implementation to take place in May / June with go live at the end of July. | 51 |
| Property Improvements | 122 | 73 | -49 | Works to re-roof a flat roof at Letchworth Outdoor Pool and structural works to Thomas Bellamy House were delayed due to other work pressures. | 49 |
| Parking Charging Payments Management System | 40 | 0 | -40 | Following a detailed procurement exercise, consultants were appointed in February to undertake a Feasibility Study on the Alternative Methods of Payment and are due to report late June 2022. This budget is required to take forward more detailed work following the outcomes of the above study. | 40 |
| Email Encryption Software | 40 | 0 | -40 | There was due to a delay with selecting a suitable replacement software solution for the Laptops in line with PSN security. A solution was procured late March and the remaining budget is required to purchase additional modules once further testing has been completed on the new laptop build. | 40 |
| Hitchin Swim Centre Outdoor Boiler Replacement | 40 | 2 | -38 | Procurement of the boiler took longer than expected which delayed the project start date to April 2022. | 38 |
| Letchworth Outdoor Pool Boiler Replacement | 40 | 2 | -38 | Procurement of the boiler took longer than expected which delayed the project start date to April 2022. | 38 |

| Scheme | 2021/22 Working Budget £'000 | 2021/22 Outtrun £'000 | Difference £'000 | Reason for Difference | Estimated impact on 2022/23 onwards £'000 |
|---|---------------------------------------|-----------------------------|---------------------|--|---|
| Upgrade 25 Parking Machines | 36 | 0 | -36 | This project has been delayed due to other key projects and lack of staff resources within the Parking Enforcement Team due to retirements and resignations and Covid affecting a large number of the team. Quotations for the upgrade work have been sought and officers are currently fulfilling the procurement requirements in order for the work to commence during the 1st Quarter of 2022/23. | 36 |
| Total Minor (under £25k) slippage on other projects | 957 | 740 | -208 | | 208 |
| Total Revision to Budget Profile | | | -979 | | 979 |

8.5 There are also changes to the overall costs of schemes in 2021/22. These minor changes total a net decrease of £0.017million.

8.6 The following capital schemes have been completed during 2021/22:

- Renovate Howard Park Play Area, Letchworth
- Replace Play Equipment at Holroyd, Baldock
- Replace Play Equipment at Wilbury Recreation Ground, Letchworth
- New combined Recycling / Litter Bins in Parks across the District
- Voice Recorders at Careline
- New light-weight Elections Polling Booths and Screens
- Energy Efficiency Measures
- Various IT Projects

Capital Programme 2021/22 Funding onwards

8.7 Table 3 below shows how the Council will fund the 2021/22 capital programme.

Table 3: Funding the Capital Programme:

| | 2021/22 Balance at start of year £M | 2021/22 Additions £M | 2021/22 Funding Used £M | 2021/22 Balance at end of year £M |
|---|---|----------------------------|----------------------------------|---|
| Useable Capital Receipts and Set-aside Receipts | 6.229 | 2.715 | (1.225) | 7.719 |
| S106 receipts | | | (0.133) | |
| Other third party grants and contributions | | | 0 | |
| Revenue Contributions / IT Reserve | | | (0.076) | |
| Planned Borrowing | | | 0 | |
| Total | | | (1.434) | |

- 8.8 The availability of third party contributions and grants to fund capital investment is continuously sought in order to reduce pressure on the Council's available capital receipts and allow for further investment. 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.
- 8.9 The Council's Capital Financing Requirement (CFR) at 31st March 2022 was negative £4.61 million (negative £5.255 million 31st March 2021). As the CFR is negative the Council does not have a need to borrow to fund capital spend. However, should the Capital programme be fully spent in 25/26 there will be a potential need to borrow £2.8M, which will have an impact on the General Fund by way of a Minimum Revenue Provision (MRP) and interest payments. This need to borrow will mainly be dependent on spend in line with the property acquisition and development strategy. It is expected that any such spend will generate income that will exceed the cost of capital.

Treasury Management 2021/22

- 8.10 The Council has operated both within the treasury and prudential indicators set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices. However, the £5M limit on the Council's Current Account was exceeded on 9th December for one day. The balance was £15M. This happened because the whole of the Council's IT systems were down for the majority of the day. When the systems were operational in the afternoon, the cut off times for placing investments had passed. As we thought that the unavailability would only be for a short period, we did not look at alternative options for moving the funds. This has already been reported as part of the Quarter 3 Investment Strategy update.
- 8.11 The Council generated £0.075M of interest during 2021/22. The average interest rate agreed on new deals during the year was 0.15%. The average interest rate on all outstanding investments at the 31st March was 0.33%.

8.12 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authority's appetite for the level of exposure to these risks.

8.13 **Security Risk** – The possibility that other parties fail to pay amounts due to the Authority.

The Council's counterparty list for 2021/22 comprised UK building societies and UK banks with a Fitch (a credit rating agency) credit rating greater than BBB, non-UK banks with a credit rating greater than AA- with a AAA Country rating, other Local Authorities and Public Corporations. It also includes smaller Building Societies that do not have a credit rating.

8.14 **Liquidity Risk** – the possibility that the Authority may not have funds available to meet its commitments to make payments.

8.15 **Market Risk** - the possibility that financial loss might arise as a result of changes in interest rates.

Investing long term (greater than one year) currently achieves higher interest rates than short term deals. The risks of long term deals are:

- (i) The longer the time period the longer the investment is exposed to default.
- (ii) If the investment has a fixed interest rate, interest rates could rise and the potential to invest at a higher rate will be lost until the investment matures.

8.16 Members have indicated that they are prepared to accept this risk within the limits expressed in the Treasury Strategy, which allows no more than £12M of outstanding investments to be invested for longer than 365 days at any one time. At the end of the year the Council didn't have any investments invested for longer than 365 days.

8.17 **Interest (Yield)** - This year has continued to prove challenging to find counterparties willing to pay a reasonable return on cash investments, either long or short term. The uncertainty around interest rate changes continued in 21/22, with the latest predictions indicating that there will be further increases in the Bank Rate during 2022/23. Even if there are increases in the Bank of England base rate and these flow through to the investments that the Council makes, it is still likely that the value of the Council's money will be eroded by high levels of inflation.

8.18 The investments outstanding at the 31 March 2022 were £57.5million. This compares to a balance of £42.5million at 31 March 2021. Investment in capital projects will continue during 2022/23 and the estimated investment interest for 2022/23 was set at £0.119million. This estimate will be revised in the 1st quarter monitoring report due to the recent increases to Bank Rate and a higher level of balances available to invest due to capital slippage.

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 £3.511million higher than the budgeted £32.179million.
- 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 £10k per year in interest (1.0%). 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 £4.61million. This may turn positive in 25/26 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).

- 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 2021/22 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.

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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>

| Project | Service Directorate | Spend / Forecast Spend | | | | | | | Funding | | | | |
|--|---------------------|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------------|--------------------------|------------------------------|--------------------------------|----------------------------------|---|
| | | 2021/22 Funding £ | 2022/23 Funding £ | 2023/24 Funding £ | 2024/25 Funding £ | 2025/26 Funding £ | 2026/27 Funding £ | 2027/28 - 2031/32 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 |
| 40 KVA UPS Device or Battery Replacement | Customers | 0 | 15,000 | 12,000 | 0 | 14,000 | 0 | 16,000 | 0 | 0 | 0 | 0 | 57,000 |
| Access Burymean Road | Commercial | 2,700 | 2,600 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,300 |
| Alteration & improvement to underground drainage at Coombes Community Centre, Royston | Commercial | 35,000 | 15,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 50,000 |
| Alternative to safeword tokens for staff/members working remotely | Customers | 0 | 6,900 | 0 | 3,000 | 0 | 3,000 | 19,000 | 0 | 0 | 0 | 0 | 31,900 |
| Avenue Park Floodlights | Place | 0 | 30,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 30,000 |
| Avenue Park Splash Park | Place | 0 | 0 | 70,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 70,000 |
| Back-up Diesel 40 KVA Generator (DCO) | Customers | 0 | 0 | 25,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 25,000 |
| Baldock Town Hall project | Legal and Community | 12,000 | 5,600 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 17,600 |
| Bancroft Lighting | Place | 0 | 0 | 45,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 45,000 |
| Bancroft & Priory Splash Pads | Place | 0 | 0 | 0 | 35,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 35,000 |
| Bury Mead Road Transfer Facility | Place | 0 | 30,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 30,000 |
| Cabinet Switches - 4 Floors | Customers | 0 | 18,000 | 0 | 18,000 | 0 | 0 | 18,000 | 0 | 0 | 0 | 0 | 54,000 |
| Cadcorp Local Knowledge & Notice Board Software | Customers | 0 | 5,400 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 200 | 5,200 |
| Careline Servers | Customers | 11,200 | 3,800 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 15,000 |
| CCTV at DCO & Hitchin Town Hall | Customers | 0 | 20,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 20,000 |
| Channel Shift | Regulatory | -1,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -1,000 |
| Conference Calling Solutions in Large Meeting Rooms at District Council Offices | Customers | 22,000 | 13,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 22,000 | 13,000 |
| Council Chamber | Customers | 18,300 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 18,300 | 0 |
| Council Property improvements following condition survey | Resources | 73,000 | 603,700 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 676,700 |
| Cyber Attacks - Events Monitoring Software Solution | Customers | 15,200 | 9,100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 24,300 |
| Cycle Strategy implementation (GAF) | Regulatory | 0 | 278,000 | 0 | 0 | 0 | 0 | 0 | 0 | 278,000 | 0 | 0 | 0 |
| Data Storage Upgrade | Customers | 0 | 15,000 | 0 | 18,000 | 0 | 18,000 | 23,000 | 0 | 0 | 0 | 0 | 74,000 |
| Disabled Facilities Grant | Regulatory | -9,200 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -9,200 |
| DR Hardware Refresh Inc UPS Battery Pk (unit 3) | Customers | 0 | 0 | 0 | 0 | 55,000 | 0 | 0 | 0 | 0 | 0 | 0 | 55,000 |
| Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract | Customers | 22,700 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 22,700 |
| Email Encryption Software Solution | Customers | 0 | 40,400 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 40,400 |
| Energy efficiency measures | Resources | 5,500 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,500 |
| Environmental Improvements | Place | 0 | 115,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 115,000 |
| Former Public Convenience Portmill Lane | Commercial | 0 | 25,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 25,000 |
| Great Ashby District Park safety and security | Place | 8,300 | 11,700 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 20,000 |
| Green Infrastructure implementation (GAF) | Regulatory | 0 | 185,000 | 0 | 0 | 0 | 0 | 0 | 0 | 185,000 | 0 | 0 | 0 |
| Grounds Maintenance Vehicles and Machinery | Place | 0 | 315,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 315,000 |
| Hitchin Lairage car park - cosmetic coating to four stairwells and replacement windows and doors | Resources | 0 | 75,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 75,000 |
| Hitchin Swim Centre Boiler Replacement | Place | 0 | 0 | 0 | 200,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 200,000 |
| Hitchin Swim Centre Archers Member Change and Relaxation Area Refurbishment | Place | 0 | 0 | 0 | 0 | 300,000 | 0 | 0 | 0 | 0 | 0 | 0 | 300,000 |
| Hitchin Swim Centre Change Village Refurbishment | Place | 0 | 0 | 0 | 0 | 0 | 225,000 | 0 | 0 | 0 | 0 | 0 | 225,000 |
| Hitchin Swim Centre Fitness Equipment Replacement | Place | 0 | 0 | 0 | 0 | 0 | 300,000 | 0 | 0 | 0 | 0 | 0 | 300,000 |
| Hitchin Swim Centre Fitness Facility Refurbishment | Place | 0 | 0 | 0 | 0 | 0 | 50,000 | 0 | 0 | 0 | 0 | 0 | 50,000 |
| Hitchin Swim Centre Outdoor Pool Boiler Replacement | Place | 1,700 | 38,300 | 40,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 80,000 |
| Hitchin Swim Centre Outdoor Pool Cover Replacement | Place | 0 | 0 | 0 | 0 | 0 | 30,000 | 0 | 0 | 0 | 0 | 0 | 30,000 |

| Project | Service Directorate | Spend / Forecast Spend | | | | | | | Funding | | | | Balance funded from Capital Receipts/ Set-aside receipts/ Borrowing |
|---|---------------------|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------------|--------------------------|------------------------------|--------------------------------|----------------------------------|---|
| | | 2021/22 Funding £ | 2022/23 Funding £ | 2023/24 Funding £ | 2024/25 Funding £ | 2025/26 Funding £ | 2026/27 Funding £ | 2027/28 - 2031/32 Funding £ | Funded from Other Grants | Funded from Government Grant | Funded from s106 contributions | Funded from Revenue / IT Reserve | |
| Hitchin Swim Centre Reception Toilet Refurbishment | Place | 0 | 0 | 30,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 30,000 |
| Hitchin Swim Centre Replacement of Domestic Hot Water Calorifer | Place | 6,800 | 18,200 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 25,000 |
| Hitchin Town Hall Additional Bar & Glassware Infrastructure | Commercial | 11,600 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 11,600 |
| Hitchin Town Hall Sprung Floor Replacement | Commercial | 60,900 | 6,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 66,900 |
| Howard Gardens Splashpad | Place | 0 | 35,000 | 0 | 0 | 0 | 0 | 0 | 0 | 50,000 | 0 | 0 | 35,000 |
| Ickneild Way Cemetery Footpaths | Place | 0 | 50,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 50,000 |
| Infrastructure Hardware | Customers | 2,200 | 28,000 | 0 | 278,000 | 0 | 0 | 167,000 | 0 | 0 | 0 | 0 | 475,200 |
| Installation of trial on-street charging (GAF) | Regulatory | 0 | 50,000 | 0 | 0 | 0 | 0 | 0 | 0 | 50,000 | 0 | 0 | 0 |
| Integra - Centros Upgrade | Resources | 30,900 | 51,000 | 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 | 0 | 10,000 |
| John Barker Place, Hitchin | Regulatory | 0 | 1,096,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 270,400 | 0 | 825,600 |
| Lairage Multi-Storey Car Par - Structural wall repairs | Resources | 3,300 | 113,900 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 117,200 |
| Laptop Purchases for Officers | Customers | 95,100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 35,000 | 60,100 |
| Laptops - Refresh Programme | Customers | 37,500 | 24,400 | 10,000 | 15,000 | 294,000 | 0 | 0 | 0 | 0 | 0 | 0 | 380,900 |
| Leased Cars | Resources | 0 | 141,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 141,000 |
| Leisure Condition Survey Enhancements | Place | 23,200 | 58,800 | 80,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 162,000 |
| Letchworth Multi-storey Car Park - parapet walls, soffit & decoration | Resources | 0 | 129,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 129,000 |
| Letchworth multi-storey car park - lighting | Resources | 1,800 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,800 |
| Letchworth Outdoor Pool Boiler Replacement | Place | 1,700 | 38,300 | 40,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 80,000 |
| Match Funding for Electric Vehicle charging | Regulatory | 0 | 100,000 | 0 | 0 | 0 | 0 | 0 | 0 | 50,000 | 0 | 0 | 50,000 |
| Members Laptops Refresh Programme | Customers | 0 | 0 | 30,000 | 0 | 0 | 30,000 | 30,000 | 0 | 0 | 0 | 0 | 90,000 |
| Microsoft Enterprise Software Assurance | Customers | 0 | 617,000 | 0 | 0 | 679,000 | 0 | 747,000 | 0 | 0 | 0 | 0 | 2,043,000 |
| Mrs Howard Hall Replacement Boiler & Windows | Resources | 0 | 63,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 63,000 |
| Museum and Commercial Storage Facility at Burymead Hitchin | Commercial | 0 | 2,000,000 | 2,000,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,000,000 |
| New Mausoleum | Place | 0 | 250,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 170,000 | 80,000 |
| Newmarket Road Royston Skatepark & Access | Place | 0 | 0 | 90,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 90,000 |
| NH Museum & Community Facility | Commercial | 0 | 48,300 | 0 | 0 | 0 | 0 | 0 | 48,300 | 0 | 0 | 0 | 0 |
| NH Museum Platform Lift Solutions | Commercial | 0 | 40,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 40,000 |
| NHLC Boiler Replacement | Place | 0 | 0 | 200,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 200,000 |
| NHLC Dryside Changing Area | Place | 0 | 0 | 100,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 100,000 |
| NHLC Interactive Water Feature | Place | 0 | 0 | 0 | 0 | 0 | 0 | 120,000 | 0 | 0 | 0 | 0 | 120,000 |
| NHLC Pool Flume Replacement | Place | 0 | 0 | 0 | 0 | 0 | 0 | 150,000 | 0 | 0 | 0 | 0 | 150,000 |
| NHLC Refurbish Gym Floor | Place | 2,700 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,700 | 0 | 0 |
| NHLC Replacement of Sport Hall heating system | Place | 31,100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 31,100 |
| NHLC Sauna Steam Refurbishment | Place | 0 | 150,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 150,000 |
| Northern Transfer Station | Place | 0 | 0 | 0 | 3,000,000 | 3,000,000 | 0 | 0 | 0 | 0 | 0 | 0 | 6,000,000 |
| Norton Common Footpaths | Place | 0 | 0 | 10,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 10,000 |
| Off Street Car Parks resurfacing and enhancement | Resources | 26,100 | 209,400 | 8,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 243,500 |
| Oughtonhead Common Footpaths | Place | 0 | 0 | 20,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 20,000 |
| Oughtonhead Common Signage and Interpretation | Place | 0 | 10,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 10,000 |
| Park Recycling Litter Bins | Place | 13,400 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 13,400 |
| Parking Charging, Payments & Management | Regulatory | 0 | 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 | 0 | 300,000 |
| Parking Machines Upgrade - Contactless Payment Facility Installation | Regulatory | 0 | 56,000 | 0 | 0 | 0 | 0 | 0 | 0 | 43,000 | 0 | 0 | 13,000 |
| PC's - Refresh Programme | Customers | 11,700 | 9,300 | 7,000 | 13,000 | 7,000 | 8,000 | 26,000 | 0 | 0 | 0 | 0 | 82,000 |
| Playground Renovation District Wide | Place | 56,800 | 303,200 | 180,000 | 180,000 | 180,000 | 180,000 | 720,000 | 0 | 0 | 5,600 | 0 | 1,794,400 |
| Polling Booths for Elections | Legal and Community | 31,100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 31,100 |
| Private Sector Grants | Regulatory | 31,000 | 119,600 | 60,000 | 60,000 | 60,000 | 60,000 | 240,000 | 0 | 0 | 0 | 0 | 630,600 |

| Project | Service Directorate | Spend / Forecast Spend | | | | | | | Funding | | | | Balance funded from Capital Receipts/ Set-aside receipts/ Borrowing |
|---|---------------------|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------------|--------------------------|------------------------------|--------------------------------|----------------------------------|---|
| | | 2021/22 Funding £ | 2022/23 Funding £ | 2023/24 Funding £ | 2024/25 Funding £ | 2025/26 Funding £ | 2026/27 Funding £ | 2027/28 - 2031/32 Funding £ | Funded from Other Grants | Funded from Government Grant | Funded from s106 contributions | Funded from Revenue / IT Reserve | |
| Provide housing at market rents. | Commercial | 51,500 | 51,700 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 103,200 |
| Ransoms Rec Footpaths, Gates and Railing | Place | 0 | 10,000 | 20,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 30,000 |
| Refurbishment and improvement of community facilities | Legal and Community | 71,500 | 193,800 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 265,300 |
| Refurbishment of lifts at Lairage Car Park | Resources | 370,800 | 4,200 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 375,000 |
| Refuse and Recycling Bins | Place | 0 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 450,000 | 0 | 0 | 0 | 0 | 900,000 |
| Renovate play area Howard Park, Letchworth | Place | 68,600 | 6,400 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 75,000 |
| Renovate skate park at King George V Hitchin | Place | 0 | 0 | 250,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 250,000 |
| Replace and enhance lighting at St Mary's Car Park | Resources | 0 | 60,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 60,000 |
| Replace items of play equipment Holroyd Cres, Baldock | Place | 11,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 11,000 |
| Replace items of play equipment Wilbury Recreation Ground, Letchworth | Place | 11,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,000 | 0 | 6,000 |
| Replacement of Newark Close, Royston | Commercial | 0 | 65,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 65,000 |
| Replacement of the timber access bridge at Norton Common | Place | 0 | 75,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 75,000 |
| Resurface Lairage Car Park | Resources | 0 | 350,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 350,000 |
| Riverside walkway, Biggin Lane Hitchin | Commercial | 0 | 53,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 53,000 |
| Royston Leisure Centre extension | Place | 0 | 0 | 1,000,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,000,000 |
| Royston Leisure Centre Boiler Replacement | Place | 0 | 0 | 0 | 0 | 0 | 0 | 100,000 | 0 | 0 | 0 | 0 | 100,000 |
| Royston Leisure Centre Changing Village Refurbishment | Place | 0 | 0 | 225,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 225,000 |
| Royston Leisure Centre Dry Side Toilet Refurbishment | Place | 0 | 0 | 0 | 0 | 30,000 | 0 | 0 | 0 | 0 | 0 | 0 | 30,000 |
| Royston Leisure Centre Fitness Equipment Replacement | Place | 0 | 0 | 0 | 0 | 0 | 150,000 | 0 | 0 | 0 | 0 | 0 | 150,000 |
| Royston Leisure Centre Fitness Facility Refurbishment | Place | 0 | 0 | 0 | 0 | 0 | 50,000 | 0 | 0 | 0 | 0 | 0 | 50,000 |
| Royston Leisure Centre Members Changing Refurbishment | Place | 0 | 0 | 0 | 150,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 150,000 |
| Royston Leisure Centre Solar Thermal Installation | Place | 0 | 50,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 50,000 |
| S106 Projects | Various | 119,800 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 119,800 | 0 | 0 |
| Security - Firewalls | Customers | 4,300 | 20,500 | 0 | 16,000 | 0 | 18,000 | 18,000 | 0 | 0 | 0 | 0 | 76,800 |
| Solar PV installation at Hitchin Swim Centre | Place | 0 | 0 | 115,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 115,000 |
| Solar PV installation at North Herts Leisure Centre | Place | 0 | 0 | 260,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 260,000 |
| Solar PV installation at Royston Leisure Centre | Place | 0 | 0 | 185,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 185,000 |
| St Johns Cemetery Footpath | Place | 0 | 0 | 0 | 40,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 40,000 |
| Tablets - Android Devices | Customers | 17,200 | 16,700 | 10,000 | 10,000 | 10,000 | 10,000 | 20,000 | 0 | 0 | 0 | 0 | 93,900 |
| Telephony system | Customers | 3,700 | 6,900 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 10,600 |
| Thomas Bellamy House, Hitchin | Commercial | 0 | 65,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 65,000 |
| Town Centre Parks Play Provision | Place | 0 | 15,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 15,000 |
| Transport Plans Implementation (GAF) | Regulatory | 0 | 250,000 | 0 | 0 | 0 | 0 | 0 | 0 | 250,000 | 0 | 0 | 0 |
| Walsworth Common Pavilion - contribution to scheme | Place | 0 | 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 | 0 | 3,200,000 | 800,000 |
| Weston Hills LNR Footpath Renovation | Place | 0 | 20,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 20,000 |
| Wilbury Hills Cemetery Footpaths | Place | 7,800 | 6,600 | 10,000 | 10,000 | 0 | 30,000 | 0 | 0 | 0 | 0 | 0 | 64,400 |
| WiFi Upgrade | Customers | 0 | 0 | 0 | 0 | 40,000 | 0 | 0 | 0 | 0 | 0 | 0 | 40,000 |

| | | | | | | | | | | | |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|---------|---------|-----------|------------|
| 1,433,500 | 9,346,700 | 5,522,000 | 4,136,000 | 8,909,000 | 1,402,000 | 2,864,000 | 298,300 | 856,000 | 440,500 | 3,445,500 | 28,572,900 |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|---------|---------|-----------|------------|

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Annual Treasury Management Review

2021/22

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Annual Treasury Management Review 2021/22

Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2021/22 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 11/02/2021)
- a mid-year, (minimum), treasury update report (Council 21/12/2021)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

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

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

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

Executive Summary

During 2021/22, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

| Prudential and treasury indicators | 31.3.21 Actual £m | 2021/22 Budget £m | 31.3.22 Actual £m |
|------------------------------------|-------------------------|-------------------------|-------------------------|
| Capital expenditure | 1.883 | 14.718 | 1.434 |
| Capital Financing Requirement: | -5.255 | 5.100 | -4.608 |
| Gross borrowing | 0.405 | 5.248 | 0.387 |
| External debt | 0.405 | 5.248 | 0.387 |
| Investments | 42.500 | 24.181 | 57.500 |
| Net borrowing | -42.905 | -18.933 | -57.113 |

Other prudential and treasury indicators are to be found in the main body of this report. The Chief Finance Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

The financial year 2021/22 continued the challenging investment environment of previous years, namely low investment returns.

Introduction and Background

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;

1. The Council's Capital Expenditure and Financing

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

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

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

| £m General Fund | 31.3.21 Actual | 2021/22 Budget | 31.3.22 Actual |
|---------------------------------------|-------------------|-------------------|-------------------|
| Capital expenditure | 1.833 | 2.424 | 1.434 |
| Financed in year | 1.466 | 1.377 | 0.787 |
| Unfinanced capital expenditure | 0.417 | 1.047 | 0.647 |

2. The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2021/22 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

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

| CFR (£m): General Fund | 31.3.21 Actual | 2021/22 Budget | 31.3.22 Actual |
|---|-------------------|-------------------|-------------------|
| Opening balance | -5.672 | -5.255* | -5.255 |
| Add unfinanced capital expenditure (as above) | 0.417 | 10.355 | 0.647 |
| Closing balance | -5.255 | 5.100 | -4.608 |

*The 21/22 Original Budget was prepared before the final outturn figures for 20/21 were complete. The Actual figure is considerably less due to the removal from the capital programme of the £20M Acquisition of Property Investments capital scheme and slippage on the Capital Programme in 21/22 resulting in less expenditure to finance.

The negative closing balances mean that the Council does not have a need to borrow.

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator as all borrowing is historic and it is not economical to repay it.

| | 31.3.21 Actual £m | 2021/22 Budget £m | 31.3.22 Actual £m |
|--------------------------|----------------------|----------------------|----------------------|
| Gross borrowing position | 0.405 | 5.248 | 0.387 |
| CFR | -5.255 | 5.100 | -4.608 |

The authorised limit - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its authorised limit.

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

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

| | 2021/22 £m |
|---|------------|
| Authorised limit | 9.000 |
| Maximum gross borrowing position during the year | 0.405 |
| Operational boundary | 3.200 |
| Average gross borrowing position | 0.397 |
| Financing costs as a proportion of net revenue stream | -0.21% |

3. Treasury Position as at 31st March 2022

The Council’s treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council’s Treasury Management Practices. At the end of 2021/22 the Council’s treasury position was as follows:

| DEBT PORTFOLIO £m | 31.3.21 Principal | Rate/ Return | 31.3.22 Principal | Rate/ Return |
|-------------------------------------|------------------------------|-------------------------|------------------------------|-------------------------|
| Fixed rate funding: | | | | |
| -PWLB | 0.405 | 9.96% | 0.387 | 10.11% |
| -Market | 0 | | 0 | |
| Variable rate funding: | | | | |
| -PWLB | 0 | | 0 | |
| -Market | 0 | | 0 | |
| Total debt | 0.405 | 9.96% | 0.387 | 10.11% |
| CFR | -5.255 | | -4.608 | |
| Over / (under) borrowing | 5.660 | | 4.995 | |
| Total investments | 42.5 | 0.41% | 57.5 | 0.33% |
| Net debt | -42.095 | | -57.113 | |

The maturity structure of the debt portfolio was as follows:

| £'000 | 31.3.21 Actual | 31.3.22 actual |
|--------------------------------|---------------------------|---------------------------|
| Under 12 months | 18 | 19 |
| 12 months and within 24 months | 19 | 21 |
| 24 months and within 5 years | 63 | 57 |
| 5 years and within 10 years | 55 | 40 |
| 10 years and above | 250 | 250 |

| INVESTMENT PORTFOLIO | 31.3.21 Actual £m | 31.3.21 Actual % | 31.3.22 Actual £m | 31.3.22 Actual % |
|-----------------------------------|----------------------------------|---------------------------------|----------------------------------|---------------------------------|
| Treasury investments | | | | |
| Banks | 0 | 0 | 6.0 | 10 |
| Building Societies - rated | 6.0 | 14 | 4.0 | 7 |
| Building Societies – unrated | 4.5 | 11 | 1.5 | 3 |
| Local authorities | 20.0 | 47 | 25.0 | 43 |
| DMADF (H M Treasury) | 12.0 | 28 | 21.0 | 37 |
| TOTAL TREASURY INVESTMENTS | 42.5 | 100% | 57.5 | 100% |

The above excludes the balance held in the Council's current account. At 31st March 2022 this were £2m.

The maturity structure of the investment portfolio was as follows:

| | 31.3.21 Actual £m | 31.3.22 Actual £m |
|--------------------------------|----------------------------------|----------------------------------|
| Investments Longer than 1 Year | 0 | 0 |
| Investments Up to 1 Year | 42.5 | 57.5 |

The increase in cash balances as at the end of 2021/22 (compared with 2020/21) is partly due to the balances that the Council was holding in relation to the Council Tax Rebate Grant.

4. The Strategy for 2021/22

The strategy in 2021/22 was to continue lending to UK banks, building societies, money market funds and Local Authorities and allow investments with non-UK banks with a credit rating greater than AA- with a AAA Country rating. Only UK banks that met credit rating criteria ("BBB" or above for longer term deals, and F3 or above for short term deals) were on the Council's lending list. (These are Fitch definitions of ratings). Not all building societies are credit rated but this did not preclude them from the lending list as lending to a building society was dependant on their asset size. Where a society did have a rating, this was considered at the time of the deal taking into account the amount of investment and the length of the deal.

4.1 Investment strategy and control of interest rate risk

Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessary.

The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the calendar year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

4.2 Borrowing strategy and control of interest rate risk

The policy of avoiding new borrowing by running down spare cash balances which has served well over the last few years continued during 21/22.

5. Borrowing Outturn

Borrowing

No new borrowing was undertaken during the year.

Borrowing in advance of need

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

Rescheduling

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

Repayments

£18K of PWLB loans were repaid during the year, as they became due.

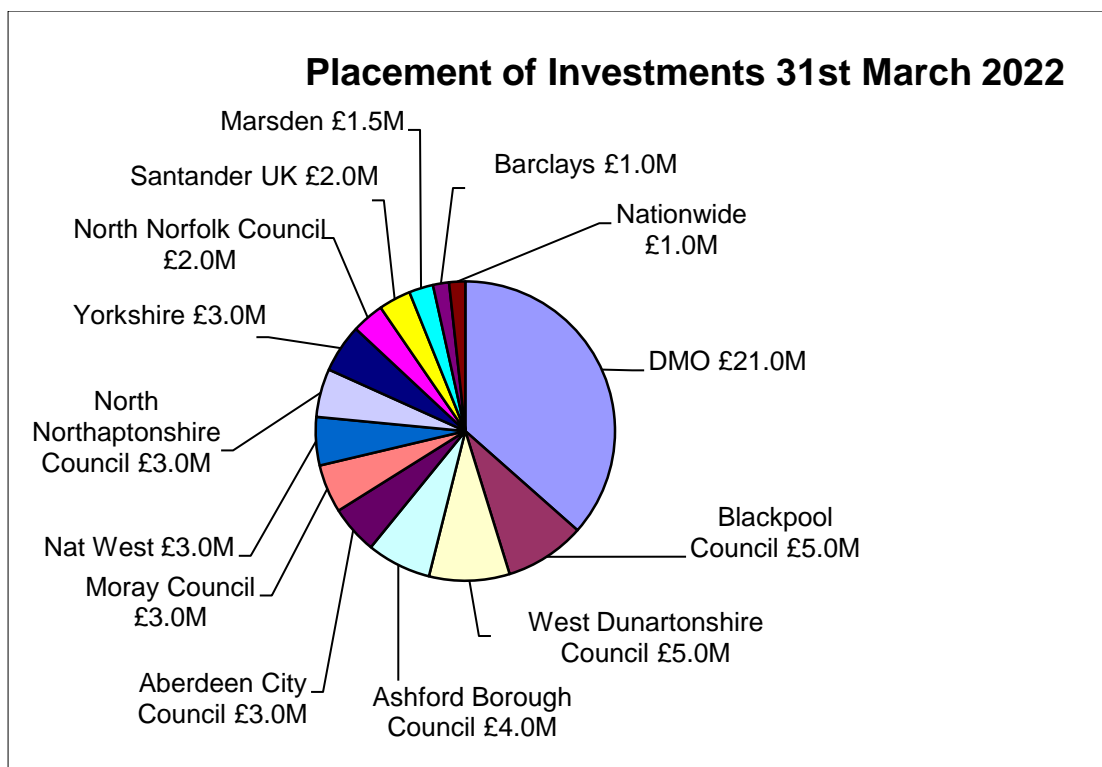
6. Investment Outturn

Investment Policy – the Council’s investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 11/02/21. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the Fitch credit rating agency for banks and asset size for building societies.

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. However, the £5M limit on the Council’s Current Account was exceeded on 9th December for one day. The balance was £15M. This happened because the whole of the Council’s IT systems were down for the majority of the day. When the systems were operational in the afternoon, the cut off times for placing investments had passed. As we thought that the unavailability would only be for a short period, we did not look at alternative options for moving the funds.

Investments placed by Cash Managers – the Council used an external cash manager to invest some of its longer term cash balances, where the rate achieved (after fees) was better than could be obtained by the Council directly. At the start of the year, Tradition had £4.5m of outstanding investments. This reduced to £3.5m by the end of the year. These investments generated £10.3K of interest.

The pie chart below shows the spread of investment balances as at 31 March 2022. This is a snapshot in time that demonstrates the diversification of investments.

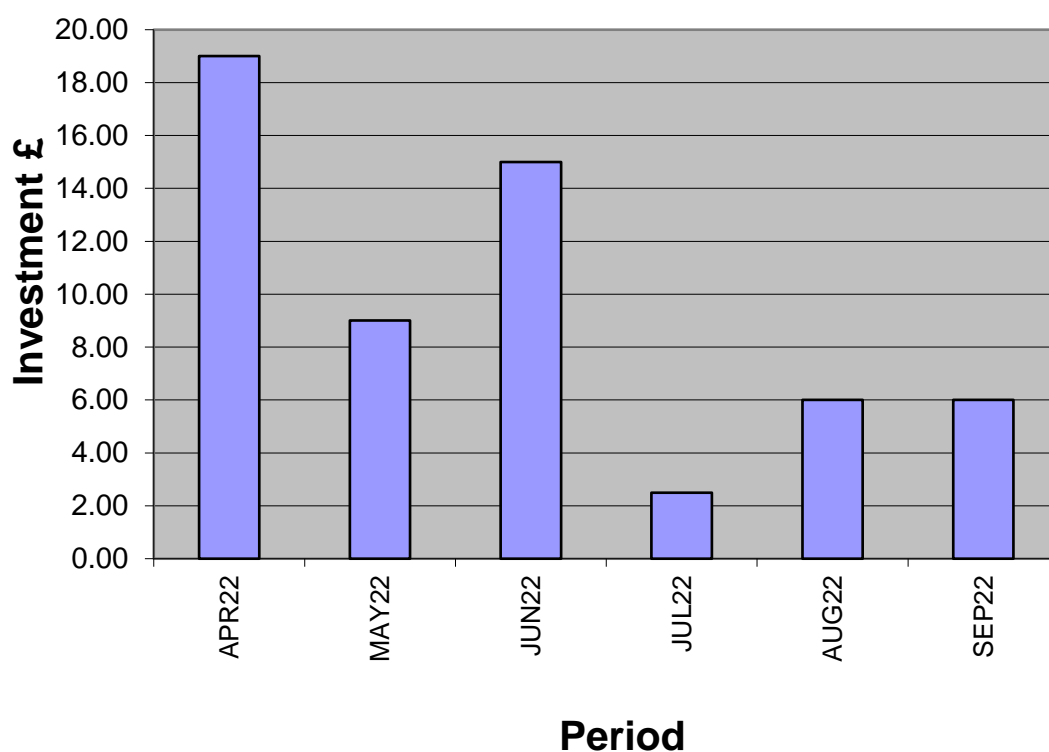


The average daily balance of investments was £60.9m with balances varying between £45.5m and £76.0m.

£0.075m of interest was generated from investments during the year. This is slightly more than the estimated interest of £0.066m (as per Quarter 3 forecast).

The graph below shows the maturity profile of investments at 31st March 2022.

Investment Maturity 31st March 2022



The level of risk of any investment will be affected by the riskiness of the institution where it is invested and the period that it is invested for. Where an institution has a credit rating this can be used to measure its riskiness. This can be combined with the period remaining on the investment to give a historic risk of default percentage measure. The table below shows the Historic Risk of Default for outstanding investments at 31 March. The most risky investment still has a risk of default of only around 0.04%. It should also be noted that in general the interest rate received is correlated to the risk, so the interest income received would be less if it took on less risk. All investments have been made in accordance with the Investment Strategy.

| Borrower | Interest Rate % | Principal | Days to Maturity from 31/03/22 | Historic Risk of Default % | Risk of Default % |
|--------------------------------|------------------------|------------------|---------------------------------------|-----------------------------------|--------------------------|
| DMO | 0.55 | 3,000,000 | 3 | 0.02 | 0.000 |
| DMO | 0.55 | 4,000,000 | 5 | 0.02 | 0.000 |
| DMO | 0.55 | 6,000,000 | 5 | 0.02 | 0.000 |
| DMO | 0.205 | 1,000,000 | 18 | 0.02 | 0.001 |
| DMO | 0.465 | 3,000,000 | 18 | 0.02 | 0.001 |
| BARCLAYS | 0.29 | 1,000,000 | 27 | 0.05 | 0.004 |
| SANTANDER UK | 0.34 | 1,000,000 | 28 | 0.05 | 0.004 |
| ABERDEEN CITY COUNCIL | 0.26 | 3,000,000 | 48 | 0.02 | 0.003 |
| DMO | 0.495 | 4,000,000 | 48 | 0.02 | 0.003 |
| NAT WEST | 0.46 | 2,000,000 | 60 | 0.05 | 0.008 |
| YORKSHIRE BUILDING SOCIETY | 0.22 | 3,000,000 | 61 | 0.05 | 0.008 |
| WEST DUNBARTONSHIRE COUNCIL | 0.05 | 5,000,000 | 77 | 0.02 | 0.005 |
| ASHFORD BOROUGH COUNCIL | 0.48 | 4,000,000 | 80 | 0.02 | 0.005 |
| NORTH NORTHAMPTONSHIRE COUNCIL | 0.60 | 3,000,000 | 80 | 0.02 | 0.005 |
| MARSDEN BUILDING SOCIETY | 0.25 | 1,500,000 | 101 | 0.14 | 0.039 |
| NATIONWIDE BUILDING SOCIETY | 0.24 | 1,000,000 | 109 | 0.05 | 0.014 |
| SANTANDER UK | 1.00 | 1,000,000 | 139 | 0.05 | 0.018 |
| MORAY COUNCIL | 0.2 | 3,000,000 | 143 | 0.02 | 0.009 |
| NORTH NORFOLK COUNCIL | 0.95 | 2,000,000 | 152 | 0.02 | 0.010 |
| BLACKPOOL COUNCIL | 0.35 | 5,000,000 | 164 | 0.02 | 0.010 |
| NAT WEST | 0.39 | 1,000,000 | 167 | 0.05 | 0.021 |

| |
|---|
| FINANCE, AUDIT AND RISK COMMITTEE 15 JUNE 2022 |
|---|

| |
|----------------------------------|
| *PART 1 – PUBLIC DOCUMENT |
|----------------------------------|

TITLE OF REPORT: FINANCE, AUDIT AND RISK COMMITTEE ANNUAL REPORT 2021-22

REPORT OF: *SERVICE DIRECTOR: RESOURCES*

EXECUTIVE MEMBER: *NON-EXECUTIVE FUNCTION*

COUNCIL PRIORITY: SUSTAINABILITY

1. EXECUTIVE SUMMARY

To consider the Annual Report of the Finance, Audit and Risk Committee for the 2021/22 Civic Year.

2. RECOMMENDATIONS

- 2.1. That the Committee consider and comment on the Annual Report of the Finance, Audit and Risk Committee as attached at Appendix A, prior to consideration by Full Council.

3. REASONS FOR RECOMMENDATIONS

- 3.1. *The enable the Committee to consider the report before it is presented to Full Council. To provide Full Council with assurance as to the effectiveness of the Finance, Audit and Risk Committee.*

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1. *None.*

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. The outgoing Chair of the Committee have been consulted on the content of the report.
- 5.2. The current Members of the Committee have been provided with an opportunity to comment on the Report before it is presented to Full 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 Chair of Finance, Audit and Risk Committee reports to Full Council each year providing an overview of the work that has been done over the previous Civic Year. It also provides a summary of the work planned for the forthcoming year.

8. RELEVANT CONSIDERATIONS

- 8.1 The Annual Report for 2021-22 is attached at Appendix A. The Annual Report is intended to provide Full Council with assurance as to the effectiveness of the Finance, Audit and Risk Committee.

9. LEGAL IMPLICATIONS

- 9.1 *The Constitution (4.4.1 (ee)) states that Full Council will receive an Annual Report from the Finance, Audit and Risk Committee.*

10. FINANCIAL IMPLICATIONS

- 10.1 *Providing Full Council with assurance over the effectiveness of the Finance, Audit and Risk Committee gives confidence that the areas of its work (including financial management) are being managed effectively.*

11. RISK IMPLICATIONS

- 11.1. *Providing Full Council with assurance over the effectiveness of the Finance, Audit and Risk Committee gives confidence that the areas of its work (including risk) are being managed effectively.*

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 Human Resources implications arising from this report.*

16. APPENDICES

- 16.1 *Appendix A- Finance, Audit and Risk Committee Annual Report 2021-22.*

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

18.1 *Reports to and minutes of the Finance, Audit and Risk Committee during the Civic Year 2021-22*

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Finance, Audit and Risk Committee Annual Report

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Introduction from the Chair of the Committee

I am pleased to present the Annual Report of the Finance, Audit & Risk (FAR) Committee which describes the Committee's work and achievements over a 12 month period to March 2022.

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

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

Councillor Keith Hoskins

May 2022

Role of the Committee

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

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

The full Terms of Reference for this Committee are provided in the Council's Constitution.
https://www.north-herts.gov.uk/sites/northherts-cms/files/S.10_0.pdf

Effectiveness

The Chartered Institute of Public Finance and Accountancy (CIPFA) have produced a publication on "Audit Committees: Practical Guidance for Local Authorities and Police". This recommends that Audit Committees should consider their effectiveness and provides an self-evaluation tool to facilitate this. The Council asked the Shared Internal Audit Service (SIAS) to undertake such a review in July last year, which was reported to Committee at July meeting (<https://democracy.north-herts.gov.uk/documents/s16780/Appendix%20A%20-%20SIAS%20Review%20of%20the%20effectiveness%20of%20the%20Finance%20Audit%20and%20Risk%20Committee.pdf>). A similar review will not be carried out this year as it was not part of the agreed Audit Plan for 2022-23. It was not included as the findings in each of the previous reviews had been very similar.

The findings of the 2021 review (and progress made against the recommendations) were:

- **Independent Member (non-political appointment).** It is best practice for the Committee to have an Independent Member. A selection process for an Independent Member has taken place and their appointment was confirmed at Annual Council. It is expected that they will be attending FAR meetings from June 2022 onwards.
- **Forward Work Plan.** The Committee could have a forward work plan. In effect this document sets out the expected regular reports as well as (in the Planned Work) section any irregular reports expected in the coming year. Members of the Committee are also encouraged to recommend future agenda items.
- **Learning and Development.** The established practice is that Members of the Committee are asked to complete a skills self-assessment at the beginning of each year. This is then used to determine and deliver relevant training. This exercise was missed in 2020/21 due to the Covid-19 pandemic but was reintroduced in 2021/22. Delays in the completion of the self-assessment grids meant that there was little time left in the year to provide the training. Some training was provided in the form of a more detailed introduction when items were presented to the Committee. Also the report on the Financial Management Code (in September) provided an insight in to the Council's Balance Sheet. This year a general Councillor finance training session will be provided in early June. A fraud awareness session is also being planned. This will be supplemented with online training and any other topics that members of the Committee would like more training on.
- **Terms of Reference.** Recommended some minor changes to the Committees Terms of Reference. These will be considered as part of the next full review of the Council's Constitution.
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During 2022/23 the Council will have a follow-up to its Peer Review. Part of this follow-up will provide support on improving the effectiveness of the Audit Committee.

As part of the 2023/24 Internal Audit Planning it will be considered whether to reinstate the SIAS review in Summer 2023.

Members of the Committee

The following Members were appointed to the Committee for 2021/22:

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|--|-------------------------|------------|
| Councillor Keith Hoskins | Liberal Democrat | Chair |
| Councillor Clare Billing | Labour and Co-operative | Vice-Chair |
| Councillor Sam Collins (to July 2021) | Liberal Democrat | |
| Councillor Adam Compton | Conservative | |
| Councillor Morgan Derbyshire | Conservative | |
| Councillor Terry Hone | Conservative | |
| Councillor Adem Ruggiero-Cakir | Labour and Co-operative | |
| Councillor Sean Prendergast (from July 2021) | Liberal Democrat | |

Substitutes:

| | |
|--------------------------|-------------------------|
| Councillor Juan Cowell | Conservative |
| Councillor George Davies | Conservative |
| Councillor Steve Jarvis | Liberal Democrat |
| Councillor Nigel Mason | Labour and Co-operative |
| Councillor Kay Tart | Labour and Co-operative |
| Councillor Terry Tyler | Liberal Democrat |

To support Members appointed to the Committee, assistance was readily available from relevant Officers.

Meetings

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

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

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

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

23 June 2021

Annual Assurance Statement and Internal Audit Annual Report 2020-2021
SIAS update on progress against the 2021-22 audit plan
FAR Annual Report
Risk Management Update
Revenue Budget Outturn 2020-2021
Investment Strategy Outturn 2020-21

12 July 2021

Shared Anti-Fraud Service Annual Report 2020-21
Annual Governance Statement for 2020-21
SIAS review of the effectiveness of the Audit Committee

15 September 2021

SIAS Annual Report 2020-21
SIAS update on progress against the 2021-22 Audit Plan
Risk Management Update (Q1)
Revenue Monitor Q1 2021-22
Investment Strategy Q1 2021-22
Medium Term Financial Strategy
Financial Regulations Review
Financial Management Code and Balance Sheet Insight

15 December 2021

External Audit 2020-21 Update report
SIAS update on progress against the 2021-22 Audit Plan
SAFS Anti-Fraud Progress Report
Risk Management Update (Q2)
Revenue Monitor Q2 2021-22
Investment Strategy Q2 2021-22
Draft Budget 2022-23
Integrated Performance Management proposal
Appointment of External Auditors for 2023-24 to 2027-28

17 January 2022

Updated Contract Procurement Rules
Revenue Budget 2022-23
Investment Strategy (Integrated Capital and Treasury) 2022-23 onwards

16 March 2022

Annual Governance Statement 2020-21
Local Code of Corporate Governance 2022
Audit Results Report 2020-21
Statement of Accounts 2020-21
SAFS Anti-Fraud Plan for 2022-23 and Anti-Fraud Progress Report 2021-22
Updated Fraud Policy
Internal Audit Plan for 2022-23
SIAS update on progress against the 2021-22 Audit Plan
Risk Management Update (Q3)
Revenue Monitor Q3 2021-22
Investment Strategy Q3 2021-22
Tax Compliance Framework
Council Delivery Plan

Main Achievements

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

The Committee received reports on changes to the Contract Procurement Rules, the Fraud Policy and Financial Regulations. This allowed the Committee to review the proposals. These were all referred on to Cabinet or Council (as relevant) where they were adopted.

The Committee was also asked to comment on the development of proposals in relation to the Council Delivery Plan. The Council Delivery Plan seeks to better align performance and risk. The Committee will have less of a role in reviewing specific risks, but will look to strengthen the oversight role of risk management processes.

The Committee also provided comment on the development of a Tax Compliance Framework.

Planned work for 2022-23

The Committee will receive the items that ensure it covers its remit. This is expected to include the following regular items:

June

End of year (2021/22) outturn reports for Revenue Budget and the Investment Strategy
SIAS End of year (2021/22) report for North Herts Council
Risk Management Annual Report
FAR Annual Report

September

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|--|
| Shared Anti-Fraud Service Annual Report 2021-22 SIAS Annual Report for the overall Shared Service SIAS Update on 2022-23 progress Quarter 1 updates on Revenue budget and Investment Strategy Medium Term Financial Strategy |
| December SIAS Update on 2022-23 progress Mid-year updates on Revenue budget, Investment Strategy and Risk Draft Budget 2023-24 Anti-Fraud Progress Report 2022-23 |
| January Revenue Budget 2023-24 Investment Strategy (Integrated Capital and Treasury) 2023-24 onwards |
| March SIAS Update on 2022-23 progress Audit Plan for 2023-24 Quarter 3 updates on Revenue budget and Investment Strategy SAFS Anti-Fraud Plan for 2023-24 and Anti-Fraud Progress Report 2022-23 |

The Committee will also approve the Council's Statement of Accounts and receive regular reports from the Council's Auditors (Ernst and Young LLP). The timing of these will depend on when Ernst and Young carry out the Council's audit. A meeting has been scheduled at the end of November in line with the statutory deadline for the sign-off of the Council's accounts.

During the year the Committee will also be asked to review an update to the Council's Financial Regulations.

Members of the Committee can also make recommendations of other topic areas that they would like to discuss/ be reported on. This will be subject to them being within the remit of the Committee, and not over-lapping with the role of Overview and Scrutiny Committee.

All Members of the Committee are encouraged to take advantage of the various offers of training and development that will be made by Officers, as well as any relevant external courses that are available.