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30/08/2022 Our Ref Finance, Audit and Risk

Committee/07/09/22

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To: Members of the Committee: Terry Tyler (Chair), Clare Billing (Vice-Chair), George Davies, Morgan Derbyshire, Phil Weeder, Sean Nolan, Terry Hone and Cannon

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, LETCHWORTH GARDEN CITY

On

WEDNESDAY, 7TH SEPTEMBER, 2022 AT 7.30 PM

Yours sincerely,

Jeanette Thompson Service Director – Legal and Community

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

Agenda <u>Part I</u>

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 - 15 JUNE 2022

(Pages 5

To take as read and approve as a true record the minutes of the meeting of the Committee held on the 15 June 2022

- 14)

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. EXTERNAL AUDITORS ANNUAL REPORT 20-21

(Pages

15 - 56)

7. SAFS ANNUAL REPORT 2021/22 - SAFS

REPORT OF THE SHARED ANTI-FRAUD SERVICE (SAFS)

(Pages

57 - 80)

To review the Councils work to combat fraud in 2021/22

8.	SIAS ANNUAL REPORT 2021-22 REPORT OF THE SHARED INTERNAL AUDIT SERVICE	(Pages 81 - 94)
	To receive the 2021-22 Annual Report of the Shared Internal Audit Service	
9.	SIAS PROGRESS REPORT 2022-23 REPORT OF THE SHARED INTERNAL AUDIT SERVICE	(Pages 95 - 108)
	To receive the Internal Audit Progress Report 2021-22 of the SIAS	
10.	COUNCIL TAX REDUCTION SCHEME 2023/24 REPORT OF THE SERVICE DIRECTOR: CUSTOMERS	(Pages 109 - 122)
	The purpose of this report is to provide an update on the progress that has been made so far on the full review of the Council Tax Reduction Scheme. The review is one of the Councils key projects for 2022/23 included in the Council Delivery Plan.	,
11.	FIRST QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2022/23 REPORT OF: SERVICE DIRECTOR - RESOURCES To update Cabinet on progress with delivering the capital and treasury strategy for 2022/23, as at the end of June 2022.	(Pages 123 - 154)
12.	FIRST QUARTER REVENUE BUDGET MONITORING 2022/23 REPORT OF: THE SERVICE DIRECTOR - RESOURCES To inform Cabinet of the summary position on revenue income and expenditure forecasts for the financial year 2022/23, as at the end of the first quarter.	(Pages 155 - 168)
13.	MEDIUM TERM FINANCIAL STRATEGY REPORT OF THE SERVICE DIRECTOR – RESOURCES	(Pages 169 - 186)
	To consider the Medium Term Financial Strategy	. 30,
14.	POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS The Chair to lead a discussion regarding possible agenda items for future meetings.	



Public Document Pack Agenda Item 2

NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MEETING HELD IN THE COUNCIL CHAMBER, DISTRICT COUNCIL OFFICES, LETCHWORTH GARDEN CITY ON WEDNESDAY, 15TH JUNE, 2022 AT 7.30 PM

MINUTES

Present: Councillors: Councillor Terry Tyler (Chair), Councillor Clare Billing (Vice-

Chair), George Davies, Phil Weeder, Sean Nolan and Terry Hone

In Attendance: Ian Couper (Service Director - Resources), Chris Wood (Head of

Assurance – SIAS), Debbie Hanson (Ernst & Young), Ghulam Hussain (Ernst & Young), William Edwards (Committee, Member and Scrutiny

Officer)

Also Present: At the start of the meeting there were no members of the public present.

29 APOLOGIES FOR ABSENCE

Audio recording - 1:49

At the start of the meeting Councillors Morgan Derbyshire and Phil Weeder were absent.

30 MINUTES - 17 JANUARY 2022, 16 MARCH 2022

Audio Recording - 2:09

RESOLVED: That the Minutes of the Meeting of the Committee held on 17 January 2022 and 16 March 2022 be approved as a true record of the proceedings and be signed by the Chair.

31 NOTIFICATION OF OTHER BUSINESS

Audio recording - 3:19

There was no other business notified.

32 CHAIR'S ANNOUNCEMENTS

Audio recording - 3:20

- (1) The Chair welcomed those present at the meeting, especially new members of the Committee and those who had attended to deliver a presentation;
- (2) 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.

33 PUBLIC PARTICIPATION

Audio recording - 4:00

There was no public participation at this meeting.

34 AUDIT RESULTS REPORT 2020/21

Audio Recording – 4:19

Debbie Hanson, Ernst & Young, presented the Audit Results Report 2020/21 and highlighted points including:

- This report provided is a bridging document between the provisional audit results report brought to the committee on 16 March and provided an update on those areas that were not fully complete at that point;
- The audit was in its final stages and EY were preparing to issue their final opinion in the coming week pending the receipt of final documents including financial statements, subsequent letters of representation and a response from the Hertfordshire Pension Fund Actuary in relation to the calculation of a particular figure;
- EY would not be able to issue an audit certificate at the same time as their final opinion as the National Audit Office had not yet issued instructions;
- It was anticipated that North Herts would fall below the threshold to be included in a whole-of-government accounts submission but until the NAO confirmed its instructions EY would not be able to issue a final certificate;
- All local authorities were in the same situation until the NAO issued its instructions;
- No issues to report were identified related to the risk of misstatements due to fraud and error:
- No issues to report were identified related to the risk of incorrect capitalization of revenue;
- No issues to report were identified related to the risk of revaluation of investment properties and EY was satisfied that of the sample examined all valuations were supportable;
- Regarding 'specialised assets' where there isn't a readily available market and which
 therefore were valued at depreciated replacement cost EY took the view that values for
 land proposed by the Council's valuers were significantly lower than expected;
- The overall valuations of land and buildings combined were within the expected range due to different assessments to the impact of building;
- EY estimated the maximum potential impact of that range could be a £1.33 million under valuation of the council's land; offset by the higher valuation of the buildings than EY would use in their estimates:
- Overall EY was satisfied this posed no material impact on the Council's accounts;
- In the area of pension liability valuation and disclosures EY was satisfied there was no general issue but had been made aware of an error on the ICE-19 provided by the actuary in relation to the incorrect treatment of assets related to Hertfordshire Building Control; the error had been identified this year and the actuary had calculated an impact on North Herts at around £454,000 for 2021, and slightly less than that for 2020;
- EY was conducting work to assess the accuracy of that figure and would confirm by the end of the week;
- There were no issues with Going Concern Disclosures;
- There were no issues in account for new COVID-19 grants;
- There were two unadjusted variances with the audit relating to pension liability and land valuation as previously mentioned, and while EY did not consider them material they did require a letter of representation from the Council to account for the fact they were unadjusted;
- EY found the accounts to be well prepared and thanked Officers for their assistance throughout the Audit process.

The following Members asked questions:

Councillor Terry Hone

In response to questions the Service Director – Resources advised he was happy with the content and presentation of the audit report and with EY's conduct throughout the audit.

It was:

RESOLVED: That the Audit Results Report 2020/21 presented by Ernst & Young be noted.

N.B Councillor Phil Weeder joined the meeting during this item.

35 STATEMENT OF ACCOUNTS 2020/21

Audio Recording – 15:37

The Service Director – Resources presented the Statement of Accounts 2020/21 along with Appendix A and highlighted points including:

- There had been changes to the Committee since the last iteration of this report that
 meant it was better to seek approval from the Committee rather than to rely on the
 delegation previously granted to the Service Director Resources to sign the statement
 of accounts;
- Changes to the report were also made on the basis that the previous version referred to events in the future that had now occurred;
- Other amendments related to the matters already raised by Ernst & Young including the
 pensions valuation which was not considered material as it related to a value that was
 huge and subject to significant uncertainty and so not subject to alteration;
- There was a similar situation with PPE valuations but as the figure reached was not material it was not felt necessary to adjust in the accounts; had it been material a revaluation would have been necessary, or a justification for the figure given;
- The report included a draft letter of representation that had been agreed with EY and that, with the approval of the Committee, would form the basis of the submission to EY regarding the variances already discussed;
- Resourcing audits was difficult at present and EY were thanked for their work and assistance.

The following Members asked questions:

Councillor Terry Hone

In response to questions the Service Director – Resources advised that the figure mentioned at 8.4 in the report related specifically to North Herts' potion of the pension fund and the total for the whole of Hertfordshire was much higher.

Councillor Terry Tyler proposed, Councillor Sean Nolan seconded and on the vote it was:

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

36 SIAS ANNUAL REPORT AND UPDATE ON 2022/23 AUDIT PLAN

Audio Recording – 21:34

Chris Wood – Head of Assurance, SIAS presented the report entitled SIAS Annual Report and highlighted points including:

- SIAS had given a reasonable overall assurance on the Council's financial systems and reasonable overall assurance on the Council's non financial systems;
- The SIAS annual self-assessment against the Public Sector Internal Audit Standards and Quality Assurance and Improvement Programme was that SIAS generally conformed to the required standards;
- The external quality assurance assessors also held that SIAS conforms with the standards;
- In terms of performance on page 13, SIAS narrowly missed targets on plan days and plan projects at 91 and 92% respectively; this was nevertheless a good outcome in view of an organisational restructure that impacted auditors.
- The work carried forward in the progress update has either been completed or was nearly completed;
- The Committee was also required to approve the SIAS Audit Charter for 2022/23 and was recommended to accept one amendment in the glossary of terms, substituting "CAA" for "CAE" in the section related to the Chief Audit Executive;
- SIAS also recommended that the Committee formally request management of the Council confirm that the scope and resources for internal audit were not hampered in 2021/22.

Councillor Terry Tyler proposed, Councillor Phil Weeder seconded and on the vote it was:

RESOLVED: That the Committee:

- (1) Notes the Annual Assurance Statement and Internal Audit Annual Report
- (2) Notes the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP)
- (3) Approves the SIAS Audit Charter for 2022/23
- (4) Seeks management assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2021/22

REASON FOR DECISIONS: To update the Committee on the Annual Assurance Statement and Internal Audit Annual Report 2021/22.

The Chair of the Committee sought management assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2021/22.

The Service Director – Resources gave confirmation that no were no inappropriate limitations on the scope and resources for internal audit in 2021/22 and no matters which threatened the independence of SIAS.

Chris Wood – Head of Assurance, SIAS presented the report entitled Update on 2022/23 Audit Plan and highlighted points including:

- SIAS was on target for the audit plan given this was still close to the start of the financial year, and with projects scheduled to begin work in forthcoming months;
- The Committee was requested to identify and approve medium priority audit projects for Quarter 3 and a pool of suitable projects had been identified in Appendix B.

The following Members asked questions:

Councillor Terry Hone

Councillor Terry Tyler

In response Chris Wood, Head of Assurance – SIAS advised that there were 13 potential topics and Members were being asked to select 2 from that group that they felt were of a higher priority to schedule in to Q3.

In response to questions the Service Director – Resources advised that the potential audit topics had been considered by the leadership team and that Project Management and Temporary Accommodation were suggested for adoption for Q3, and parking strategy, safeguarding and the community lottery be considered by Q4. Given the estimated time allocated to each audit it was felt these 5 topics could be completed successfully.

Councillor Terry Tyler proposed, Councillor Clare Billing seconded and on the vote it was:

RESOLVED: That the Committee:

- (1) Notes the SIAS Progress Report for the period to 30 May 2022
- (2) Notes the plan amendments to the 2022/23 Annual Audit Plan
- (3) Approves "Project Management" and "Temporary Accommodation" as 'medium' priority audit projects for Q3 2022/23

REASON FOR DECISIONS: To update the Committee on the SIAS Progress Report and set medium priority audit projects for Q3 2022/23

37 ANNUAL REPORT ON RISK MANAGEMENT AND RISK MANAGEMENT UPDATE

Audio Recording – 44:42

The Service Director – Resources presented the report entitled Annual Report on Risk Management and Risk Management Update and drew attention to points including:

- This report had been seen by the Risk Management Group to which all members of FAR and O&S had a standing invite, along with core risk and finance officers, service managers, SIAS and the health and safety advisory group;
- The introduction of a new corporate risk relating to Council resourcing related to a range of challenges placing pressure on Council resources including the war in Ukraine, increased fuel prices and the cost of living; staff resources due to additional work taken on like accommodation checks and the provision of energy rebate payments combined with rising costs due to inflation presented a risk that the objectives of the Council Plan would not be achieved due to the increased financial pressure;
- This report was the last to be presented to FAR in this format was the new risk management arrangements would come into effect for the next quarter.

Councillor Sean Nolan asked if additional funding from central government was available and whether the Council could secure it to mitigate the risk caused by increased pressure on staffing resources.

The Service Director – Resources advised that if government required extra work extra funding was provided but that it couldn't be guaranteed at this stage if that funding would match costs, and furthermore that the availability of funds does not always mean more staff are available to meet demand, e.g environmental health officers were in short supply and funding from central government would not increase the pool of available trained members of staff.

Councillor Terry Hone proposed, Councillor Phil Weeder seconded and on the vote it was:

RESOLVED: That the Committee notes the Annual Report on Risk Management.

RECOMMENDED TO CABINET:

- (1) That Cabinet agrees the introduction of a new Corporate Risk relating to Council Resourcing.
- (2) That Cabinet notes the Annual Report on Risk Management before referral to Full Council.

REASONS FOR DECISIONS:

- (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.

38 REVENUE BUDGET OUTTURN 2021/22

Audio Recording – 53:03

The Service Director – Resources presented the report entitled Revenue Budget Outturn 2021/22 along with Appendix A, and clarified to Members that it was the addendum reports enclosed in the supplementary agenda to which they should refer.

The Service Director – Resources highlighted points including:

- The purpose of this report was to inform members of the position of the revenue budget which concerned day to day running expenses including service delivery contracts and staff payment;
- The report concerned the position at the end of the last quarter and a survey of the last financial year in total;
- Tables 1 and 2 showed the budget set at the start of the year and the report covers amendments that have been made to the budget throughout the preceding financial year;
- Table 4 covered the last quarter and highlights any significant variances with the agreed budget, many of which were underspends;
- One of the significant underspends related to the Welcome Back fund provided by the EU to support projects that encouraged a return to high streets. This funding was not paid out due to a missed deadline; EU funding rules required payments be made before a cut-off point, whereas central government funding or similar grants only required that the expense be incurred before the relevant cut-off. Lessons had been learned to avoid this again though it was noted that EU funding streams would now tail off.
- The overall variance for underspend reported in that quarter was £592,000 with a request to carry forward £172,000 of that money into the next financial year;
- Paragraph 8.15 onwards covered the impact of covid-19 with the main elements being additional support to Stevenage Leisure Ltd; the actual impact was lower than what had originally been budgeted for totalling £765,000 from a budget of up to £2million.
- Table 7 highlighted the General Fund reserves which were currently significantly above the minimum level which given the uncertainty facing the Council with regards future funding formulae was positive;
- It was the role of the Chief Financial Officer to monitor the reserve levels;
- Higher reserves allowed the Council to respond to changing financial circumstances in a measured and considered way;

- The general fund had increased in the last year mostly due to previously earmarked reserves being recombined into the general fund;
- Net expenditure was at around £16.9million with funding coming in at £15.1million which
 represented a significant unsustainable funding gap; the majority of that overspend
 related to the impact of covid-19 that had not been mitigated for;
- Table 9 highlighted the earmarked reserves and movement of funds in and out of specific ringfenced funds which were subject to approval by Full Council.

Councillor Terry Hone asked for clarification on Table 6 which noted a balance not covered by Sales Fees and Charges (SFC) funding which suggested the Council incurred £723,000 of additional cost as a result of covid-19 that was not covered by funding from central government.

The Service Director – Resources advised that the figure in Table 6 plus the additional loss of income from Stevenage Leisure Ltd in the region of £765,000 covered at paragraph 8.16 amounts to £1.5million of additional cost and lost income not covered by SFC compensation. £558,000 of central government funding had been received which offset some of that amount but the Council still had to rely on its own reserves.

With the consent of the meeting it was:

RECOMMENDED TO CABINET: That Cabinet:

- (1) Notes this report.
- (2) Approves a decrease of £592k in the 2021/22 net General Fund expenditure, as identified in table 4 and paragraph 8.1, to a total of £16.892million.
- (3) 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:

(1) That Council approves the net transfer from earmarked reserves, as identified in table 9, of £8.123million.

REASONS FOR DECISIONS:

- (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.
- (2) Changes to the Council's balances are monitored and approved.

39 INVESTMENT STRATEGY (CAPITAL AND TREASURY) END OF YEAR REVIEW 2021/22

Audio Recording – 1:02:18

The Service Director – Resources presented the report entitled Investment Strategy (Capital and Treasury) End of Year Review 2021/22 along with Appendices A and B and highlighted points including:

 The total capital spend at the end of year was significantly lower than budgeted for coming in at around £1.434million where the budget originally forecast up to £16million.
 This budget was set with a significant speculative component to allow for potential commercial property acquisitions and housing investments which have not been made;

- CIPFA rules had also changed in year which impacted the range of investment opportunities the Council could pursue;
- £979,000 of the capital budget due to be spent at the end of last year had been slipped and would be allocated to the start of this financial year;
- Paragraph 8.6 lists the capital projects that have been undertaken in the last financial year;
- The current capital programme was funded primarily by usable capital receipts from previous capital sales but this source would run out in the next few years and the Council would then have to borrow to fund capital projects which was permitted under the regulations;
- There was one breach of the treasury strategy during the year that was to be noted where due to an IT failure which took longer to resolve than anticipated a treasury deal was not completed in time and the Council held an excess of money in its current account over night;
- Interest rates have been very low over the last year with returns ranging from 0.15% to 0.3% by the end of the year;
- Interest rates had risen quickly to around 1% recently which was better news but still below the level of inflation.

With the assent of the meeting it was:

RESOLVED: To note the report entitled Investment Strategy (Capital and Treasury) End of Year Review 2021/22

RECOMMENDED TO CABINET: That Cabinet:

- (1) Notes expenditure of £1.434million in 2021/22 on the capital programme, paragraph 8.3 refers.
- (2) 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.
- (3) 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.
- (4) Approves the application of £1.225million of capital receipts/set aside towards the 2021/22 capital programme, paragraph 8.7 refers.
- (5) Notes the position of Treasury Management activity as at the end of March 2022.

That Cabinet recommends to Council to:

- (1) Approve the actual 2021/22 prudential and treasury indicators.
- (2) Note the annual Treasury Report for 2021/22.

REASONS FOR DECISIONS:

- (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.

40 FINANCE, AUDIT AND RISK ANNUAL REPORT 2021/22

Audio Recording - 1:09:42

The Service Director – Resources presented the Annual Report of the Finance, Audit and Risk Committee as attached at Appendix A and highlighted points including:

- The SIAS review of the effectiveness of audit and scrutiny committees in 2021 had a number of recommendations which were being actioned this year including the appointment of an Independent Member to the Committee; their appointment was due to be finalised at Full Council following the completion of all the necessary conflict of interest checks;
- The Independent Member to be appointed worked for an audit firm (though not working with or near Local Government) and would assist the Committee in scrutinising the finance team and the reports presented to them;
- The annual report covered the proposed work programme for the forthcoming year including options for training, regular and quarterly reports, and changes to the way that audit and governance are done at the Council.

The following Members asked questions and took part in discussion:

- Councillor Clare Billing
- Councillor Terry Tyler
- Councillor Terry Hone

Councillor Ian Albert, Executive Member for Finance & IT, also participated.

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

- The issue of Council resilience in view of the rising cost of living and inflation generally would be considered under the Medium Term Financial Strategy and as a live issue would be kept in mind throughout the forthcoming year;
- Options for training sessions included before committee meetings, during the day, or on entirely separate nights; in view of the fact that many members would not be able to make daytime sessions a mixture of the pre-committee and standalone sessions would be explored;
- Substitute Members of this committee would be invited as standard and any other Members of Council wishing to attend would also be welcome.

It was:

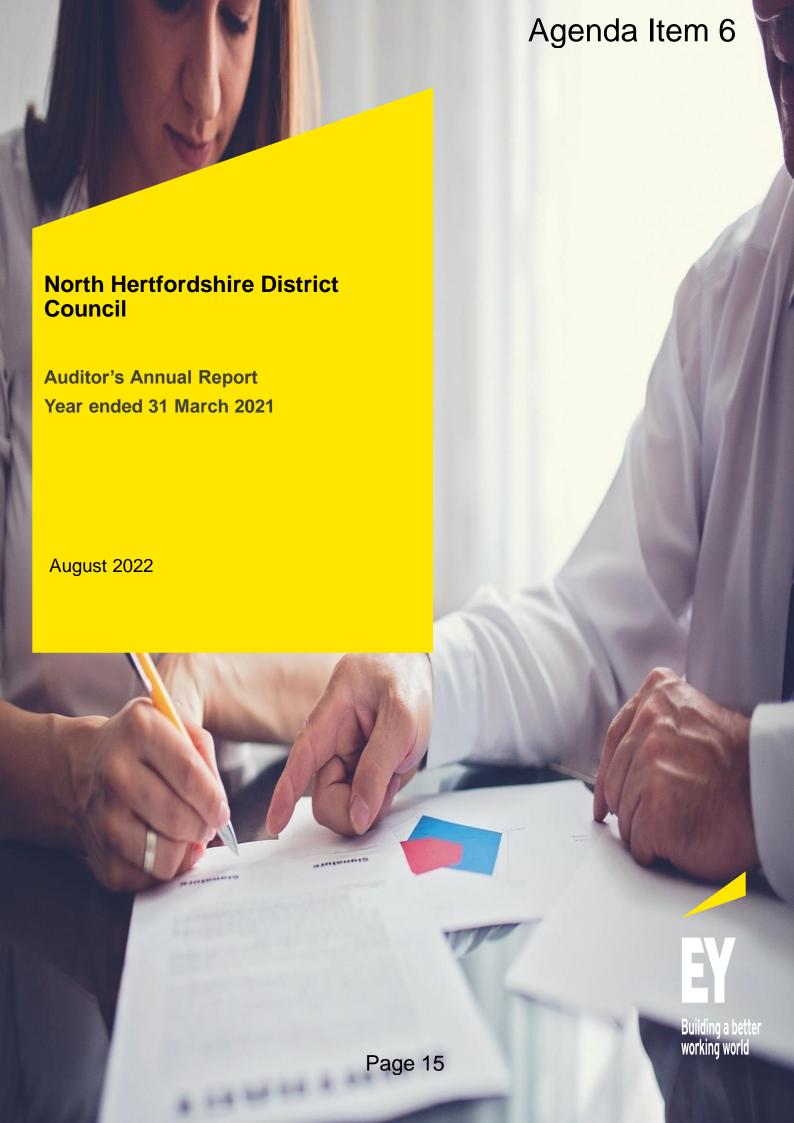
RESOLVED: That the Annual Report of the Finance, Audit and Risk Committee as attached at Appendix A, prior to consideration by Full Council, be noted.

REASON FOR DECISION: To 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.

The meeting closed at 8.56 pm

Chair

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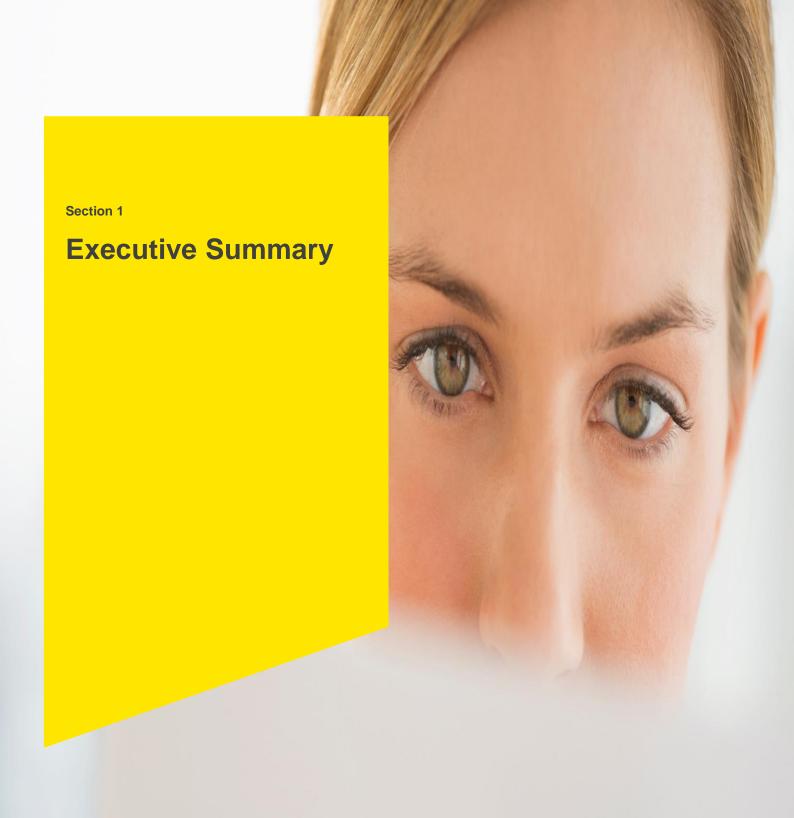
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/)). The Statement of responsibilities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

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

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

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Council:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 30 June 2022.
Going concern	We have concluded that the Service Director – Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	We concluded that financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion	
Reports by exception:		
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.	
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.	
Public interest report and other auditor powers	We had no reason to use our auditor powers.	

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued a Provisional Audit Results Report to the Council in on 2 March 2022. Before we issued the audit report on 30 June 2022, we concluded that, due to changes since the date of our Provisional Audit Results Report, there was a need to issue an update on our Provisional Audit Results Report. Accordingly, we issued an update in the form of Audit Results Report - Addendum on 6 June 2022.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 has been significantly delayed and although this has now been recently been issued we are still not able to issue our certificate until the NAO has clarified the additional work they may require for a sample of bodies.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in our Provisional Audit Results Report, we were required to carry out additional audit procedures to address audit risks in relation to the significant and fraud risks and other areas of audit focus identified in our Audit Plan and Audit Results Reports. These risks, and the resulting additional costs, are driven by risks that are common across most if not all local authorities and increased regulatory audit requirements. As a result of the additional work required to address these risks and requirements, we have proposed an additional fee which we have shared with the Service Director - Resources. We include details of the final audit fees in Appendix 1.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Debbie Hanson

Partner

For and on behalf of Ernst & Young LLP



Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements

Purpose

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan dated 23 February 2021 and Update in December 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- · Conclusions relating to going concern; and
- The consistency of other information published with the financial statements.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Councils arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Financial Statement Audit

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

The Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 30 June 2022, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Finance, Audit & Risk Committee in our Provisional Audit Results Report dated 2 March 2022 and a further update on 6 June 2022. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk

Misstatements due to fraud or errormanagement override of controls

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.

Incorrect capitalisation of revenue expenditure

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.

Conclusion

Our audit work did not identified any material issues, inappropriate judgements or unusual transactions which indicated that there had been any misreporting of the Council's financial position, or that management had overridden controls. We are satisfied that journal entries had been posted properly and for genuine business reasons. There were no unusual transactions identified.

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

Continued over.

Significant risk

Valuation of investment properties

The fair value of investment properties represent a significant balance in the Council's accounts and is subject to valuation changes, market volatility and impairment reviews. 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 the accounts for 2020/21, investment properties amount to £23.8 million (2019/20: £18.4 million).

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

Conclusion

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

- Considering 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.
- Engaging our valuations specialist (EY Real Estates) to review a sample of four investment properties valuations to verify the reasonableness of the valuation methodology applied and key assumptions used.
- Challenging the assumptions used by the valuer and sample testing key information used by the valuer in performing their valuation.
- Reviewing the list of investment properties to ensure that all properties were revalued in 2020/21.
- Reviewing the report from the Council's valuer Reynolds Butler, and confirmed there is no material uncertainly in their report for 2020/21.

Based on our above procedures performed, We have not identified any significant difference in valuation of investment properties and have sufficient assurance that they are materially accurate.

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus

Conclusion

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.

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 totalled £98.7 million (2019/20: £95.6 million).

We completed following procedures to address this risk:

- 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.

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus

Valuation of property, plant and equipment (PPE) assets

(continued)

Conclusion

We completed our procedures including our valuers concluded that for all four properties reviewed the values were supportable. However, 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 below section "Audit Differences" for details.

We also 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.

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus

Conclusion

Pension liability valuation and disclosures

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

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 signed accounts, this liability amounts to £46 million as at 31 March 2021 (2019/20: £30.7 million).

liaising with the auditors of Hertfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council;
assessing the work of the Pension Fund actuary including the

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

 assessing 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;

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.

- Considering 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;
- Considering the movement in fund asset values between the actuary's estimate and year end; and
- Reviewing and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We completed our audit work and did not identify any material differences.

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.

Continued over.

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus

Conclusion

Pension liability valuation and disclosures

(continued)

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) in 2017. At this point, 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.

The impact for North Hertfordshire is that 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 calculated the impact for the year ended 31 March 2020 and 2021, and concluded that the overall impact on the accounts is not material for either 31 March 2020 or 2021. Based on the information we received from the pension fund actuary the impact of the above we also concluded that building control issue is not material. We also obtained 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 differences as a result of this error amount to £454k for 2020/21 and £377k for 2019/20. We therefore agreed that these were not material but considered the 2020/21 difference as an unadjusted misstatements, as the amount for 2020/21 was above our SAD level. We obtained confirmation from management on the reasons for this not being adjusted via our management representation letter.

Other area of audit 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.

Conclusion

The revised standard required us to perform the following procedures:

- 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.

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

We have no matters to report with regards to going concern of the Council.

Other area of audit focus

Conclusion

National non-domestic rates (NNDR) appeals provision

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

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.

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

Based on our above procedures, no material misstatements were identified.

Other area of audit focus

Recognition of grant income associated with Covid-19

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.

Conclusion

We have:

- Considered the revenue and capital grants received by the Council;
- 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 also checked that the Council adequately disclosed grant income received in the year, under both principal and agent arrangements.

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

Other area of audit focus	Conclusion
Auditing accounting estimates	We reviewed material estimates and have not identified any issues.
ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019. This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors. The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates.	

Audit differences

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

- Understatement of pension liability and pension reserve (unusable reserve) by £454k due to error made by the actuary in the allocation of assets from the Council
- Potential understatement of land and buildings in property, plant and equipment of £1,335k due to use of low agricultural land values by the Council's valuer. There will be a corresponding impact on gains and losses on the revaluation of land and buildings

We did not identify any adjusted differences.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

As communicated in our Audit Plan and Provisional Audit Results Report and Addendum, our audit procedures were performed using a planning materiality of £1.427 million, with performance materiality of £1.07 million, which is 75% of planning materiality, and a threshold for reporting misstatements of £71K. We calculated our planning materiality assessment using the draft accounts. We have not reassessed our materiality since then as there has been no significant changes in circumstances leading us to update our materiality.



Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the Finance, Audit and Risk Committee via our Audit Plan and Provisional Audit Results Report followed by an Addendum which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, and evaluation of associated documentation through our regular engagement with management and the finance team.

We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

VFM commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Our VFM commentary highlights relevant issues for the Council and the wider public.

Financial sustainability

How the Council plans and manages its resources to ensure it can continue to deliver its services;

Governance

How the Council ensures that it makes informed decisions and properly manages its risks; and

· Improving economy, efficiency and effectiveness

How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

VFM Commentary

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised. We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

How the body ensured that it identified all the significant financial pressures that were relevant to its short and medium-term plans and built these into them

The Council has a robust procedures in place to identify all significant financial pressures relevant to its short and medium term plans. These are gathered from a variety of sources, including:

- quarterly budget monitoring, which includes reviewing the ongoing impacts
- meetings between Service Managers and the Accounts team (as part of a Business Partnering role)
- discussions at Leadership Team (Service Directors and Managing Director) and Political Liaison Board (Service Directors, MD and Cabinet members) which highlight strategic issues
- the MTFS is reviewed by Leadership Team whilst it is being prepared, to allow for feedback.

Financial sustainability (continued)

How the body planed to bridge its funding gaps and identifies achievable savings

As per MTFS, the Council needs savings to deliver its services to achieve a balanced budget by 2026/27. This means that by 2026/27, Council's funding should equal its expenditure. The savings may be achieved by several ways, mainly;

- Delivering existing services at a lower cost. The use of technology and automation may enable the Council to do this in some areas. Generally however, the savings that the Council has delivered over the years have been through efficiencies, which potentially means there may be a little room to achieve further efficiencies.
- Generating additional income from services that can we charged for, less any
 costs in providing those additional services.
- Generating income from commercial activities, although the opportunities to do this are limited by economic conditions. The Council also needs to ensure that these commercial activities are in line with its priorities.
- Reducing the level of services provided, or no longer providing services that are not required.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

How the body planed finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council produces the MTFS and the Council Plan at the same time and treats them as sister documents. The approach to preparing these documents is that most of the money that the Council spends is on delivering statutory services. The Council will always look to deliver these services in line with its priorities. As the funding level has continued to reduce, the Council has tried to maintain its ability to offer discretionary services that are linked to its priorities. The current forecasts suggest that the Council will need to continue further reducing its costs in the future. This will mean that difficult decisions may need to be taken. We expect that the Council will make those decisions in line with its priorities.

The Council also has an established budget challenge process that reviews the various services the Council delivers and how much they cost. This has included a review of which services are statutory, and for those non-statutory services the extent to which they deliver the priorities of the Council Plan.

Financial sustainability (continued)

How the body ensured that its financial plan was consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

As noted above the MTFS and Council Plans are treated as sister documents. The capital programme is included in the Investment Strategy with a 10 year time horizon. The forecast revenue impacts of capital investment are incorporated in to budget planning.

The Council's HR plan is currently focused on Covid-19 response and recovery. It does not make any specific proposals around changes in renumeration or head-count. Any proposals for growth in headcount must be considered through the budget process.

All other significant service/corporate plans have a contribution from finance to ensure that financial implications are considered. Sometimes (e.g. where plans include aspirations rather than detailed actions) it may be necessary to set out that the plans will be subject to prioritisation and consideration as part of the financial/business planning process. We understand from management that this would apply to some aspects of the Council's Climate Change Strategy.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

How the body identified and managed risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

This is primarily managed through the setting of the minimum General Fund balance. This makes an allowance for known financial risks (through discussions between the finance team and Service Managers), as well as a general allowance for unknown risks. The specific risks are monitored throughout the year in the quarterly budget monitoring report. That same report also considers overall variance forecasts and therefore also monitors those risk outcomes that were not foreseen at the start of the year.

The MTFS also considers the variation in assumptions made, although for the current period this is focused on the impacts of Covid-19.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Governance

How the body monitored and assessed risk and how the body gained assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The Council has a Risk Management Group which is made up of key officers (including service representatives, the Risk Officer Champion, Risk Officers, Internal Audit and Insurance), the Executive Member for Risk and the Finance, Audit and Risk Committee Chair. At this group, the outcomes of key risk reviews are considered in detail, including being able to ask questions and offer support to the risk manager. The relevant outputs from the group (including recommendations on changes to corporate risks) are considered by Finance, Audit and Risk Committee, prior to discussion and agreement by Cabinet.

The Council is part of a shared Fraud service (known as the Shared Anti Fraud Service or SAFS). There are regular reports to the Finance, Audit and Risk Committee on SAFS, including plans for the forthcoming year and monitoring of performance.

How the body approached and carried out its annual budget setting process

The Council has an integrated budget setting structure, plan and timetable in place. Although this process stays largely unchanged from year to year, the underlying strategic goals and challenges can change between years, dependent on pressures being faced by each department.

Over the Summer, the responsible officers and executive members start work on the Council Plan and the MTFS for the forthcoming year. This sets the objectives of the Council (Council Plan) and the financial context to deliver them in (MTFS). The MTFS will usually set a net savings target.

Officers and Executive Members then commence work on detailed proposals for the following year. This is collated by the finance team with a review against the MTFS targets. These proposals are then discussed at the Political Liaison Board (including the Managing Director, Service Directors and Cabinet) to determine any prioritisation. Proposals are then discussed with Political Groups in early November. Feedback from these discussions is presented to Cabinet in December, as part of a draft budget report. This report also includes any relevant updates (e.g. inflation and the local government finance settlement). The outcome of this Cabinet meeting helps to determine the content of the final budget report, which goes to Finance, Audit and Risk Committee and Cabinet in January, and is referred on to Council in February each year.

Governance (continued)

How the body ensured effective processes and systems were in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supported its statutory financial reporting requirements; and ensured corrective action was taken where needed.

The Council generally carry out quarterly budget monitoring, which is reported through to Leadership Team, the Finance, Audit and Risk Committee and Cabinet. This is generally proportionate to the level of risk in the Council's budgets. Where necessary, the management implements more frequent monitoring (e.g. during 2020/21 management carried out monthly monitoring of the impacts of the pandemic). There are set revenue performance indicators which are monitored and reported on a monthly basis. These cover the Council's key income streams and provide an indication of any areas of concern.

If required, the budget monitoring reports would require that action was taken to manage the overall Council budget. Before reporting variances to Cabinet etc. Budget Managers are asked to consider ways to manage their spend within their budget. Finance would support with ideas and options. This will not include significant changes in level of service, as that would be a Cabinet decision.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body ensured it made properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This included arrangements for effective challenge from those charged with governance/audit committee.

The Council has a long-established Constitution which together with a range of codes of conduct, policies and procedures support informed decision making. The Council's Constitution includes guidelines on how decisions need to be made and by whom.

All reports require professional input including legal, financial, risk and HR implications. Decisions are taken in accordance with the Constitution. Cabinet decisions are subject to call-in by the Overview and Scrutiny Committee. All financial monitoring, budget and risk (among others) are reviewed by the Finance, Audit and Risk Committee prior to going to Cabinet. The Finance, Audit and Risk Committee has responsibility for overseeing risk management and financial control, receiving reports from, and providing challenge to, the Section 151 Officer, Internal Audit and External Audit. The Finance, Audit and Risk Committee provides specific challenge on effectiveness of the internal control environment.

Governance (continued)

The Council arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body monitored and ensured appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Compliance with legislative and regulatory requirements are monitored through various mechanisms, including the Monitoring Officer, who maintains a register of interests for Members which is published on the Councils website.

For Officers, the Council has a policy in relation to gifts and hospitality. There is also a separate Declaration of Interests/Conflicts of Interest policy. The Monitoring Officer's oversight on standards also provides a control.

Improving economy, efficiency and effectiveness

How financial and performance information was used to assess performance to identify areas for improvement.

Management has carried out a budget challenge process during the last two years. These sessions have involvement from the Chief Finance Officer, Managing Director, Leader, Deputy Leader, Finance Portfolio Holder and Deputy Finance Portfolio Holder. With support from Finance, each Service Director and Executive Member have presented their budgets, detailing what they spent, the level of service provided, split between statutory and discretionary services and well as opportunities for savings. These reports have included a small number of opportunities for pure efficiencies (i.e. spend reduction with no apparent impact on service levels) and generally have been contingent on future restructures. There were also examples of where transformation was expected to enable savings and improve service delivery. Finally there were areas where decisions would need to be made (dependent on future funding) as to which discretionary services were a priority.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

The transformation programme is developing skills in AI and Robotics to provide automation that will deliver a better service to the customer (e.g. through being able to provide a response 24/7) as well as enabling enable savings to be delivered.

How the body evaluated the services it provides to assess performance and identify areas for improvement

Where available management compares its performance indicators to performance by others through benchmarking process (e.g. waste collection data). A lot of this data has however been suspended due to Covid-19.

The use of spend comparative indicators is not considered, as most of the differences are created by different approaches to overhead costs. However management considers use of various networks to generate ideas and learn from others. This includes (for example) the Hertfordshire Chief Finance Officers Group, the Hertfordshire Chief Executives Group, and Herts Waste Partnership.

In January 2020, the Council had a peer review and an action plan is being developed to respond to the conclusions of this review. Progress against this is reported regularly to the Political Liaison Board. There is expected to be some follow up work during 2022, looking at the roles of Overview and Scrutiny Committee and the Finance, Audit and Risk Committee.

Improving economy, efficiency and effectiveness (continued)

How the body ensured it delivers its role within significant partnerships, engaged with stakeholders it identified, monitored performance against expectations, and ensured action was taken where necessary to improve

The Council appreciates the fact that Services will not always be delivered by them alone, but in a partnership or through alternative delivery models. Key partners include those in partner authorities and other Councils across the County; for example Urbaser (waste contract), John O'Connor (grounds maintenance contract), Settle (previously North Herts Homes), Stevenage Leisure, Countryside Management Service and Groundwork. The Council works to support local, County and wider partnerships that seek to improve the wellbeing of its local community e.g. through the North Herts Health and Wellbeing Partnership and Hertfordshire Public Health Board.

Other key partners 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 Connexion Herts, Business Improvement Districts, Letchworth Garden City Heritage Foundation, the Police, Herts Young Homeless and the Stevenage Haven.

As part of the delivery of its services, the Council needs to manage a proactive programme of communications activity across a range of channels which ensures the good work of the Council is promoted and improves resident satisfaction, by ensuring they feel well informed about the Council's work. Cabinet adopted the Communications Strategy for the period 2019-2023 in December 2018.

delivers services.

How the body ensured that commissioning and procuring services was done in accordance with relevant legislation, professional standards and internal policies, and how the body assessed whether it was realising the expected benefits

All procurements are governed by the Council's Contract and Procurement Rules (part of the Council's Constitution). Compliance with these is monitored by Procurement/Legal and the Contract Procurement Group. Section 20 of Constitution explains about the Contract Procurement Rules.

Each contract has a contract manager who is responsible for ensuring that the contracted service is delivered.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and



Other Reporting Issues

Governance Statement

We are required to consider the completeness of disclosures in the Council's governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 has been significantly delayed and although this has now been recently been issued we are still not able to issue our certificate until the NAO has clarified the additional work they may require for a sample of bodies.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Other powers and duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

We have identified a very small number of 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. Overall the Council's accounts are well prepared with a very small number of issues identified.



North Hertfordshire District Council's Audit Fees

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

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	13,174
Additional work required in 2019/20 - Note 2	14,877	7,000	-
Additional work required in 2020/21 - Note 3	-	-	19,661
Additional work required due to changes in auditing standards for estimates – Note 4	-	-	3,490
Additional work required due to change in scope of VFM work - Note 4	-	-	6,000
Non-audit Fee – Housing subsidy claim	7,340*	9,140	7,340*
Total audit fees	82,037	69,170	89,733

All above fees are excluding VAT

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 risks identified in relation to the audit of most if not all local authorities, including North Hertfordshire, and increases in regulatory standards. Further detail on this proposed increased was included in our previous reports to the Committee. We 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 of this proposed fee. For 2020/21, the proposed increase in fee by using the revised hourly rates as approved by PSAA (refer Note 4 below) is £13,174 (note this excludes the VFM significant risk element included in 2019/20).

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 of this proposed fee.

Note 3: For 2020/21, the proposed additional fee is £19,661. We have shared the details of this proposed additional fee with management. PSAA will determine the final fee.

Note 4: PSAA published additional information for 2020/21 audit fees in August 2021 and provided guidance about the range of minimum additional fee in relation to changes in the Code impacting on VMF work and increased work on accounting estimates due to changes in auditing standards. We have shared the details of these amounts with management. PSAA also revised its hourly rates for calculating the additional fee variations.

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

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North Herts District Council

Additional Fee Analysis year ended 31 March 2021

July 2022



Overall Summary

Additional Work	£
Changes in work required to address professional and regulatory requirements & scope changes associated with risk (Refer slide 3)	13,174
Additional work required due to changes in scope as a direct result of Covid-19 (Refer slide 4)	17,206
Minimum additional fee for work performed on VFM arrangements as per PSAA approved range (Refer slide 5)	6,000
Minimum additional fee for work performed as required by ISA (UK) 540 (Revised) as per PSAA approved range (Refer slide 6)	3,490
Additional fee for IAS 19 impact in relation to assets belonging to Hertfordshire Building Control (HBC) issue (Refer slide 7)	2,455
Total	42,325



Professional and regulatory requirements & scope changes associated with risk

		Additional number of hours					Fee for additional number of hours				
Description	Partner/ Director	Manager	Senior Auditor	Other staff	Total Hours	Partner/ Director £165	Senior Mgr/ Mgr £91	Senior Auditor £59	Other staff £45	Total Fee variation (£)	
We have a higher inherent risk over pension valuation. This cost reflects the time taken to address this risk which inlcudes review of PwC report, EY Pensions team review of PwC report and audit team follow up of required procedures from these reviews.	4	10	50	0	64	660	910	2,950	-	4,520	
We have a higher inherent risk over PPE and IP asset valuation. This means we have completed testing at a lower testing threshold. This cost reflects the time taken to test a sample of assets and perform procedures over assets not revalued and the subsequent review as well as consider cluster wide findings from internal specialists.	4	10	50	0	64	660	910	2,950	-	4,520	
There are a number of areas where an increase in overhead costs has led to a spread of costs across audits, this allocation is made based on the size and complexity of the audit: - location is made based on the size and complexity of the audit: - location is made based on the size and complexity of the audit: - location is made based on the size and complexity of the audit: - location is made based on the size and complexity of the audit: - location is made based on the size and complexity of the audit: - location is made based on the size and complexity of the audit on consider events such as: risks of non compliance with laws and regs; consultation and approval requirements on materiality for MLAs; rotation approvals of EP portfolios; Prior year adjustments consultation; approval and application of pre-issuance policy; Audit Quality Support team annual cycle of GPS audits review (introduced from 2018 for FRC scope audits). - We have invested in data capture methods to meet the requirements of enhanced IPE (information provided by the entity) testing, which results in a direct charge to each audit code for the technology costs. - Testing thresholds have been lowered following feedback from regulators that testing more generally should have a greater response to risk of error, resulting in higher testing sample sizes for those areas not mentioned specifically above. Note that not all the procedures/costs here relates to the audit team, but the hours reflect the additional time incurred by audit.	4	9	45	0	58	660	819	2,655	-	4,134	
Total	12	29	145	-	186	1,980	2,639	8,555	-	13,174	



Changes in scope as a direct result of Covid-19

		Additional number of hours					Fee for additional number of hours				
Description	Partner/ Director	Manager	Senior Auditor	Other staff	Total Hours	Partner/ Director £165	Senior Mgr/ Mgr £91	Senior Auditor £59	Other staff £45	Total Fee variation (£)	
Going Concern assessment. This includes all meetings attended by both partner and manager to discuss going concern and work performed on cashflow forecasts and stress testing. Due to the additional work required on the Pension IAS19 figures due to the actuary error, as referred to below, the GC assessment and cash flow forcast had to be extended, resulting in addiitonal time	8	14	7	0	29	1,320	1,274	413	-	3,007	
Due to Covid-19 the Authority's investment properties and other PPE assets were potentailly subject to risk of material changes in valuations. We therefore engaged our EY Real Estate specialists to help the core audit team in valuation. Our sample included 4 investment properties and 4 PPE assets. This SFV reflects the time required to consider the results of their work and the potential impact of one investment property which was assessed as outside the range determined by our specialist on the financial statements.		0	35	0	71	5,940	-	2,065	-	8,005	
Due to the impact of COVID-19, we raised our risk assesment on NNDR appeals priovision as higher inherent risk area. This reflects the time required to address the higher inherent risk related to NNDR appeals provision .		12	20	0	37	825	1,092	1,180	-	3,097	
Due to the impact of COVID-19, we identified a higher inherent risk relating to accounting for COVID-19 grants. This reflects the time required to address the higher inherent risk related to accounting of COVID-19 grants, which included assessment of whether the Council was acting as agent or principal and whether there were any associated conditions, and whether the accounting for the grants correctly reflected this.		12	20	0	37	825	1,092	1,180	-	3,097	
Total	54	38	82	-	174	8,910	3,458	4,838	-	17,206	



VFM arrangements

This amount (£6,000) is the minimum additional fee for work performed on VFM arrangements as per new requirements in the Code of Audit Practice 2020. The amount is taken as per the approved PSAA range of additional fee according to their letter dated August 2021.

The new requirements in the Code of Audit Practice 2020 in relation to an audited body's arrangements to secure value for money have a significant impact on the auditor's work and require additional fees.

The new approach to this work from 2020/21 audits onwards requires an annual commentary from the Authority's auditors on arrangements to secure VFM, which should be published as part of the auditor's annual report. The commentary should enable the auditor to explain the work they have undertaken during the year, and to highlight any significant weaknesses that they have identified and brought to the Authority's attention, along with their recommendations for improvement.

Rochford District Council - additional fee analysis for 2020/21

ISA (UK) 540 (Revised)

Description		Additional number of hours					Fee for additional number of hours				
		Manager	Senior Auditor	Other staff	Total Hours	Partner/ Director £165	Senior Mgr/ Mgr £91	Senior Auditor £59	Other staff £45	Total Fee variation (£)	
Additional fee for work performed as required by ISA (UK) 540 (Revised) - Auditing accounting estimates and related disclosures. The amount is taken as per the PSAA letter dated August 2021. Although this includes work on all estimates the main area of work related to the pensions liability where we had to engage EY Pensions to perform a roll forward calulation of the estimate to develop our own point estimate	8	8	24	0	40	1,320	728	1,442	-	3,490	
D ည	8	8	24	-	40	1,320	728	1,442	-	3,490	

This additional fee is for work performed as required by ISA (UK) 540 (Revised) - Auditing accounting estimates and related disclosures. The amount is taken as per the PSAA guidance of additional fee according to their letter dated August 2021. The minimum approved amount of £2,500, however the additional fee depends on Authority type and individual circumstances which could result in the fee variation higher than the suggested minimum.

The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. For North Herts District Council, we considered high risk estimates in valuation of pension liability, valuation of land & buildings and NNDR appeals provision.



Hertfordshire Building Control (HBC) issue

Description F		Additional number of hours					Fee for additional number of hours				
		Manager	Senior Auditor	Other staff	Total Hours	Partner/ Director £165	Senior Mgr/ Mgr £91	Senior Auditor £59	Other staff £45	Total Fee variation (£)	
This reflects the time required to address an error in the actuary's IAS19 report and hence the net pension liabilities reported in draft accounts. 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). Although we concluded the impact was not material for North Hertfordshire for either 2020/21 or 2019/20 we needed to engage EY pensions specialists to gain assurance over the approach adopted by the actuary to establish the impact of the error. We also had to issue an updated ISA260 report in relation to this issue, and Poresent this to the Audit Committee, and include the unadjusted difference in the Letter of Representation	4	10	15	0	29	660	910	885	-	2,455	
Total	4	10	15	-	29	660	910	885	-	2,455	



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North Herts Council

Anti-Fraud Report 2021/22

Recommendation

Members are recommended to:

- Note the Councils work to combat fraud in 2021/22
- Note the performance of SAFS in meeting its KPIs in 2021/22
- Note the Progress with delivering the Anti-Fraud Plan for 2022/23

Contents

Page Purpose & Background Delivery of the 2021/22 Anti-Fraud Plan SAFS Performance and KPIs 2022/2023 Anti-Fraud Activity – Brief Transparency Code- Fraud Data Further Reading

Appendices

Appendix A – SAFS/NHDC Anti-Fraud Plan 2021/2022.

Purpose

1. This report provides details of the work undertaken by the Council and the Shared Anti-Fraud Service to protect the Council against the threat of fraud and the delivery of the Council's Anti-Fraud Action Plan for 2021/2022. It also provides a brief update on work to date in 2022/23.

Background

- 2. Recent national reports and papers provided to Council Officers are used by the Shared Anti-Fraud Service (SAFS) to ensure that the Council is aware of new and emerging fraud risks as well as those established/known risks. This helps to mitigate or manage all fraud risks through a programme of work including the Council's Annual Anti-Fraud Plan. Details of these reports, along with other recommended reading for Members, can be found below and at Section 51 of this report.
- **3.** Some of the most significant recent reports include:

Fighting Fraud and Corruption Locally a Strategy for the 2020's. This strategy focuses on the governance and 'ownership' of anti-fraud and corruption arrangements. The Strategy also identifies areas of best practice and includes a 'Checklist' to compare against actions taken by the Council to deter/prevent/investigate fraud. The checklist is maintained and reviewed by SAFS and Officers.

Tackling Fraud in the Public Sector 2020. In 2019, CIPFA commissioned a survey and round table events for senior managers in local government to establish what local authorities were doing to tackling fraud. The survey was conducted by an independent body with the support of LGA and MHCLG.

COVID-19 Counter Fraud Measures Toolkit. The Government Counter Fraud Function within the Cabinet Office provided a 'toolkit' of services, guidance, support for local government as part of the national response to the Covid-19 outbreak in the UK.

Calculating Losses from Tenancy Fraud. Since the closure of the Audit Commission in 2012 there has been no concerted effort to put a value on the cost to local authorities of tenancy fraud. This paper, published by the Fraud Advisory Panel & Charity Commission in 2021, estimates that the cost to local government for each social property that is detected as being sub-let is £42,000.

- 4. According to reports from CIPFA, National Audit Office (NAO), Cabinet Office, and the private sector fraud risk across local government in England exceeds £2 billion each year, with some more recent reports indicating levels considerably higher than this.
- 5. The Cabinet Office, Department for Levelling Up, Housing and Communities (DLUHC), National Audit Office, and CIPFA have also issued advice, and best practice guidance to support local councils in the fight to combat fraud and prevent loss to the public purse. This includes the need for all councils to be vigilant in recognising their fraud risks and to invest sufficient resources in counter fraud activities that deliver tangible savings.
- **6.** It is essential that the council has in place a robust framework to prevent and deter fraud, including effective strategies and policies, as well as plans to deal with the investigation and prosecution of identified fraud.
- 7. North Herts Council is one of the founding members of the Shared Anti-Fraud Service (SAFS) and Members of this committee have received regular reports since 2015 about how the service deals with all aspects of fraud from prevention & deterrence to investigation & prosecution, working with staff at all levels across the Council.

Delivery of the 2021/2022 Anti-Fraud Plan

2021/2022 Plan

- **9.** In March 2021 this committee approved the Anti-Fraud Plan for 2021/2022 which was developed with council officers in partnership with SAFS. A copy of the Plan can be found at **Appendix A.**
- 10. The Plan includes resources and costings for its delivery, and activity to protect the council from fraud. The plan includes a copy of the latest Fighting Fraud and Corruption Locally Strategy and Key Performance Indicators (KPIs) for SAFS which were agreed with senior officers. KPI performance can be found in **Table 6** below.
- **11.** The Anti-Fraud Plan for 2021/22 was designed to meet the recommendations of the Fighting Fraud and Corruption Locally Strategy (FFCL) by adopting the five 'pillars' of Protect, Govern, Acknowledge, Prevent and Pursue. The plan identifies officers and members who are charged with delivering it.
- 12. In 2021/2022 the Council adopted the FFCL checklist as a 'To-do' list to assist in identifying weaknesses in its anti-fraud defences and a method to provide assurance to senior leaders and elected embers about the effectiveness of the Councils anti-fraud activity. We will use the checklist as the backbone of the Councils anti-fraud plans from 2022/23 on-wards, adding additional actions/objectives as they arise or become relevant for North Herts Council.

Staffing

- **13.** The SAFS Team (in April 2021) was composed of 20 accredited and trained counter fraud staff and is based at Hertfordshire County Council's offices in Stevenage.
- 14. Each SAFS Partner receives dedicated support and response, which is achieved by allocating a number of staff to work exclusively for each Partner but also allowing officers within the Team to work across Partners from time to time. Providing the Service in this way allows SAFS staff to develop good working relationships with council officers as well as improved resilience and flexibility across the Partnership. SAFS staff have access to council offices, officers and systems to conduct their enquiries.
- **15.** For 2021/22 SAFS deployed 1 FTE (in line with the plan) to work exclusively for the Council supported by SAFS Management and Support Team based at

Stevenage. The Support Team includes specialists in data-analytics, financial investigations and Intelligence Officers.

16. SAFS officers are all fully trained and accredited and members of. or working towards membership of. the Government Counter Fraud Profession. The Profession is divided into specialisms including awareness training, fraud risk assessment, investigations, intelligence, data-analytics and fraud management.

Fraud Awareness and Reported Fraud

- 17. A key objective for the Council is to continue developing its existing anti-fraud culture; ensuring senior managers and members consider the risk of fraud when developing policies or processes; helping to prevent fraud occurring; deterring potential fraud through external communication; encouraging all officers to report fraud where it is suspected; and providing public confidence in the Councils stance on fraud and corruption. In 2021/2022, working closely with SAFS, Council officers reviewed several anti-fraud policies to update them in line with the latest best practice.
- **18.** The Council's website has links for the public to report fraud by email, telephone or using the SAFS online reporting service. As well as encouraging the public to report any suspected fraud to the Council:

www.north-herts.gov.uk/report-fraud

The SAFS webpages include latest news, alerts and reports on fraud cases as well as a fraud reporting service.

www.hertfordshire.gov.uk/fraud

- **19.** Council staff can use the same methods to report fraud or if they work within Housing, Revenues & Benefits Services they can report fraud directly to SAFS staff working at the Council.
- **20.** SAFS delivered training to staff via remote/virtual means during 2021/2022 including general fraud awareness, use of the services provided by National Anti-Fraud Service and new services provided by the Cabinet Office as part of the National Fraud Initiative.
- **21.** The e-training module on fraud and bribery is available for staff and a new version of this began development in 2021 and will be completed by the summer of 2022.

SAFS and Covid-19 Fraud 2021/2022

22. SAFS ability to conduct investigations in 2021/22 continued to be affected by Government lockdowns during the year. The service remained in a good position to work from home, as the IT infrastructure and working practices were already in

place. The impact on our work resulted from the restrictions when working with others.

- The DWP Fraud and Error Service, who we work with on many cases, redeployed all counter fraud staff to the frontline delivery of Universal Credit. These staff only began to return to normal duties, in limited numbers, from early 2022.
- We were hampered in accessing the data held by our Partner Councils where we did not have remote access to systems. We have now improved our remote access to many Council systems.
- Council staff were focused on the local responses to the Covid pandemic and we saw 'business as usual' fraud reporting decline.
- We had to put special measures in place to interview witnesses or the subjects of investigations due to the lock-down/social distancing restrictions.
- In addition to this the courts dealing with civil and criminal matters had a backlog of cases due to their enforced closures in 2020/2021 and limited capacity in 2021/2022.
- 23. During the pandemic we felt that the SAFS role around prevention should be the priority for the service and the imposition of 'sanctions' were suspended as they could be counterproductive. We made a decision to resolve most low-level fraud by closing cases and sending advisory or compliance letters to customers. More serious allegations of fraud or those needing immediate attention would be prioritised and, cases that met this threshold, but could not be dealt with quickly, should be 'overloaded' (the allegations were recorded, but any further action suspended until a later date when appropriate resources could be released) for review post lockdown.
- 24. SAFS provided support with all of the grants schemes administered by Council officers, as well as undertaking data-cleansing exercises providing pre and post payment assurance. SAFS provided guidance to Council officers dealing with the various grant schemes on the services provided by NAFN, CIFAS and the Cabinet Office. SAFS conducted investigations where fraudulent applications for grants appeared to have been made and worked closely with Council officers to resolve these.

Case Study 1: An allegation was received by SAFS that the owner of a business in Royston, had applied for a Covid-19 grant in January 2021, stating his business had been forced to close due to lockdown.

The grant was paid, but it was then uncovered by the SAFS investigation that the business was not eligible to receive the grant as the circumstances declared by the business owner were false.

The Business owner has been asked to repay the grant by North Herts Council.

25. SAFS provided enhanced and more frequent alerts about mandate / phishing frauds from national bodies including Cabinet Office, CIFAS/CIPFA/NFIB, Police and NAFN.

Case Study 2. An alert received from the National Anti-Fraud Network in 2021 indicated that a well know national business concern had had its 'identity' stolen by an organised crime group (OCG) and the details used to commit a substantial Covid Grant Fraud against a number of Councils across the country.

As the OCG was based abroad and much of the money obtained as a result of the fraud moved rapidly through mule bank accounts to accounts outside the UK/Europe, local councils were asked to share any suspected fraud by the OCG using the same MO.

SASF shared this alert with Council officers who identified a very similar fraud using the similar business details- it later transpired that the original OCG had 'sold-on' the companies details to other criminal actors.

A review of the data held by North Herts Council of the grant application submitted and incorrectly paid resulted in an immediate report to SAFS. SAFS Accredited Financial Investigator was able to identify and freeze an account in the UK. The intel was passed to national agencies, but as this appeared to be separate fraud and not inked directly to the initial alert SAFS were authorised to conduct their own enquiries and recover any monies left in UK bank accounts.

SAFS worked with the banks and the Home Office to close a mule bank account and recover the £25k grant paid by North Herts Council and a further £25k grant paid by a second authority outside Hertfordshire. All sums have now been returned to or are in the process of being returned to Government.

26. SAFS maintains its working relationship with the shared Internal Audit Service and HR teams. The excellent working relationship with the Council's legal team continues, including work on criminal litigation and policy review.

Reactive and Proactive Fraud Investigation

27. In 2021/2022 SAFS issued fraud alerts on more than 20 occasions to Council officers/departments. These alerts covered areas such as the vulnerability to

cybercrime for home working staff, new and emerging scams and spams, 'impersonation' or CEO frauds and the increased threat of fraud caused by the Council/Government response to the ongoing Covid pandemic.

- 28. SAFS receives weekly/monthly/ad-hoc updates on new threats from a variety of sources including National Anti-Fraud Network (NAFN), National Cyber Security Centre (NCSC), National Intelligence Service (NATIS), City of London Police & National Fraud Intelligence Bureau (NFIB-national lead on fraud and cyber-crime for policing and part of Action Fraud), London Fraud Forum (LFF), Credit Industry Fraud Avoidance Service (CIFAS), CIPFA, Hertfordshire Constabulary (including OWL) and Trading Standards.
- **29.** During 2021/2022 SAFS received 91 allegations of fraud affecting council services (a decrease from the 101 in 2020/2021 and continuing the downward trend since 2017).

Table 1. Types of fraud being reported (in year):

•	abic ii iypcs	or mada benig	g reported (<i>m</i>	y cur j.		
	Council Tax Discount Fraud	Housing Benefit/CTR Fraud	Tenancy/ Housing	Covid Grants/ Business Rates	Other *	Total
	11	46	17	8	9	91

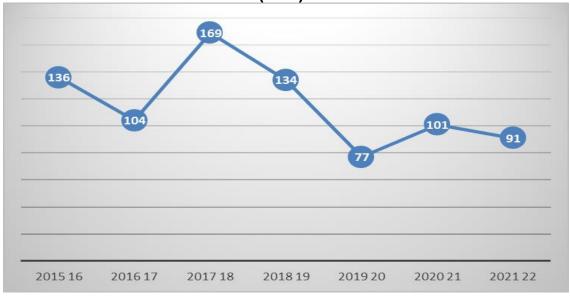
^{*}Other includes Blue Badge/Mandate etc.

Table 2. Who is reporting fraud:

Fraud Reported by Staff	Reports from Public	Data- Matching/ Proactive Investigations	Other Agencies	Total
34	48	9	0	91

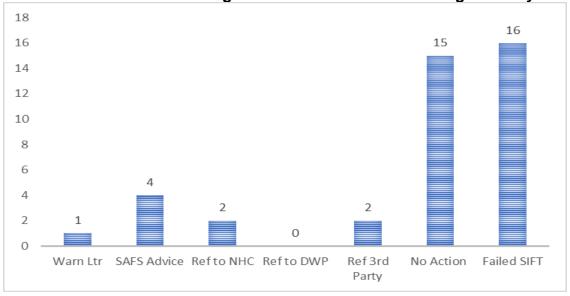
30. We continue to work with the Councils Communication Team to issue publicity encouraging the public to report fraud and help protect public funds, as well as press releases of cases investigated/prosecuted by the Council. The Council takes part in *International Fraud Awareness Week* in November each year.





31. It should be emphasised that not every referral/allegation will need to be investigated and some allegations can be false/misleading or simply incorrect. Every referral is risk assessed and sifted by the SAFS Intelligence Team to determine what further action should be taken with each. 40 of the allegations received for the Council in 2021/22 did not meet the criteria for further investigation.

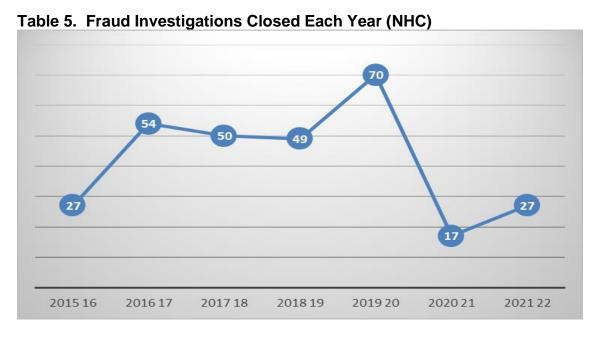
Table 4. Referrals not meeting the criteria for further investigation in year



32. 'Failed Sift' is where the allegation cannot be attributed to any service provided by the Council. 'No Action Required' are referrals where the subject can be identified, but no error/fraud is apparent, or the Council is already aware of the facts reported

in the allegation. Referrals that are passed to 'DWP', 'NHC' or to 3rd parties occur where another agency is best placed to investigate the matter. 'SAFS Advice' is where some guidance/advice/support has been provided to Council officers, but a full investigation is not required. Warning Letters are used in low value/risk cases to remind residents of their duty to report changes or not act in a particular way.

- 33. In addition to the referrals that did not require investigation 16 cases involving alleged housing benefit or council tax fraud were resolved through compliance activity or review. This resulted in the identification of £11.5k in additional savings for the Council. These lower-risk cases would previously have become full investigations taking up valuable resources.
- **34.** At this time many cases raised for investigation are still in the early stages. However, of the 27 cases investigated and closed in year (an increase from 17 in 2020/2021) 22 identified fraud with recoverable losses of £117k, and fraud 'savings' (through prevention) of £82k reported. Senior officers are provided with a breakdown of which services have been affected by fraud and the outcomes from individual investigations, as well as recommendations on lessons learned for future deterrence/prevention where fraud has occurred.
- **35.** At year end of March 2022 40 cases remained under investigation with an estimated fraud loss of just over £174k.



36. As well as the frauds detailed above, SAFS works with a number of social housing providers across the County, including 'settle Group', providing

resources to investigate alleged misuse or sub-letting of social housing within SAFS Partner boundaries.

Case Study 3: settle Housing approached SAFS for assistance in investigating the alleged sub-let of a one of their properties in Letchworth.

SAFS enquiries confirmed sub-tenants were living at the address, paying £600 per month to the tenant of settle. It was also shown that the tenant had spent a lot of time abroad.

The Tenant was interviewed, when he admitted having 'lodgers' in his property to help him with the rent. He denied sub-letting the whole of the property and claimed that he returned to his country of birth regularly for medical treatment and to visit his wife and 2 young children.

settle have issued a notic to evict the tenant for breach of his tenancy agreement,

When the property is recovered it will be re-let to a family from the Councils Housing Register.

37. The majority of fraud referrals received from the public relate to housing benefit or council tax reductions/discounts. SAFS and the Councils Revenues and Benefits services work closely with each other and, on occasion, with the DWP Fraud and Error Service (FES), to investigate allegations of this nature.

Case Study 4: Originally referred in 2020, this case was placed in 'overload' due to the need to work with DWP. A data-matching exercise indicated that a Letchworth resident, claiming various benefits, had failed to declare changes in their circumstances.

A review with DWP in 2021 showed that the resident had been in receipt of JSA since 2010, along with CTR and HB from 2013 to date as a single person. An additional adult was linked to his address via a 'National Fraud Initiative' match which also showed multiple employers for the additional adult since 2013.

These employers were contacted, who all provided the subject address for the additional adult. Nationwide Bank also further confirmed bank accounts and credit cards were linked to the address and had been since 2013 for the same person. Bank statements showed that the second person was paying bills, utilities and other items for the residents address.

The resident declined to be interviewed and the evidence obtained was shared with the DWP. A decision was made that the resident had been living with an undeclared partner, who was in paid employment, as if they were a 'married' couple since 30/04/2013. Overpayments of Job Seekers Allowance, Housing Benefit, Council Tax have all been calculated between 2013 and 2021.

38. SAFS works closely with Hertfordshire Constabulary sharing information, fraud alerts and intelligence to assist in preventing fraud or investigating fraud where it

is suspected. We work with or for other organisations who may have close relationships with the Council and we facilitate joint working between SAFS Partners where it benefits them to do so.

39. SAFS supported the Council in its compliance with the National Fraud Initiative (NFI) matches received in January 2021. The NFI is a national anti-fraud data sharing exercise conducted by the Cabinet Office every two years across local and central government. In Feb 2021 the Council received 1,124 matches for review as part of the 2020/21 NFI exercise. Of these matches 540 were indicated as high priority and in all Council Officers reviewed 972 of the matches reported identifying £11,600 in fraud loss/savings combined. SAFS officers reviewed a further 129 matches relating to Council Tax and identified a further £5,800 of fraud savings.

SAFS KPI Performance 2021/22

- **40.** As part of the Councils Anti-Fraud Plan for 2021/22 a number of KPIs were agreed with SAFS to measure its performance, and the return on investment from this shared service. These targets and performance against them are shown below.
- **41.** With the exception of 4D all PI Targets were met in 2021/22. Explanations are provided for the failure in the KPIs highlighted.

Table 6. SAFS KPIs for 2021/2022 and Performance

KPI	Measure	Target 2021/22	Performance
1	Return on investment from SAFS Partnership.	Demonstrate, via SAFS Board, that the Council is receiving a financial return on investment from membership of SAFS and that this equates to its financial contribution.	Regular meetings take place with members of the Councils senior leadership team. The Councils Service Director: Resources sits on the SAFS Board SAFS reports are provided to its Board, and the Councils Finance Audit & Risk Committee.
2	Provide an investigation service.	A. 1 FTE on call at the Council. (Supported by SAFS Intel/AFI/Management). B. 3 Reports to Audit Committee. C. SAFS Attendance at Corporate Governance, Champion meetings, team management meetings.	 A. 1 SAFS FTE in place for 2021/2022, supported by SAFS Mgt and Intel Services. B. Reports to AC in May & Dec 21 & March 22. C. SAFS works closely with 'Service Champions' across the Council and sits on the Council Corporate Government Group.
3	Action on reported fraud.	All urgent/ high risk cases 1 Day. B. All other cases 2 Days on Average.	A & B. All referrals responded to within 24 hours on average.
4	Added value of SAFS membership.	 A. Membership of NAFN & PNLD B. Membership of CIPFA Counter Fraud Centre C. NAFN Access/Training for relevant Council Staff D. 10 Training events for staff/Members in year. 	 A. NHC has membership of NAFN and PNLD licence via SAFS. B. SAFS is a member of CIPFA via HCC. C. Training has been provided to staff by SAFS and NAFN webinars. D. Only a small number of training events were delivered in 2021/22 for officers in Housing, Revenues Benefits and Finance. Some were team events other via Teams or offered as webinars.
5	Allegations of fraud received. & Success rates for cases investigated.	All reported fraud (referrals) will be logged and reported to the Council by type & source. B. All cases investigated will be recorded and the financial value, including loss/recovery/ savings of each, Reported.	A. All referrals are logged onto the SAFS CMS and details from this reported to NHC Officers. B. The outcomes of all cases are captured on the CMS and reported to Partners and Board.
6	Making better use of data to prevent/identify fraud.	A. Support the NFI 2020/21 Output and reports across services. B. Consider other areas where the better use of data will benefit the Council financially.	A. NFI Exercise complete with, a full review by the Council B. NHC has been making use of the Herts FraudHub in early 2022 and this has resulted in 9 cases being reported for investigation by SAFS.

2022/2023 Anti-Fraud Activity

42. The 2022/2023 Anti-Fraud Plan was approved by this Committee at its March 2022 meeting. This Plan covers all areas recommended by CIPFA and the *Fighting Fraud and Locally Strategy for the 2020s*. The Plan also includes assurance that

the council benefits from a positive return on its investment in the SAFS Partnership.

- **43.** Training has already been delivered to new and existing staff in Housing Services on fraud awareness and reporting. Training is planned for staff in legal, finance, housing, procurement through September and October on the Councils updated Anti-Money Laundering policy.
- **44.** SAFS is working with officers across the Council providing support and training in preparation for the 2022/2023 NFI exercise which will require that data is submitted Council to the Cabinet Office in October 2022.
- **45.** Between April and July 2022 a further 23 allegations of fraud have been reported to the Council/SAFS, 31 cases remain open with an estimated value of £104k, 13 cases have been closed and fraud losses/savings combined of £73k recorded. Three social housing properties have or are being recovered at present.
- **46.** A further report will be provided to Members on all activity being undertaken to prevent the Council suffering significant losses due to fraud in December 2022.

Transparency Code – Fraud Data

47. The Department for Communities and Local Government (DCLG) published a revised Transparency Code in February 2015, which specifies what open data local authorities must publish.

48. The Code also recommends that local authorities follow guidance provided in the following reports/documents:

The National Fraud Strategy: *Fighting Fraud Together* (https://www.gov.uk/government/publications/nfa-fighting-fraud-together)

CIPFA Red Book 2 – Managing the Risk of Fraud – Actions to Counter Fraud and Corruption

(http://www.cipfa.org//media/files/topics/fraud/cipfa_corporate_antifraud_briefing.pdf)

- **49.** The Code requires that Local Authorities publish the following data in relation to Fraud. The response for North Herts Council for 2021/2022 is in **Bold**:
 - Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.

Nil. (The Council is a Partner to the Hertfordshire Shared Anti-Fraud Service and makes use the National Anti-Fraud Network (NAFN) to conduct such enquiries on their behalf).

 Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud.

1.5 FTE

 Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists.

1.5 FTE

 Total amount spent by the authority on the investigation and prosecution of fraud.

£85,165 (SAFS fee)

Total number of fraud cases investigated.

27 Cases investigated and closed in year

- **50.** In addition, the Code recommends that local authorities publish the following (for the Council Fraud/Irregularity are recorded together and not separated):
 - Total number of cases of irregularity investigated-

See above -

Total number of occasions on which a) fraud and b) irregularity was identified.

23 Occasions where fraud/irregularity identified

• Total monetary value of a) the fraud and b) the irregularity that was detected.

Reactive - £119k fraud losses reported, £73k fraud prevented + £17,400 from NFI 2020/21.

• Total monetary value of a) the fraud and b) the irregularity that was recovered.

Not recorded separately

List of Background Papers - Local Government Act 1972, Section 100D

- **51.** (a) Councillors Workbook on Bribery & Fraud Prevention (LGA 2017)
 - (b) Fighting Fraud and Corruption Locally a Strategy for the 2020's (CIPFA/CIFAS/LGA)
 - (c) Tackling Fraud in the Public Sector (CIPFA 2020)
 - (d) Guide to Understanding the Total Impact of Fraud (International Public Sector Fraud Forum 2020)
 - (e) Fraud in Emergency Management and Recovery (International Public Sector Fraud Forum 2020)
 - (f) COVID-19 Counter Fraud Measures Toolkit (Cabinet Office 2020)
 - (g) Local Authority Covid-19 Business Support Grants Fact Sheet (Government Counter Fraud Function 2020)
 - (h) Fraud and Corruption Tracker 2020 (CIPFA)
 - (i) United Kingdom Anti-Corruption Strategy 2017-2022 (HMG 2017)
 - (j) Code of Practice Managing the Risk of Fraud and Corruption (CIPFA 2014)
 - (k) CALCULATING LOSSES FROM HOUSING TENANCY FRAUD (Tenancy Fraud Forum 2021)
 - (I) A Guide to the European Union AML/CFT Framework (ComplyAdvantage.com 2022)



North Hertfordshire District Council Anti-Fraud Plan 2021/22

in partnership with

The Shared Anti-Fraud Service





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Introduction

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

The Councils Policy states:

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

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

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

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

National Context.

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

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

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

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

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

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





PROTECTING ITSELF AND ITS RESIDENTS

Recognising the harm that fraud can cause in the community. Protecting itself and its' residents from fraud.

NHDC Anti-Fraud Plan 2021-2022

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

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

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

SAFS Resources 2021-2022

Anti-Fraud Arrangements

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

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

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

Budget

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

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

Staffing

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

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

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

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

Workplans & Projects 2021/2022

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

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

SAFS KPIs.

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

SAFS - Standards of Service.

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

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

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





Shared Internal Audit Service

Annual Report 2021/22

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Introduction

Welcome to the Shared Internal Audit Service (SIAS) Annual Report for 2021/22.

I recently enjoyed the festivities and celebrations of the Platinum Jubilee weekend, and while investing a little time on my wellbeing and some of the more joyous aspects of life, I was struck by the thought that SIAS was entering its second decade at the heart of internal audit in Hertfordshire. While a long way from emulating the Queen's longevity and achievements, SIAS has certainly experienced its fair share of successes and challenges.

Reading my introduction to last year's Annual Report, I was struck with an acute sense of déjà vu that my paragraphs on the Covid-19 pandemic could so easily be replicated, certainly in the early to mid-part of the year anyway. My wife was stranded abroad for six weeks as the Omicron variant struck, travel restrictions were hastily imposed, and eventually ended up enduring a stay in a quarantine hotel. My young son and I got a whole heap of quality time together! It was most certainly another year defined by the pandemic and our local government partners ongoing response to it, along with mounting challenges posed by multiple strategic migration crises.

In many ways though, we did get back some semblance of normalcy, as children returned to school, fans returned to sports venues, and shops and restaurants reopened. From an internal audit perspective, it meant continuing to improve on remote auditing and evolving flexible and hybrid working practices, managing a team that was often not meeting face to face and maintaining sound relationships with our partners and their teams from afar. I still did not get to enjoy the inperson company and camaraderie of the team and other colleagues as much as I had hoped but look forward to this in the coming year.

Professionally, we opened ourselves up to scrutiny as part of our five yearly external quality assessment in terms of the Public Sector Internal Audit Standards (PSIAS). We not only sort the required opinion on our conformance with the PSIAS but bravely grasped the opportunity to have a 'proper look under the hood' of our service. It is not often that the auditors are thoroughly audited, but I am extremely proud of the team that the assessors concluded that we "are a well-regarded internal audit partnership, delivering professional and quality services to its partner organisations". We developed a comprehensive action plan to address issues identified and have made significant progress in implementing and embedding recommendations that will ensure that we are suitably equipped to meet the challenges of the future.

SIAS also said a sad farewell to team members departing during the year, some as part of an organisational change process, and others to well-earned retirement, or career opportunities elsewhere. All are thanked for their achievements and contribution to the service and will be greatly missed. Departures offer the opportunity for new beginnings, and we welcomed two new trainee auditors, who have settled wonderfully well into the service. Congratulations are also extended to team members for their deserved promotions.

For further highlights and reflections, I invite you to delve into the Annual Report itself. As ever, I enjoy the engagement, dialogue and feedback the report fosters.

Chris Wood - Head of Assurance

June 2022



Levels of delivery

2021/22 presented a number of challenges to SIAS in relation to delivering audit plans, with our Partners continuing to progress their response and recovery activities in relation to COVID-19, the emergence of new external pressures arising from political conflict and the EU Transition and the Service undertaking an organisational change process to adapt to the changing commissions from our Partners.

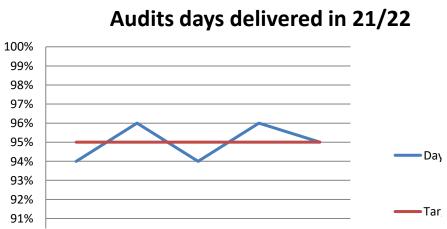
Despite such challenges, SIAS managed to meet the 95% target for delivering days commissioned by clients, with a final outturn of 95%. Whilst our delivery of audit reviews to draft report stage by the close of the year fell 1% short of the target of 95%, we believe the end of year outcomes pay testament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

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

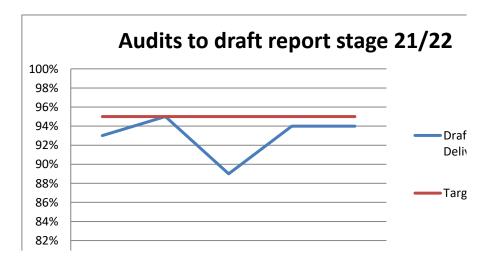
Audits days delivered in 21/22 100% 99% 98% 97% 96% 95% Day 94% 93% 92% Tar

Figure 1: Percentage of audits days delivered





Despite the challenges of 2021/22, we delivered our billable days target and achieved within 1% of our 95% project target...



Shared learning - the power of partnership

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

We continued to use our networks with bodies such as the Chartered Institute of Internal Auditors (CIIA) Local Authority Chief Auditors Network (LACAN) and Home Counties Chief Internal Auditors Group (HCCIAG) to ensure that we remained in touch with the challenges facing the audit profession and those being faced by the organisations that they provide assurance to. This ensured that we could build robust audit plans for 2022/23 and share emerging risks and opportunities.

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

We also scoped for a future SIAS joint audit (covering all Partners) on Environmental Enforcement, which has been approved by the SIAS Board. This is seen as an opportunity for all Partners to benchmark their approach to the balance between preventative, educational and enforcement activities and how these have supported the achievement of strategic aims.

During 2021/22, our staff, partners and Audit Committee members have continued to support our cycle of continuous development with helpful challenges and comments, these being particularly critical in a time that presents an opportunity to re-look at all aspects of the delivery of the Service post pandemic.



Managing the challenges of auditing in a changing environment

We worked with Partners to ensure our audit work during the year considered the impact of the pandemic on key objectives, and internal control and governance frameworks.

As we entered 2021/22, the Covid-19 pandemic brought opportunities for our Partners (and indeed SIAS) to review their working arrangements, with many adopting a hybrid working approach. The above required changes in the way we conducted audits, with consideration given to the use of data analysis, process mapping and continuous assurance activities to support our more traditional systems and compliance-based audits.

In respect of our audit plans, we worked with our partners to ensure our audit work during the year considered the impact of the pandemic on key objectives, and internal control and governance frameworks. We also provided assurance to several of our partners on the appropriate use of grant funding that they received in relation to COVID-19 response and recovery activities, providing the required certifications for key returns.

In relation to audit delivery, we continued to embrace the use of mobile technology to adapt to hybrid working, both within SIAS and across our Partners.

Whilst 2021/22 proved to be a challenging year, we achieved our key goal of completing a programme of work for all our partners to support an annual opinion

Shared Internal Audit Service Annual Report 2021/22

on the robustness of internal control arrangements. This is a fantastic achievement for the Service, given that some other Local Authority Internal Audit Services continued to have difficulties in delivering their full work programmes during 2021/22.

Developing our people and processes

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

During 2021/22, our required Public Sector Internal Audit Standards (PSIAS) External Quality Assessment was undertaken. As part of this, we took the opportunity to ask the assessors to go beyond the required remit of compliance with the PSIAS and seek to suggest other opportunities and good practice that would assist Service Development. The assessors duly provided several useful areas for consideration and many we have taken forward within our action plan in response to the assessment. We have also ensured that any specific recommendations to support conformance with requirements of the PSIAS have been completed, allowing us to self-assess as "generally conforms", the highest rating under the PSIAS.

At the core of our service are our team members, and we continue to develop a core learning and coaching offering for all members of staff, with this being rolled out during 2022/23.

At the core of our service are our team members, and we continue to develop a core learning and coaching offering for all members of staff, with this being rolled out during 2022/23. We have also continued to support staff in their personal development, whether this is through the sponsoring of professional training, enrolment on apprenticeships or in one case a secondment.

Despite the challenges of holding a recruitment drive during the pandemic, we were pleased to appoint two new trainees to the team and provide internal promotions to three of our internal staff members. Following the completion of an organisational change process during 2021/22, we are fully committed to a 'grow your own strategy', seeking to develop our staff to allow them to progress within the team and the audit profession.

We continue to review how we obtain and disseminate learning from our quality review processes is used to support the development of our staff, seeking feedback from team members to support this process.

A continued hot topic for the audit profession is data analytics, with organisations seeing increasing digitalisation of their operations. We have trialled data analytics within several of our audits during 2021/22, and this has provided us with the opportunity to undertake whole population testing and provide improved assurance on the management of risk and controls.



First class customer service

To monitor our effectiveness and improve our service, at the end of each assignment we request the completion of a short satisfaction survey. We have been given and have acted upon invaluable improvement ideas, and we are proud of the fact that in 2021/22 we have received 95% satisfactory or higher feedback rating from our customers.

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

- "The service was very thorough and good. The auditor was friendly and competent and understanding of wanting to not take up too much of the teams time, whilst ensuring she had all she needed to complete the audit."
- "Good, focused audit, that took a strategic view."
- "Excellent service, audit was very well planned and very constructive."
- "I am happy as ever with the service from SIAS they are helpful and approachable and carry out a professional service."
- "Auditor was very approachable and was willing to work within timescales that worked for our service. Recommendations have been noted and will strive to implement them as best possible and as soon as practical."
- "The auditor managed to get to grips with everything really quickly regarding Modernisation Programme governance and processes. He was professional, patient and explained what he needed clearly. I found him easy to work with, he would ask open questions and would listen to responses. In return he helped me understand and see what it is we need to improve, with respectful debates where we may not have fully agreed."
- "Working with SIAS has once again been a very useful exercise as it helped the team to tighten up on processes and provided a lessons-learnt exercise to improve further."
- "The audit was undertaken in a professional manner and time taken to understand the processes and issues. This has resulted in useful recommendations for future developments."
- "Under the circumstances and due to covid restrictions the audit was carried
 out virtually. Although collating the information initially took additional office
 time, the whole process was managed effectively, and we were extremely
 happy with the process and outcome."

"the Auditor....was professional, patient and explained what he needed clearly. I found him easy to work with, he would ask open questions and would listen to responses. In return he helped me understand and see what it is we need to improve, with respectful debates where we may not have fully agreed"



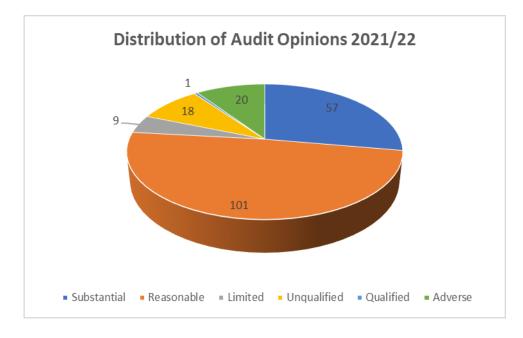
Performance - outcomes

SIAS completed 248 assurance and other projects to draft or final report stage, giving the assurance opinions and recommendations detailed in the charts below.

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

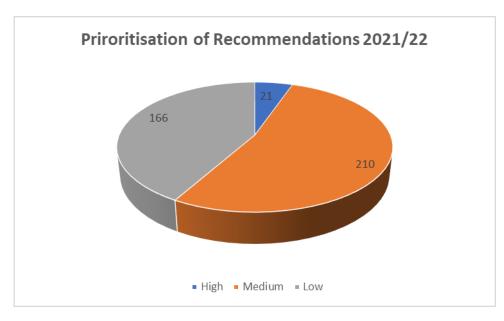
Figure 3: Distribution of Audit Opinions 2021/22

248 assurance and other projects identifying 397 recommendations



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

Figure 4: Prioritisation of Recommendations 2021/22



Performance indicators

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

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

Table 1: SIAS Business Performance

Indicator	Target	Actual as at 31 March 2021	Actual as at 31 March 2022
Progress against plan: actual days delivered as a percentage of planned days.	95%	96%	95%
Progress against plan: audits issued in draft by 31 March	95%	94%	94%
Client satisfaction	100% client satisfaction questionnaires returned at 'satisfactory overall' level or above	95%	95%

Financial performance of SIAS

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

Appendix A sets out the summary financial position at 31 March 2022. Prudent financial management has allowed the service to build a reasonable reserve over the last few years, with the intention of smoothing the impact of any unforeseen events on trading performance in future years or investing in projects that support the delivery, growth or development of the service.

The costs of the SIAS organisational change during the year were absorbed by the trading reserve.

Future developments



embed new ways of working... ensuring that we work with other audit teams to share and develop best practice...

From a training, development and professional practice perspective, we will continue to support those members of our service that are striving to attain professional qualifications. For all staff, we are also rolling out a more comprehensive learning and development offering, this focused on a team-based training programme for the 2022/23 financial year to compliment individual training and development plans. The plan will be created based on feedback from the Team, our knowledge of new and emerging risks and the outcomes of our quality assessment reviews on completed audits. The above will also ensure that as a team we continue to network regularly following our move to hybrid working.

During 2022/23, we will be undertaking the re-procurement of our External Partner contract, currently held by BDO. This is a key undertaking for the Service as it is a critical part of ensuring that we have access to additional specialist skills and resilience to deliver our Partner audit plans.

We are also progressing the re-procurement of our existing Audit Management Software, where the current support for the existing in-house system ends in 2023.

From a workforce perspective, we are continuing to progress recruitment activities to fill existing vacant positions, in what is an exceptionally challenging recruitment market.

Finally, during 2022/23 we will continue to work with our colleagues across audit networks to support the development of our knowledge and approach to making the most effective use of data analytics within our assurance activities.

Our board members

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

In 2021/22, our Board members were as follows:

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

SIAS cost centre: budget against outturn 2021/22

	<u>Budget</u> <u>£</u>	Outturn <u>£</u>
Employee Costs	995,822	904,071
Organisational Change Costs	-	149,523
Partner / Consultancy Costs	101,040	186,510
Transport (Travel)	3,000	754
Supplies	24,183	14,683
Office Accommodation Cost	17,005	17,005
Total expenditure	1,141,071	1,272,546
Income	1,121,411	-1,132,095
Net (surplus) / deficit	19,639	140,451

2021/22 Definitions of Assurance and Recommendation Priority Levels

Assı	ırance Level	Definition
Subs	stantial	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reas	sonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limit	ted	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No		Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.
Prior	rity Level	Definition
Corporate	Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate control required immediately.	
High		Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
Service	Medium	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
Low / Advisor		Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.

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Agenda Item 9



INTERNAL AUDIT PROGRESS REPORT

NORTH HERTS COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE 7 SEPTEMBER 2022

RECOMMENDATIONS

- Note the SIAS Progress Report for the period to 20 August 2022
- Note the plan amendments to the 2022/23 Annual Internal Audit Plan

Contents

- 1 Introduction and Background
 - 1.1 Purpose
 - 1.2 Background
- 2 Internal Audit Plan Update
 - 2.1 Delivery of Internal Audit Plan and Key Findings
 - 2.6 High Priority Recommendations
 - 2.8 Proposed Amendments
 - 2.9 Performance Management

Appendices

A Progress against the 2022/23 Internal Audit Plan

- B 2022/23 Internal Audit Plan Start Dates Agreed with Management
- C Assurance and Finding Definitions 2022/23

1. Introduction and Background

Purpose of Report

- 1.1 This report details:
 - a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Internal Audit Plan for 2022/23 as at 20 August 2022.
 - b) In-Year Audit Plan review and proposed Plan amendments.
 - c) An update on performance indicators as at 20 August 2022.

Background

- 1.2 The 2022/23 Internal Audit Plan was approved by the Finance, Audit and Risk Committee (the FAR Committee) on 16 March 2022.
- 1.3 The Committee receives periodic updates of progress against the Annual Internal Audit Plan. This is the second report giving an update on the delivery of the 2022/23 Internal Audit Plan.
- 1.4 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

2. Audit Plan Update

<u>Delivery of Internal Audit Plan and Key Audit Findings</u>

- 2.1 As at 20 August 2022, 15% of the 2022/23 Internal Audit Plan days had been delivered.
- 2.2 There have been three final audit reports issued since the June 2022 Audit Committee. Two were carry forward audits from the 2021/22 Internal Audit Plan and one is a 2022/23 internal audit:

Audit Title	Assurance Opinion	Recommendations
Grants Administration (2021/22)	Reasonable	None – two advisory actions
Shaping our Future (2021/22)	N/A - Consultancy	Two medium and one low priority

Handling Difficult Customers Policy	Substantial	None

2.3 The status of the remaining 2021/22 audit carried forward for completion as part of the 2022/23 Internal Audit Plan is as follows:

Audit Title	Status
Health and Safety of Lone Workers - EH and Housing	Draft Report Issued. Awaiting management responses.
Future Ways of Working	In Planning – Request from Council Officers for audit to be started in September 2022. Auditor resource allocated for commencement on 26 September 2022.

- 2.4 SIAS will deliver all audits prioritised as 'High' in the 2022/23 Internal Audit Plan and will deliver at least eight projects prioritised as 'Medium'. In addition, all IT audits will be completed. The outcomes of these projects will support the Chief Audit Executive in forming their overall opinion.
- 2.5 The medium priority projects that will be undertaken (see Appendix B) were approved by the FAR Committee in the meeting prior to the quarter commencing, i.e., Q1 and Q2 were approved in March 2022, with the June FAR Committee approving four further audits for completion in Q3 and Q4.

High Priority Recommendations

- 2.6 Members will be aware that a Final Audit Report is issued when it has been agreed by management; this includes an agreement to implement the recommendations that have been made. It is SIAS's responsibility to bring to Members' attention the implementation status of high priority recommendations; it is the responsibility of officers to implement the recommendations by the agreed date.
- 2.7 There are no outstanding high priority recommendations, although Members will be aware that three new high priority recommendations were made in the 'Resilience in the Revenues and Benefits Systems and Technical Team' audit report issued in April 2022. These have implementation dates in March 2023.

Proposed Amendments

2.8 The following Plan amendments, involving a reallocation of billable days within the Plan, have been agreed with management within this reporting period:

Audit	Previous Billable Days	Revised Billable Days
Future Ways of Working	15	9
Compliance Contract	8	11
Leisure Services	8	11
COMF Response (one day reallocated from Miscellaneous Grants)	0	1
Test and Trace Payment Support (two days reallocated from Miscellaneous Grants)	0	2
Miscellaneous Grants	3	0

Performance Management: Reporting of Audit Plan Delivery Progress

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

Status	No of Audits at this Stage	% of Total Audits	Profile to 20 August 2022
Draft / Final Report Issued	4	15%	(4/27)
In Fieldwork / Quality Review	3	11%	(3/27)
Terms of Reference Issued / In Planning	9	33%	(9/27)
Not Yet Started	11	41%	(11/27)

2.10 Annual performance indicators and associated targets were approved by the SIAS Board in March 2022. As at 20 August 2022, actual performance for North Herts Council against the targets that can be monitored in year is shown in the table below:

Performance Indicator	Annual Target	Profiled Target to 20 August 2022	Actual to 20 August 2022
1. Annual Internal Audit Plan Delivery – the percentage of the Annual Internal Audit Plan delivered (excludes contingency)	95%	23% (60 / 261 days)	16% (41 / 261 days)
2. Project Delivery – the number of projects delivered to draft report stage against projects in the approved Annual Internal Audit Plan	95%	22% (6 / 27 projects)	15% (4 / 27 projects)
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	50% for those returned (2 returned from 7 issued)

- 2.11 In respect of delivery of Planned Days, performance is slightly behind the profiled target as it was anticipated that:
 - a) Fieldwork would have been able to commence on the Future Ways of Working audit carried forward from 2021/22. This is now scheduled for commencement in week commencing 26 September 2022.
 - b) Fieldwork would have been able to commence on the Compliance Contract Audit. This is now scheduled for commencement in week commencing 29 August 2022.
 - c) Fieldwork would be further advanced, or completed, on the Careline Operations audit.
- 2.12 In terms of delivery of Planned Projects, it was further anticipated at the start of the quarter that at least two of the three audits listed at paragraph 2.11 would be at draft report stage.
- 2.13 The client satisfaction survey returned since the June Audit Committee, scored in the highest 'very good / excellent' overall category.
- 2.14 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2022/23 Chief Audit Executive's Annual Report:
 - 4. Internal Audit Annual Plan Report approved by the March Audit Committee or the first meeting of the financial year should a March committee not meet.
 - 5. Chief Audit Executive's Annual Assurance Opinion and Report presented at the first Audit Committee meeting of the financial year.

<u>APPENDIX A – PROGRESS AGAINST THE 2022/23 INTERNAL AUDIT PLAN AS AT 20 AUGUST 2022</u>

2022/23 SIAS Internal Audit Plan

AUDITABLE AREA	LEVEL OF	RECOMMENDATIONS			IONS	AUDIT PLAN	LEAD AUDITOR	BILLABLE DAYS	STATUS /
	ASSURANCE	С	Н	M	L	DAYS	ASSIGNED	COMPLETED	COMMENTS
High Priority Audits (81 days	ligh Priority Audits (81 days)								
Climate Emergency						12	NYA		
Waste Contract						6	SIAS	1.5	In Fieldwork
Careline Operations						12	BDO	4	In Fieldwork
Procurement						12	NYA		
Risk and Performance Management						12	NYA		
Business Continuity Planning						15	BDO	0.5	In Planning
Centros Financial System						12	NYA		
Medium Priority Audits (72 d	ays) – 8 audits n	omina	ted to	date;	minim	um 8 to b	e delivered		
Handling Difficult Customers Pelicy	Substantial	0	0	0	0	10	SIAS	10	Final Report Issued
mpliance Contract						11	BDO	1	ToR Issued
Revenues Discounts and Exemptions						8	NYA	0.5	In Planning
Leisure Services						11	BDO	0.5	In Planning
Project Management						8	NYA		
Temporary Accommodation						8	NYA		
Safeguarding						8	NYA		
Parking Strategy						8	NYA		
IT Audits (35 days)									
Cyber Risk						12	BDO	0.5	In Planning
Phishing						12	BDO	1	ToR Issued

<u>APPENDIX A – PROGRESS AGAINST THE 2022/23 INTERNAL AUDIT PLAN AS AT 20 AUGUST 2022</u>

AUDITABLE AREA	LEVEL OF	RECOMMENDATIONS			IONS	AUDIT PLAN	LEAD AUDITOR	BILLABLE DAYS	STATUS /
	ASSURANCE	С	Н	M	L	DAYS	ASSIGNED	COMPLETED	COMMENTS
IT Hardware						11	BDO	0.5	In Planning
Consultancy and Advisory (1	5 days)								
Strategic Planning (Local Plan)						8	NYA		
MSU Impact of Ways of Working						7	BDO	0.5	In Planning
Shared Learning and Joint R	eviews (4 days)					•			
Shared Learning						2	SIAS	1	Ongoing through year
Jaunt Reviews						2	BDO	1	In Fieldwork
G ant Claims / Charity Certifi	cation (5 days)								
Manager of the Haying Fields						1	SIAS		
₩orkman's Hall						1	SIAS		
MF Response	Unqualified	0	0	0	0	1	SIAS	1	Final Report Issued
Test and Trace Payment Support	Unqualified	0	0	0	0	2	SIAS	2	Final Report Issued
Miscellaneous Grants						0	SIAS	0	Allocated to specific grants
Contingency (9 days)					•				
Contingency						9			
Client Management - Strategic Support (38 days)									
CAE Internal Audit Opinion 2021/22						3	SIAS	3	Complete
Audit Committee						6	SIAS	2	Through Year
Client Meetings						8	SIAS	2.5	Through Year
Progress Monitoring						8	SIAS	2.5	Through Year

<u>APPENDIX A – PROGRESS AGAINST THE 2022/23 INTERNAL AUDIT PLAN AS AT 20 AUGUST 2022</u>

AUDITABLE AREA	LEVEL OF	RECOMMENDATIONS				AUDIT PLAN	LEAD AUDITOR	BILLABLE DAYS	STATUS /
	ASSURANCE	С	Н	M	L	DAYS	ASSIGNED	COMPLETED	COMMENTS
SIAS Development						5	SIAS	2	Through Year
2023/24 Audit Planning						8	SIAS		Through Year
2021/22 Carry Forward - (11 o	days)								
Completion of outstanding 2021/22 projects						2		2	Complete
Future Ways of Working						9	BDO	2	In Planning
Grants Administration	Reasonable	0	0	0	0				Final Report Issued
Shaping our Future	N/A - Consultancy	0	0	2	1				Final Report Issued
Financial Resilience of Suppliers Follow-up	Substantial	0	0	0	0				Final Report Issued
kd / RC Tax Guidance	N/A - Consultancy	0	0	0	0				Final Report Issued
Nen-UK Purchases	Substantial	0	0	0	0				Final Report Issued
Resilience in the Revenues and Benefits Systems and Technical Team	Limited	0	3	0	0				Final Report Issued
Community Capital Grants Applications	Reasonable	0	0	1	1				Final Report Issued
Integra Automation	N/A - Consultancy	0	0	0	0				Final Report Issued
Health and Safety of Lone Workers - EH and Housing									Draft Report Issued
Total - North Herts D.C.		0	3	3	2	270		41	

Key / Notes

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

APPENDIX A - PROGRESS AGAINST THE 2022/23 INTERNAL AUDIT PLAN AS AT 20 AUGUST 2022

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

BDO = SIAS Audit Partner

N/a = Not Applicable

Audit Plan Days are a guide only and are not formally allocated. This is as per the approved 2022/23 Internal Audit Plan.

<u>APPENDIX B – 2022/23 INTERNAL AUDIT PLAN START DATES AGREED WITH MANAGEMENT</u>

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	Careline Operations (In Fieldwork)	Waste Contract (In Fieldwork)	Climate Emergency	Procurement
Ξ		Business Continuity Planning (In Planning)	Risk and Performance Management	Cosmos Financial System
	A minimum of 8 medium priority au	dits from the following (please see para	agraphs 2.4 and 2.5):	
	Safeguarding*	Community Lottery	Prudential Code Compliance	Apprenticeship Levy
	Annual Governance Statement	Green Space Strategy	Licensing Enforcement	Project Management*
×	Compliance Contract (ToR Issued; Fieldwork scheduled to commence in w/c 29 August 2022)	Leisure Services (In Planning)	Temporary Accommodation*	Payroll – Contract Management
	Handling Difficult Customers Policy (Final Report Issued)	Revenues Discounts / Exemptions (In Planning)	Covid-19 Recovery	HTH Museum and Operations
			Parking Strategy*	
Н		Phishing (ToR Issued)	Cyber Risk (In Planning)	IT Hardware (In Planning)
S		Impact of Ways of Working for MSU (In Planning: Fieldwork scheduled to commence in w/c 26 September 2022)	Strategic Planning (Local Plan)	
2/9		COMF Response (Final Report Issued)		King George V Playing Fields
Ö		Test and Trace Payment Support (Final Report Issued)		Workman's Hall

APPENDIX B - 2022/23 INTERNAL AUDIT PLAN START DATES AGREED WITH MANAGEMENT

0	2021/22 Carry Forward – Future Ways of Working (In Planning: Fieldwork scheduled to commence in w/c 26 September 2022)		
0	2021/22 Carry Forward – Health and Safety of Lone Workers - EH and Housing (Draft Report Issued)		

Key:

H – High Priority: 100% of audits will be delivered

M – Medium Priority: Eight of these audits will be delivered, FAR Committee to approve which audits will be delivered from this list.

IT - IT Audits: 100% of IT audits will be delivered

C – Consultancy: Assignments will be delivered as part of the audit plan

G/C – Grant or charity certification to be completed as part of the audit plan

O - Other

* - Approved at June FAR Committee

Those highlighted in light blue have not been approved for delivery.

APPENDIX C – ASSURANCE AND FINDINGS DEFINITIONS 2022/23

	Audit Opinions						
	Assurance Level	Definition					
	Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.					
pinions	Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.					
0	Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.					
Assurance	No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.					
ä	Not Assessed	This opinion is used in relation to consultancy or embedded assurance activities, where the nature of the work is to provide support and advice to management and is not of a sufficient depth to provide an opinion on the adequacy of governance or internal control arrangements. Recommendations will however be made where required to support system or process improvements.					
uo	Unqualified	No material matters have been identified in relation the eligibility, accounting and expenditure associated with the funding received that would cause SIAS to believe that the related funding conditions have not been met.					
ertification	Qualified	Except for the matters identified within the audit report, the eligibility, accounting and expenditure associated with the funding received meets the requirements of the funding conditions.					
Grant Cel	Disclaimer Opinion	Based on the limitations indicated within the report, SIAS are unable to provide an opinion in relation to the Council's compliance with the eligibility, accounting and expenditure requirements contained within the funding conditions.					
Ş	Adverse Opinion	Based on the significance of the matters included within the report, the Council have not complied with the funding conditions associated with the funding received.					

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

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CABINET 13 SEPTEMBER 2022

*PART 1 - PUBLIC DOCUMENT

TITLE OF REPORT: COUNCIL TAX REDUCTION SCHEME 2023/2024

REPORT OF: SERVICE DIRECTOR CUSTOMERS

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: PEOPLE FIRST

1. EXECUTIVE SUMMARY

- 1.1 Each year the Council is required to review its Council Tax Reduction Scheme in accordance with the requirements of the schedule 1A of the Local Government Finance Act 1992 and to either maintain the scheme or replace it.
- 1.2 The purpose of this report is to provide an update on the progress that has been made so far on the full review of the Council Tax Reduction Scheme. The review is one of the Councils key projects for 2022/23 included in the Council Delivery Plan.

2. RECOMMENDATIONS

- 2.1 That the Committee note that a full review of the Council Tax Reduction Scheme is well underway and that consultation with the public and Major Precepting Authorities will run for six weeks from 05 September 2022.
- 2.2 That the Committee note the progress made so far on the review and the intention is to introduce a new banded scheme for working age applicants from 01 April 2023.
- 2.3 That the Committee note the intention of the review is to introduce a new scheme that will enable us to increase the overall level of support for the lowest income families and to reduce the administrative burden placed on the Council following the introduction of Universal Credit whilst also making the scheme easier for our customers to understand and calculate entitlement.
- 2.4 That the committee note that modelling the new scheme may increase the costs from those of the current scheme, any increase will be split between the Council and its Major Precepting Authorities. The Councils share will be 12.5%.

3. REASONS FOR RECOMMENDATIONS

- 3.1. To ensure that the Council has a fit for purpose Council Tax Reduction Scheme that:
 - Provides the greatest support to the lowest income households
 - Reduces the administrative burden that has been placed on the Council since the introduction of Universal Credit (UC)
 - Is simple to understand, meaning that customers will be able to calculate entitlement and assess the impact of potential changes in circumstances.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1. Consideration has been given to a range of alternatives, listed below:
 - a) Retain the current scheme as-is with no change in levels of support
 - b) Retain the current scheme with increased levels of financial support
 - c) To introduce 'fixed periods' or 'tolerances' to the current scheme
 - d) To implement a simplified discount-based scheme for UC claimants only
 - e) To implement a simplified discount-based scheme for all working age claimants

Options (a) to (d) have been discounted as they would not address all the issues with the current scheme.

Option (e) addresses all the issues and is the option that has been progressed for further data modelling.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 The Executive Member and Deputy Executive Member for Finance and IT have been consulted and are in support of the proposed changes to the scheme.
- The public consultation is scheduled to run for six weeks from 05 September 2022 until 16 October 2022 and will be promoted via our website, social media channels and in the local press. We will promote the consultation on all emails sent from customer services and will promote via partners such as the Citizens Advice Bureau and settle and will notify Parish clerks of the consultation. Additionally, we will promote the consultation to residents subscribed to text alerts and through our NHC email bulletins.
- 5.3 A full consultation is being undertaken in line with the statutory requirement with:
 - The County Council (including Fire & Rescue)
 - The Hertfordshire Police and Crime Commissioner
 - The public

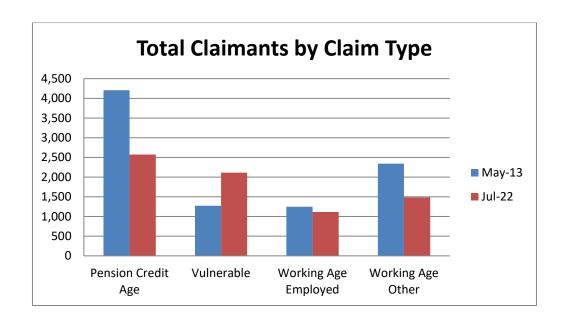
6. FORWARD PLAN

6.1 Whilst this report is not seeking a recommendation on a key decision, a further report will be presented to Cabinet once the results from the consultation have been analysed, which will seek a recommendation on a key decision. Therefore, this report was first notified to the public in the Forward Plan on the 29th July 2022.

7. BACKGROUND

- 7.1 Council Tax Reduction (CTR) was introduced by Central Government in April 2013 as a replacement for the Council Tax Benefit scheme administered on behalf of the Department for Work and Pensions (DWP)

 As part of the introduction, the Government;
 - Placed the duty to create a local scheme for Working Age applicants with billing authorities.
 - Reduced initial funding by the equivalent of ten per cent from the levels paid through benefit subsidy to authorities under the previous Council Tax Benefit scheme; and
 - Prescribed that persons of **Pension age** would be dealt with under regulations set by Central Government and not the authorities' local scheme.
- 7.2 Since that time, funding for the Council Tax Reduction scheme has been amalgamated into other Central Government grants paid to Local Authorities and also within the Business Rates Retention regime. It is now generally accepted that it is not possible to identify the amount of funding actually provided from Central Government sources.
- 7.3 The current Council Tax Reduction scheme administered by the Council is divided into two schemes, with pension age applicants receiving support under the rules prescribed by Central Government, and the scheme for working age applicants being determined solely by the local authority.
- 7.4 Pensioners, subject to their income, can receive up to 100 per cent support towards their council tax. The Council has no power to change the level of support provided to pensioners and therefore any changes to the level of CTR can only be made to the working age scheme
- 7.5 When Council Tax Reduction was introduced in 2013, for working age applicants, the Council broadly adopted the previous means tested Council Tax Benefit scheme as the basis of awarding support. Due to the reduction in funding from Central Government, the Council also required all working age applicants, even those on the lowest income, to pay an amount towards their Council Tax. This was achieved by applying a standard deduction from any award granted (with certain protected groups where the household would be considered disabled). The standard deduction is currently up to 25%.
- 7.6 Since its introduction, the working age scheme has only been amended slightly, primarily to adjust the standard deduction, to introduce a tolerance and to aligning it with Housing Benefit and Universal Credit where possible.
- 7.7 The chart below shows how the claimant numbers are made up.



8. RELEVANT CONSIDERATIONS

- 8.1 There are several issues with the current scheme that need addressing if the system is to continue to provide effective support to low-income taxpayers and also if the Council is able to provide the service in an efficient manner. The main issues are as follows:
 - The need to assist low-income households and assist in the collection of Council Tax
 - The introduction of Universal Credit for working age applicants; and
 - The need for a simplification of the scheme.

These issues are examined in more detail throughout this section of the report.

8.2 The need to assist low-income households and assist in the collection of Council Tax

- 8.2.1 Since 2013 and the introduction of Council Tax Reduction, the majority of authorities, including the Council have required all working age applicants to pay a minimum payment. Under the previous scheme (Council Tax Benefit) almost 75% of working age applicants would not have been required to pay any Council Tax and would have received full (100%) support.
- 8.2.2 As with many authorities, there is a strong view that there should be an increase in the level of support to those households on the lowest of incomes. This view has gained momentum over the past few years but has been reinforced since the COVID-19 crisis which has had a major effect on incomes generally and more recently with the cost-of-living crisis.
- 8.2.3 Whilst the principle of all working age households paying 'something' was initially thought to be an approach that would be central to the design of Council Tax Reduction, the reality is that, since its introduction, low-income taxpayers, the poorest households, have been unable to pay the balance leading to additional costs, court, and enforcement action and, in some cases, the amounts demanded have been written off as uncollectable.

8.2.4 The costs of administration of these cases by the Council has increased significantly over the years. These costs are borne solely by the Council. With the difficulties experienced, the relatively low level of payment and the high administration costs incurred, it no longer makes the amounts economically viable to collect. Notwithstanding the negative effects to those poorest households. The proposed scheme would address these issues by an increase in entitlement to 100% for those on the lowest income.

8.3 Council Tax Reduction and the roll out of Universal Credit

- 8.3.1 The introduction of Universal Credit within the area has, as experienced in all other areas, brought a number of significant challenges to both the administration of Council Tax Reduction and also the collection of Council Tax generally. All Councils have experienced the following:
 - The reluctance of Universal Credit claimants to make a prompt claim for Council Tax Reduction leading to a loss in entitlement.
 - A high number of changes to Universal Credit cases are received from the DWP requiring a change to Council Tax Reduction entitlement. On average 40% of Universal Credit claimants have between eight and twelve changes in entitlement per annum. These changes result in amendments to Council Tax liability, the recalculation of instalments, delays, and the demonstrable loss in collection.
 - The increased costs of administration through multiple changes with significant additional staff and staff time being needed. It is estimated that on average the Council receives around 39,000 notifications per year of change from the DWP for claimants on UC, that is a significant administrative burden that is likely to increase.
- 8.3.2 The number of Universal Credit claimants at present who are within the CTR scheme is 2884 which represents 60% of the working age caseload. The number of UC claimants will increase year on year and the majority of work within the working age cohort will revolve around these cases.
- 8.3.3 It is clear that the existing means tested Council Tax Reduction scheme, which is too reactive to change, will not be viable in the longer term as Universal Credit continues to be rolled out fully within the area and with the massive increase in Universal Credit claimants due to the COVID-19 crisis. The move to a more efficient scheme from 2023 is now imperative

8.4 The need for a simplified approach to the Council Tax Reduction Scheme

- 8.4.1 Notwithstanding the introduction of Universal Credit, the existing scheme is based on an 'old fashioned;' means tested benefit scheme. It now has major defects namely:
 - It is complex for customers to understand and is based on a complex calculation of entitlement.
 - Customers are not easily able to calculate their entitlement
 - The administration for staff is complex, with staff having to request significant amounts of information from applicants.

- Staff have to undergo significant training to be proficient in processing claims.
- The timescales for processing applications are lengthy, mainly due to the complexity and evidence required to support the applications.
- The administration of the scheme is costly when compared to other discounts for Council Tax.
- 8.4.2 Clearly there is a need now to simplify the scheme, not only to mitigate the effects of Universal Credit, but also make it easier for customers to make a claim and to significantly reduce the costs of administration. Our customer service strategy commits to making it easier for customers to access our services and a simplified scheme would support that objective.

8.5 The proposed approach for the 2023/24 Council Tax Reduction Scheme

- 8.5.1 With the simplicity of the proposed new scheme and by taking a more 'Council Tax discount approach', it will address the problems associated with the increased administration of the current scheme as follows:
 - The scheme will require a simplified claiming process. All applicants will see a significant reduction in the claiming process and, where possible, Council Tax Reduction will be awarded automatically. In line with our People First priority the scheme will be easier for our customers to understand and available for them to access and calculate their entitlement at any time.
 - For Universal Credit applicants any Universal Credit data received from the Department for Work and Pensions (DWP) will be treated as a claim for Council Tax Reduction. Where information is received from DWP, the entitlement to Council Tax Reduction will be processed automatically without the need to request further information from the taxpayer. These changes will have the following distinct advantages namely:
 - Speed of processing all claims will be able to be calculated promptly and largely automatically without the need to request further information which inevitably leads to delays.
 - Maximising entitlement to every applicant. As there will no requirement for Universal Credit applicants to apply separately for Council Tax Reduction, and for all other applicants, the claiming process will be simplified significantly. Entitlement to Council Tax Reduction will be maximised with a reduced risk of loss of discount or the need for backdating.
 - Maintenance of collection rates the new scheme will avoid constant changes in discount, the need for multiple changes in instalments and therefore assist in maintaining the high collection rates currently achieved. The increased level of discount will assist all those applicants on the lowest levels of income, again improving the overall collection rate.

- 8.5.2 In view of the issues with the current scheme, it is proposed that an alternative approach be taken from 2023/24. The approach has been to fundamentally redesign the scheme to address all the issues with the current scheme and in particular;
 - (a) The level of support available to the lowest income households:
 - (b) The problems with the introduction of full-service Universal Credit; and
 - (c) The significant increase in administration costs due to the high level of changes received in respect of Universal Credit.
- 8.5.3 Work has been ongoing since early this year on modelling and developing a new scheme which is now almost complete. Consultation will run for six weeks from 05 September 2022 with the public and the major precepting authorities. If accepted by the Council, the new scheme will take effect from 1st April 2023.
- 8.5.4 The proposed new scheme has a number of features as follows:
 - More support shall be given to those households on the lowest of incomes than in the current scheme.
 - The changes can **only be made to the working age schemes** as the current schemes for pensioners is prescribed by Central Government.
 - The current means tested schemes will be replaced by a simple income grid model that will be accessible on our website, as shown below:

Band	Discount	Single Person	Single Person with one child	Single Person with two children	Single Person with three or more children	Couple with no children	Couple with one child	Couple with two children	Couple with three or more children
1	100%	£0 to £100.00	£0 to £165.00	£0 to £220.00	£0 to £330.00	£0 to £140.00	£0 to £205.00	£0 to £260.00	£0 to £340.00
2	75%	£100.01 to £180.00	£165.01 to £245.00	£222.01 to £300.00	£330.01 to £385.00	£140.01 to £220.00	£205.01 to £285.00	£260.01 to £340.00	£340.01 to £395.00
3	45%	£180.01 to £240.00	£245.01 to £305.00	£300.01 to £360.00	£385.01 to £445.00	£220.01 to £280.00	£285.01 to £345.00	£340.01 to £400.00	£395.01 to £455.00
4	25%	£240.01 to £300.00	£305.01 to £365.00	£360.01 to £420.00	£445.01 to £505.00	£280.01 to £340.00	£345.01 to £405.00	£400.01 to £460.00	£455.01 to £515.00
5	0%	Over £300.01	Over £365.01	Over £420.01	Over £505.01	Over £340.01	Over £405.01	Over £460.01	Over £515.01

- It is proposed that the highest level of discount will be at 100% of the Council tax liability (Band 1) meaning, someone with 100% discount will not be expected to make a contribution towards their council tax bill. All current applicants that are in receipt of a 'passported benefit' such as Income Support, Jobseeker's Allowance (Income Based) and Employment and Support Allowance (Income Related) will receive this maximum discount.
- All other discount levels are based on the applicant's and partner's, (where they
 have one) net income.

- The scheme allows for variation in household size with the levels of income per band increasing where an applicant has a partner, and / or dependants. There will be no charges made where an applicant has non-dependants living with them. This is a significant change and means that the administration of the scheme will be more straightforward whilst also protecting low-income families where adult sons and daughters for example remain at home.
- To encourage work, a standard £50 per week disregard will be provided against all earnings This will take the place of the current standard disregards and additional earnings disregards. Where a family also receives a childcare disregard (for childcare costs not paid for by Central Government schemes), the income levels in the 'grid scheme' are set at a higher rate.
- Disability benefits such as Disability Living Allowance and Personal Independence Allowance will continue to be disregarded.
- Where any applicant, their partner or dependent child(ren) are disabled, a further disregard of £50 per week will be given, thereby maintaining the current level of support to those with disabilities.
- Carer's Allowance and the Support Component of Employment and Support Allowance will be disregarded.
- Child benefit and Child Maintenance will be disregarded.
- An amount in respect of the housing element, within Universal credit will be disregarded.
- The total disregard on war pensions and war disablement pensions will continue.
- Extended payments will be removed; and
- The capital limit of £16,000 with no tariff (or assumed income) being applied

8.6 How the new scheme will address the issues with the current scheme

- 8.6.1 With the simplicity of the proposed new scheme and by taking a more 'Council Tax discount approach', it will address the problems associated with the increased administration caused by issues with the current scheme and Universal Credit as follows:
- 8.6.2 The scheme will require a simplified claiming process. All applicants will see a significant reduction in the claiming process and, where possible, Council Tax Reduction will be awarded automatically. In line with our People First priority the scheme will be easier for our customers to understand and available for them to access and calculate their entitlement at any time.
- 8.6.3 For Universal Credit applicants *any* Universal Credit data received from the Department for Work and Pensions (DWP) will be treated as a claim for Council Tax Reduction. Where information is received from DWP, the entitlement to Council Tax Reduction will be processed automatically without the need to request further information from the taxpayer. These changes will have the following distinct advantages namely:

- Speed of processing all claims will be able to be calculated promptly and largely automatically without the need to request further information which inevitably leads to delays.
- Maximising entitlement to every applicant. As there will no requirement for Universal Credit applicants to apply separately for Council Tax Reduction, and for all other applicants, the claiming process will be simplified significantly. Entitlement to Council Tax Reduction will be maximised with a reduced risk of loss of discount or the need for backdating.
- Maintenance of collection rates the new scheme will avoid constant changes in discount, the need for multiple changes in instalments and therefore assist in maintaining the high collection rates currently achieved. The increased level of discount will assist all those applicants on the lowest levels of income, again improving the overall collection rate.
- Only significant changes in income will affect the level of discount awarded.
- Council Taxpayers who receive Council Tax Reduction will not receive multiple Council Tax demands and adjustments to their instalments; and
- The new scheme is designed to reflect a more modern approach, where any discount changes will be effective from the day of the change rather than the Monday of the following week.
- 8.6.4 The income bands are sufficiently wide to avoid constant changes in discount. The current Council Tax Reduction scheme is very reactive and will alter even if the overall change to the person's liability is small. This is leading to constant changes in Council Tax liability, the need to recalculate monthly instalments and the requirement to issue a large number of Council Tax demands. The effect of this is that Council Tax collection is reduced. The new scheme, with its simplified income banding approach will have the following advantages
- Only significant changes in income will affect the level of discount awarded
- Council Taxpayers who receive Council Tax Reduction will not receive multiple Council Tax demands and adjustments to their instalments; and
- The new scheme is designed to reflect a more modern approach, where any discount changes will be effective from the day of the change rather than the Monday of the following week.

8.7 Transition to the new scheme and the Exceptional Hardship Scheme

- 8.7.1 The Council must be mindful that any change in scheme or a transition to a new scheme may have result in a change to the entitlement of certain applicants.
- 8.7.2 Inevitably, with any change in scheme, there will be some who will not benefit from the changes and will see a reduction in entitlement or entitlement end altogether, whilst we have tried to minimise this any changes in entitlement will be based on income levels.

- 8.7.3 The proposed scheme has been designed to protect the most vulnerable. It is proposed that the new scheme will contain additional discretionary provisions to protect individuals who experience exceptional hardship. Where any applicant is likely to experience exceptional hardship, they will be encouraged to apply for an exceptional hardship payment for a specified period of time. The Council will consider all applications for exceptional hardship on an individual basis, taking into account available income and essential outgoings. Where appropriate, further support will be given to the applicant.
- 8.7.4 This approach will enable individual applicants to be dealt with in a fair and equitable manner. The Exceptional Hardship Scheme will form part of the Council Tax Reduction scheme and fall to be paid through the Collection Fund.

9. LEGAL IMPLICATIONS

- 9.1 The Council is required to maintain and annually review its Council Tax Reduction Scheme in accordance with Section 13A and Schedule 1A of the Local Government Finance Act 1992 (as amended by the Local Government Finance Act 2012).
- 9.2 Schedule 1A to the Local Government Finance Act 1992 requires the Council to make any revision to its scheme or any replace scheme no later than 11 March in the financial year preceding that for which the revision or replacement scheme is to have effect.
- 9.3 Full Council's terms of reference include at 4.4.1 (z) "approving the Council Tax Reduction Scheme". Cabinet's terms of reference include at 5.6.44 recommending to Full Council "The Council Tax Reduction Scheme".
- 9.4 Section 3(1) of Schedule 4 of the Local Government Finance Act 2012, which inserts Schedule 1A to the Local Government Finance Act 1992 requires the Council to consult on any changes to its scheme as follows:
 - Consult any Major Precepting Authority which has power to issue a precept to it,
 - Publish a draft scheme in such manner as it thinks fit, and
 - Consult such other persons as it considers are likely to have an interest in the operation of the scheme.

10. FINANCIAL IMPLICATIONS

- 10.1 The current Council Tax Reduction scheme costs approximately £7.77m which is borne by the Council's Collection Fund. Costs are shared between the Council and the Major Precepting Authorities in the following proportions:
 - County Council (including Fire and Rescue Service) (76.4%)
 - Police and Crime Commissioner (11.1%)
 - District Council (12.5%)

These proportions are based on the overall share of Council Tax income and will change over time in line with decisions made by each Authority on levels of Council Tax increase. Recently, these have mainly been affected by the levels of increase (without a local referendum) that have been allowed by Government.

The costs of Council Tax Reduction are not funded by the Precepting Authorities directly. Instead, the estimated level of eligibility is converted in to a number of band D equivalent properties. That then reduces the overall tax base (i.e., the number of priorities expected to pay Council Tax), and therefore the amount of income that each Precepting Authority should expect to receive. Differences between what was expected, and the amount actually collected are managed through a Collection Fund. The precepting Authorities will share any surpluses or shortfalls in the following year.

- 8.2 The approach and 'shape' of the scheme is changing, and the overall approach will be to provide additional support to those households on the very lowest incomes. Based on current modelling, were the new scheme to be in place at the current time, the costs would be £7.89m the increase in cost that would be apportioned to North Herts is approximately just under £15,000.
- 8.3 The projected cost increase is the maximum expected. Modelling adjustments are continuing to be made to see if the increase can be reduced without having a significant adverse impact.
- 8.4 Whilst the expected costs of the scheme for 2023/24 will be slightly higher, the overall level of Council Tax Reduction as a proportion of the Council Tax Base has reduced year on year since 2013 as shown below at 8.6 and 8.7. The only exception was in the COVID-19 period (2020/21 and 2021/22) but the trend has started to show that the costs are falling again and the number of claimants reducing. Of course, since Covid we now face the cost-of-living crisis. We don't expect the cost-of-living crisis to automatically increase the numbers of claimants, unless it leads to job losses in which case we will see an increase in claimants, as would be the case under the present scheme.
- 8.5 Whilst the overall Council Tax liability has increased year on year the value of CTR claims as a percentage of overall liability had continued to decrease prior to the pandemic.

8.6 CTR as a Percentage of Gross Council Tax Liability

Financial Year	2013 £	2014 £	2015 £	2016 £	2017 £	2018 £	2019 £	2020 £	2021 £
Gross CT Liability	83,774,520	84,591,594	86,434,938	89,845,133	94,684,222	100,685,225	105,302,251	110,123,753	115,611,353
CTR	6,998,498	6,902,064	6,693,360	6,761,037	6,770,869	6,863,664	6,771,613	7,208,969	8,218,400
%	8.35%	8.16%	7.74%	7.53%	7.15%	6.82%	6.43%	6.55%	7.11%

8.7 CTR Caseload Reductions

Financial Year Commencing	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Working Age	4797	4718	4537	4327	4187	4058	3980	4355	5151	4823
Pension Age	4214	4065	3831	3608	3404	3120	2981	2874	2746	2636
Total	9011	8783	8368	7935	7591	7178	6961	7229	7897	7459

11. RISK IMPLICATIONS

- 11.1. In transitioning from the old to the new scheme, there is a risk that there could be some initial confusion amongst applicants. If not managed well, this could lead to customers not receiving discounts that may be due to them. By simplifying the current scheme and ensuring that we publicise the new scheme effectively, it will become easier for customers to make a claim and administrative costs will also be reduced.
- 11.2. There is a risk that there will be some who will not benefit from the changes and will see a reduction in entitlement or entitlement end altogether. By introducing new discretionary provisions to the scheme, the Council will be able to encourage applicants to apply for an exceptional hardship payment, and where appropriate, further support can be given.
- 11.3 There is a risk that the new scheme will increase costs to the Council. The work being undertaken is to try and assess the potential impact of this so that it can be incorporated into the decision on whether to adopt the new scheme.

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 It should be noted that this scheme only applies to and impacts a specific age group: working-age claimants. Changes suggested within this report aim to improve accessibility to the scheme for all claimants through a simplified process; and improve the support available to those that are on the lowest incomes. As noted at 8.7.2, there will be some who will inevitably not benefit from the changes and will see a reduction in entitlement or entitlement end altogether. Efforts have been made to minimise negative impacts.
- 12.3 By conducting extensive consultation, the Council seeks to collect information from those who may be potentially affected by these proposals.

13. SOCIAL VALUE IMPLICATIONS

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

14. ENVIRONMENTAL IMPLICATIONS

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

15. HUMAN RESOURCE IMPLICATIONS

15.1 There are no direct Human Resources implications in this report, however the changes proposed would make the CTR scheme significantly easier to administer and therefore this would reduce the additional burden that has been placed on the service as a result of Universal Credit.

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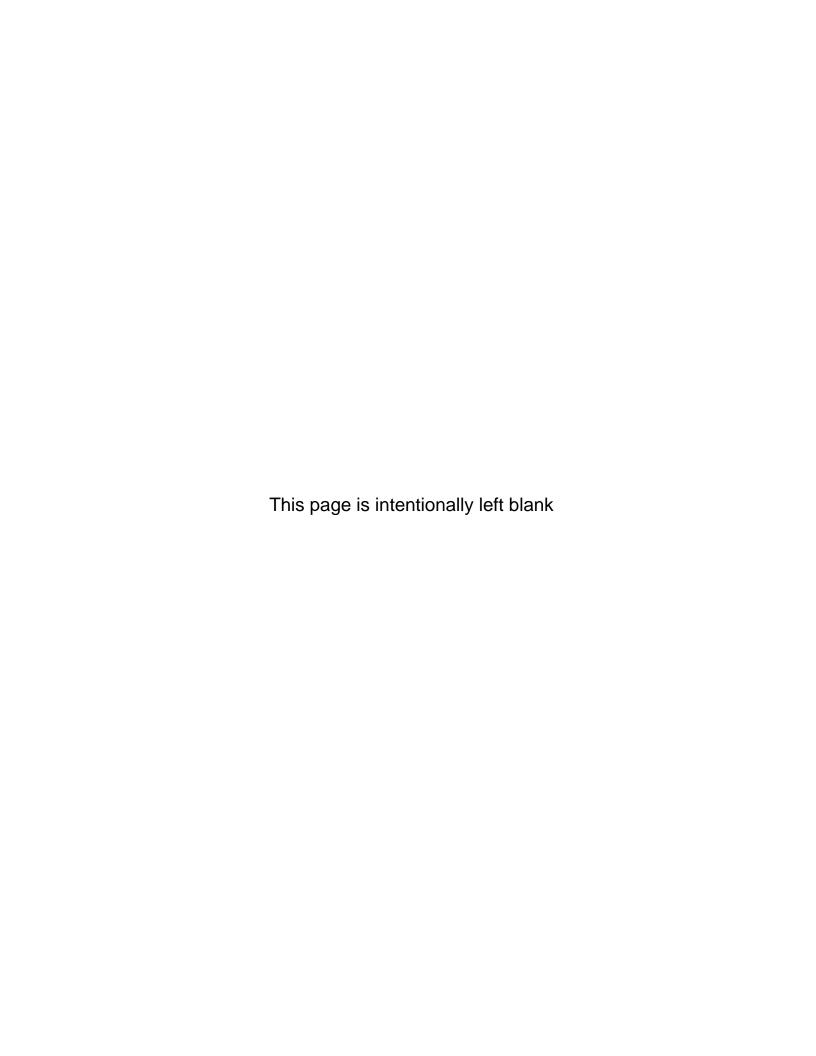
16.1 None

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

18.1 None



CABINET 13 September 2022

*PART 1 - PUBLIC DOCUMENT

TITLE OF REPORT: FIRST QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2022/23

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T.

COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

1 EXECUTIVE SUMMARY

- 1.1 To update Cabinet on progress with delivering the capital and treasury strategy for 2022/23, as at the end of June 2022.
- 1.2 To update Cabinet on the impact upon the approved capital programme for 2022/23 2031/32. The current estimate is a decrease in spend in 2022/23 of £1.520M and an increase in spend in 2023/24 of £2.048M. The most significant individual changes increasing the spend in 2022/23 relate to, £0.341M Park Home Insulation and £0.110M Playground Renovation. The significant projects that have been reprofiled into 2023/24 are £1.096M Development of John Barker Place, £0.350M Resurface Lairage Car Park and £0.315M Grounds Maintenance Vehicles & Machinery.
- 1.3 To inform Cabinet of the Treasury Management activities in the first three months of 2022/23. The current forecast is that the amount of investment interest expected to be generated during the year is £0.708M. This is an increase of £0.589M on the original estimate.

2 RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of £12.252M in 2022/23 on the capital programme, paragraph 8.3 refers.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2022/23 onwards, as a result of the revised timetable of schemes detailed in table 2 and 3, increasing the estimated spend in 2023/24 by £2.048M.
- 2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 4 paragraph 8.6 and the requirement to keep the capital programme under review for affordability.
- 2.4 Cabinet is asked to note the position of Treasury Management activity as at the end of June 2022.

3. REASONS FOR RECOMMENDATIONS

- 3.1 Cabinet is required to approve adjustments to the capital programme and ensure the capital programme is fully funded.
- 3.2 To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

4. ALTERNATIVE OPTIONS CONSIDERED

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

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

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

6. FORWARD PLAN

6.1 This report contains a recommendation on a key Executive decision that was first notified to the public in the Forward Plan on the 9th May 2022.

7. BACKGROUND

- 7.1 In February 2022, Council approved the Integrated Capital and Treasury Strategy for 2022/23 to 2031/32. To be consistent with the strategy, the monitoring reports for Capital and Treasury are also integrated.
- 7.2 The Medium Term Financial Strategy for 2022 to 2027 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 are contracted to provide Treasury advice. 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 £128.0M of capital assets that it currently owns. The Investment Strategy set out the reasons for owning assets that are not for service delivery, including an assessment of Security, Liquidity, Yield and Fair Value. There have been no significant changes in relation to these since the Strategy was set. The main changes will be sales of surplus land for capital receipts as referenced in table 4.

Capital Programme 2022/23

- 8.2 The full capital programme is detailed in Appendix A and shows the revised costs to date, together with the expected spend from 2022/23 to 2031/32 and the funding source for each capital scheme.
- 8.3 Capital expenditure for 2022/23 is estimated to be £12.252M. This is an increase of £2.905M on the forecast in the 2021/22 Investment Strategy (Capital and Treasury) Outturn report (reported to Cabinet on 21st June 2022). The increase in spend in 2022/23 is largely due to the acquisition of Churchgate, but this is partially offset by the reprofiling of projects into 2023/24. Table 1 below details changes to capital programme.

Table 1- Current Capital Estimates

	2022/23 £M	2023/24 £M	2024/25 to 2031/32 £M
Original Estimates approved by Full Council February 2022	7.546	5.522	17.311
Changes approved by Cabinet in 3rd Qrt 2021/22	0.821	0	0
Changes approved by Cabinet in 2021/22 Capital Outturn report	0.980	0	0
Revised Capital estimates at start of 2022/23	9.347	5.522	17.311
Full Council approved additional Expenditure – Acquisition of Churchgate	4.350	0	0
Executive Member – Finance and I.T. approved additional Expenditure – Installation of Electric Charging Points at DCO	0.015	0	0
Executive Member – Finance and I.T. approved additional Expenditure – Shared Prosperity	0.060	0	0

	2022/23 £M	2023/24 £M	2024/25 to 2031/32 £M
Fund Interventions (two separate projects at £50k and £10k each)			
Changes at Q1	-1.520	2.048	0
Current Capital Estimates	12.252	7.570	17.311

Table 2 lists the schemes in the 2022/23 Capital Programme that will start or continue in 8.4 2023/24:

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

Scheme	2022/23 Working Budget £'000	2022/23 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2023/24 onwards £'000
John Barker Place Development	1,096	0	-1,096	The Development Agreement in place for the JBP development says that the full payment will be made on completion of all the properties in phases 1 and 2. Phase 1 is complete but phase 2 is not expected to be completed until the autumn of 2023.	1,096
Grounds Maintenance Vehicles & Machinery	315	0	-315	IFRS16 accounting standard requires operating leases for all material assets with a duration of more than one year to be recorded on the Council's Balance Sheet. Implementation has however been deferred to 23/24	315
Council car Fleet	141	0	-141	IFRS16 accounting standard requires operating leases for all material assets with a duration of more than one year to be recorded on the Council's Balance Sheet. Implementation has however been deferred to 2023/24.	141
Newark Close Road Replacement	65	0	-65	The temporary repairs carried out last year are holding reasonably well and as such the work can be deferred until next year.	65

Scheme	2022/23 Working Budget £'000	2022/23 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2023/24 onwards £'000
Resurface Lairage Car Park	350	4	-346	The partnering authority assisting with architectural and professional contract management services are no longer able to provide this service due to staff shortages. This has delayed the commencement of the project whilst alternative professional services are sought. Whilst the surfacing works are required to ensure the longer term integrity of the building it is not urgent.	346
Lairage Stairwells redecoration and Window/door replacement	Other mi	0 nor changes	-75 -10	This project will be incorporated into the Resurface Lairage Car Park project. The project will therefore commence once those issues described above have been resolved	10
Total R	evision to Bu	udget Profile	-2,048		2,048

There are also changes to the overall costs of schemes in 2022/23. These changes total a net increase of £0.528million and are detailed in Table 3 8.5

<u>Table 3: Changes to Capital Schemes Commencing in 2022/23</u>: (Key: -= reduction in capital expenditure, += increase in capital expenditure)

Scheme	2022/23 Working Budget £'000	2022/23 Forecast Spend £'000	Difference £'000	Comments
Park Homes Insulation	0	341	+341	Provision of external wall insulation to eligible Park Homes under the Council's Park Homes Insulation Scheme to improve energy efficiency and reduce fuel poverty. The expenditure is fully financed from government grant received from BEIS.
S106 Projects	0	169	+169	To date, a total of £169k of S106 funds have been released for community schemes.

Scheme	2022/23 Working Budget £'000	2022/23 Forecast Spend £'000	Difference £'000	Comments
Playground Renovation	303	413	+110	The original budget of £180K in 21/22 (£57K spend with £123K budget reprofiled into 22/23) was to fund installation of single interactive play items at Bancroft Hitchin, Serby Ave Royston, Holroyd Crescent Baldock and Jackman's Central Letchworth. However the costs of the works at Jackman's Central, Serby Avenue Royston and Holroyd Crescent cost £18K more due to unforeseen issues to obtain electrical connections. In addition the material costs for each item was higher than anticipated. Cabinet is asked to authorise the additional budget required to complete the original planned works. This approval is required by the Councils financial regulations. Section 106 funding has been identified that could mostly (£81k) off set the shortfall, but please bear in mind that this funding may also have been available to use on other similar projects.
Royston Leisure Centre Solar Thermal Installation	50	70	+20	Project is on hold as tender price received exceeded tolerance limit. The requested increase in budget is required to cover plant costs, strip out works, pipework modifications, pipework integration and contractor prelims as these costs were not included in the original budget.
Letchworth Outdoor Pool Boiler	38	57	+19	Original budget for this project was £40K to replace one boiler (£2K spent in 21/22). The tender price came within the tolerance limit for a budget of this size but, following commencement of the installation, additional works were identified that needed completing. This meant the agreed variation to the tender price exceeded the tolerance limit as. A £40K budget to replace the second boiler is programmed into the Capital program in 23/24 but Officers will request an increase to this budget as part of the Financial Planning process.

Scheme	2022/23 Working Budget £'000	2022/23 Forecast Spend £'000	Difference £'000	Comments
Hitchin Swim Centre Outdoor Boiler Replacement	38	55	+17	Original budget for this project was £40K to replace one boiler (£2K spent in 21/22). The tender price came within the tolerance limit for a budget of this size but, following commencement of the installation, additional works were identified that needed completing. This meant the agreed variation to the tender price exceeded the tolerance limit as. A £40K budget to replace the second boiler is programmed into the Capital program in 23/24 but Officers will submit a new bid within the Financial Planning process requesting an increase this budget.
Acquisition of Churchgate	4,350	4,214	-136	The price paid for the acquisition of Churchgate was split between capital and some revenue costs. As part of the due diligence process there were some reductions in the price paid, and of these £35k adjusted the capital element. Other adjustments affected the total price paid, which reduced some of the acquisition costs, especially Stamp Duty. The original budget also made prudent allowances for the total fees that may be incurred, and these were lower than estimated.
	Other mi	nor changes	-12	
Total re		heme spend	+528	

8.6 Table 4 below shows how the Council will fund the 2022/23 capital programme.

Table 4: Funding the Capital Programme:

	2022/23 Balance at start of year £M	2022/23 Forecast Additions £M	2022/23 Forecast Funding Used £M	2022/23 Balance at end of year £M
Useable Capital Receipts and	7.719	5.515	(10.527)	2.707
Set-aside Receipts				
S106 receipts			(0.250)	
Other third party grants and			(1.305)	
contributions				
IT Reserve / Revenue			(0.170)	
Planned Borrowing			0	
Total			(12.252)	

- 8.7 The availability of third party contributions and grants to fund capital investment is continuously sought in order to reduce pressure on the Council's available capital receipts and allow for further investment. Additional capital receipts are dependent on selling surplus land and buildings. Ensuring that the Council gets best value from the disposal of land and buildings can take a long time and therefore the amounts that might be received could be subject to change.
- 8.8 The Council's Capital Financing Requirement (CFR) at 31st March 2022 was negative £4.61M. Based on current forecasts it will remain negative during 2022/23

Treasury Management 2022/23

- 8.9 The Council invests its surplus cash in accordance with the Investment Strategy (see paragraph 4.2). This surplus cash is made up of capital funding balances, revenue general fund balance, revenue reserve and provisions balances and variations in cash due to the timing of receipts and payments. During the first three months, the Council had an average investment balance of £58.2M and invested this in accordance with the treasury and prudential indicators as set out in the Integrated Capital and Treasury Management Strategy and in compliance with the Treasury Management Practices.
- 8.10 During the quarter the Council has had higher than usual cash balances due to the various grant funding that it has been given by Government to pass on to businesses / individuals. Even though every effort has been made to pass the money on as quickly as possible, there has inevitably been a delay between receipt and payment. There have also been tranches of grant where the amount received has exceeded the amounts eligible for payment. Balances have also been higher due to the reprofiling of capital spend in 2021/22.
- 8.11 The Council generated £0.094M of interest during the first three months of 2022/23. The average interest rate on all outstanding investments at the 30th June was 0.77%. (31st March it was 0.33%). Interest rates have continued to rise and are expected to increase further during the year. Based on current investments and forecasts of interest rates and cash balances for the remainder of the year, it is forecast that the Council will generate £0.708M of interest over the whole of 2022/23.
- 8.12 As at 30th June 2022 the split of investments was as shown in the table below. 6% of total investments (and 23% of the total amount invested in banks) were non-UK banks:

Banks	24%
Building Societies	12%
Government	45%
Local Authorities	19%

8.13 The level of risk of any investment will be affected by the riskiness of the institution where it is invested and the period that it is invested for. Where an institution has a credit rating this can be used to measure its riskiness. This can be combined with the period remaining on the investment to give a historic risk of default percentage measure. The table below shows the Historic Risk of Default for outstanding investments at 30 June 2022. The most risky investment has a historic risk of default of 0.016%. 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 the Council took on less risk.

Borrower	Principal Invested £M	Interest Rate %	Credit Rating	Days to Maturity at 30 June	Historic Risk of Default %
DMO (Government)	4.5	1.05	AA-	1	0.000
Marsden Bldg Soc	1.5	0.25	*	11	0.011
DMO (Government)	2.0	1.035	AA-	19	0.001
Nationwide Bldg Soc	1.0	0.24	Α	19	0.002
DMO (Government)	3.0	0.90	AA-	20	0.001
DMO (Government)	3.0	1.06	AA-	20	0.001
Leeds Bldg Soc	1.0	0.88	A-	20	0.003
Yorkshire Bldg Soc	2.0	0.93	A-	34	0.004
DMO (Government)	3.0	1.125	AA-	36	0.002
Australia & New Zealand Bank	1.0	1.34	A+	48	0.006
Australia & New Zealand Bank	2.0	1.41	A+	48	0.006
DMO (Government)	3.0	1.17	AA-	48	0.003
Leeds Bldg Soc	1.0	1.02	A-	48	0.006
Santander UK	1.0	1.10	A+	48	0.006
Santander UK	1.0	1.00	A+	49	0.006
Moray Council	3.0	0.20	AA-	53	0.003
North Norfolk Council	2.0	0.95	AA-	62	0.004
Blackpool Council	5.0	0.35	AA-	74	0.005
Nat West	1.0	0.39	A+	77	0.010
DMO (Government)	6.0	1.145	AA-	81	0.005
Nat West	2.0	1.28	A+	81	0.010
Nat West	2.0	1.35	A+	81	0.010
Santander UK	1.0	1.48	A+	82	0.010
Santander UK	1.0	1.20	A+	110	0.014
Santander UK	1.0	1.46	A+	123	0.016
	54.0	0.77			

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

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

9. LEGAL IMPLICATIONS

- 9.1 Cabinet's terms of reference under 5.6.7 specifically includes "to monitor expenditure on the capital programme and agree adjustments within the overall budgetary framework". The Cabinet also has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget.
- 9.2 Section 151 of the Local Government Act 1972 states that:

"every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

- 9.3 Asset disposals must be handled in accordance with the Council's Contract Procurement Rules.
- 9.4 The Prudential Indicators comply with the Local Government Act 2003.

10. FINANCIAL IMPLICATIONS

- 10.1 The main financial implications are covered in section 8 of the report.
- 10.2 The Council 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 around £3.8M higher than the budgeted £37.1M. Indeed the current high inflation rates may make this situation worse than the tolerance limit of around 10%, particularly with the specific inflationary pressures on construction costs. This report includes one request to approve a variance that exceeded the general tolerance limit.
- 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. £1.0M currently earns the Authority approximately £18k per year in interest. The general fund estimates are routinely updated to reflect the reduced income from investments. When the Capital Financing Requirement (CFR) reaches zero the Council will need to start charging a minimum revenue provision to the general fund for the cost of capital and will need to consider external borrowing for further capital spend. The CFR at the 31 March 2022 was negative £4.61M.
- 10.4 The Council also aims to ensure that the level of planned capital spending in any one year matches the capacity of the organisation to deliver the schemes to ensure that the impact on the revenue budget of loss of cash-flow investment income is minimised.

11. RISK IMPLICATIONS

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

12. EQUALITIES IMPLICATIONS

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

13. SOCIAL VALUE IMPLICATIONS

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

14. ENVIRONMENTAL IMPLICATIONS

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

15. HUMAN RESOURCE IMPLICATIONS

15.1 There are no direct human resource implications.

16. APPENDICES

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

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

Investment Strategy (Integrated Capital and Treasury Strategy)

https://srvmodgov01.north-

herts.gov.uk/documents/s18463/INVESTMENT%20STRATEGY%20INTEGRATED%20CAPIT

AL%20AND%20TREASURY.pdf

https://srvmodgov01.north-

herts.gov.uk/documents/s18464/Final2%20Cabinet%20Appendix%20A-%20Integrated%20Capital%20and%20Treasury%20Strategy.docx.pdf

				Spend / For	ecast Spend							
Project	Service Directorate	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	15,000	12,000	0	14,000	0	16,000	0	0	0	0	57,000
Access Burymean Road	Commercial	500	0	0	0	0	0	0	0	0	0	500
Acquisition of Churchgate	Commercial	4,214,000	0	0	0	0	0	0	0	0	0	4,214,000
Alternative to safeword tokens for staff/members												
working remotely	Customers	6,900	0	3,000	0	3,000	19,000	0	0	0	0	31,900
Avenue Park Floodlights	Place	30,000	0	0	0	0	0	0	0	0	0	30,000
Avenue Park Splash Park	Place	0	70,000	0	0	0	0	0	0	0	0	70,000
Back-up Diesel 40 KVA Generator (DCO)	Customers	0	25,000	0	0	0	0	0	0	0	0	25,000
Baldock Town Hall project	Legal and Community	5,600	0	0	0	0	0	0	0	0	0	5,600
Bancroft Lighting	Place	0	45,000	0	0	0	0	0	0	0	0	45,000
Bancroft & Priory Splash Pads	Place	0	0	35,000	0	0	0	0	0	0	0	35,000
BEIS Park Homes Insulation	Regulatory	341,100	0	0	0	0	0	0	341,100	0	0	0
Burymead Road Transfer Facility	Place	30,000	0	0	0	0	0	0	0	0	0	30,000
Cabinet Switches - 4 Floors	Customers	18,000	0	18,000	0	0	18,000	0	0	0	0	54,000
Cadcorp Local Knowledge & Notice Board Software	Customers	5,400	0	0	0	0	0	0	0	0	200	5,200
Careline Servers	Customers	3,800	0	0	0	0	0	0	0	0	0	3,800
CCTV at DCO & Hitchin Town Hall	Customers	20,000	0	0	0	0	0	0	0	0	0	20,000
Conference Calling Solutions in Large Meeting		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	-	-	_	_	-	_	-	-	-	-,
Rooms at District Council Offices	Customers	13,000	0	0	0	0	0	0	0	0	0	13,000
Council property improvements following condition		==,===	_	_		_	_	_	-	_		==,===
surveys	Resources	603,700	0	0	0	0	0	0	0	0	0	603,700
Cyber Atacks - Events Monitoring Software	Customers	9,100	0	0	0	0	0	0	0	0	0	9,100
Cycle Chategy implementation (GAF)		278,000	0	0	0	0	0	0	278,000	0	0	0
Data Switch Upgrade	Regulatory Customers	15,000	0	18,000	0	18,000	23,000	0	0	0	0	74,000
DCO Electric Vehicle Charges	Resources	15,000	0	0	0	0	0	0	0	0	0	15,000
DR Hardware Refresh Inc UPS Battery Pk (unit 3)	Customers	0	0	0	55,000	0	0	0	0	0	0	55,000
Email Encryption Software Solution	Customers	40,400	0	0	0	0	0	0	0	0	0	40,400
Environmental Improvements	Place	115,000	0	0	0	0	0	0	0	0	0	115,000
Former Public Convenience Portmill Lane	Commercial	25,000	0	0	0	0	0	0	0	0	0	25,000
Great Ashby District Park safety and security	Place	11,700	0	0	0	0	0	0	0	0	0	11,700
Green Infrastructure implementation (GAF)	Regulatory	185,000	0	0	0	0	0	0	185,000	0	0	0
Grounds Maintenance Vehicles & Machinery	Resources	0		0	0	0	0	0	185,000	0	0	
Grounds Maintenance Vehicles & Machinery	Resources	U	315,000	U	U	U	U	U	U	U	U	315,000
Hitchin Lairage car park, cosmotic coating to four												
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	75,000
· · · · · · · · · · · · · · · · · · ·	Place		75,000	200,000	0	0	0	0	0	0		
Hitchin Swim Centre Boiler Replacement Hitchin Swim Centre: Archers Member Change and	ridite	0	U	200,000	U	U	U	U	U	U	0	200,000
S	Diaco				200.000	0						200,000
Relaxation Area Refurbishment	Place	0	0	0	300,000	0	0	0	0	0	0	300,000
Hitchin Swim Centre: Changing Village	Diese					225 000			_	_		225.000
Refurbishment	Place	0	0	0	0	225,000	0	0	0	0	0	225,000
Hitchin Swim Centre: Fitness Equipment	Die	_	_	_		200.000				_		200.000
Replacement	Place	0	0	0	0	300,000	0	0	0	0	0	300,000
Hitchin Swim Centre: Fitness Facility Refurbishment	Place	0	0	0	0	50,000	0	0	0	0	0	50,000
Hitchin Swim Centre Outdoor Pool Boiler		1	1	1								
Replacement	Place	54,900	40,000	0	0	0	0	0	0	0	0	94,900
Hitchin Swim Centre Outdoor Pool Cover Replacement	Place	0	0	0	0	30,000	0	0	0	0	0	30,000
Hitchin Swim Centre Reception Toilet Refurbishment	Place	0	30,000	0	0	0	0	0	0	0	0	30,000
Hitchin Swim Centre Replacement of Domestic Hot Water Calorifer	Place		0	0	0	0	0	0	0	0	0	
water calulifer	ridLE	15,900	U	U	U	U	U	U	U	U	U	15,900

				Spend / For	ecast Spend					Funding		
Project	Service Directorate	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
Hitchin Town Hall Sprung Floor Replacement	Commercial	6,000	0	0	0	0	0	0	0	0	0	6,000
Howard Gardens Splashpad	Place	35,000	0	0	0	0	0	0	0	0	0	35,000
Ickneild Way Cemetery Footpaths	Place	50,000	0	0	0	0	0	0	0	0	0	50,000
Infrastructure Hardware	Customers	28,000	0	278,000	0	0	167,000	0	0	0	0	473,000
Installation of trial on-street charging (GAF)	Regulatory	50,000	0	0	0	0	0	0	50,000	0	0	0
Integra - Centros Upgrade	Resources	51,000	0	0	0	0	0	0	0	0	0	51,000
Ivel Springs Footpaths	Place	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	270,400	0	825,600
John Barker Flace, Flacenin	negulatory	- ŭ	1,030,000	- ŭ			, ,	·	, and the second	270,100	Ů	023,000
Lairage Multi-Storey Car Par - Structural wall repairs	Resources	113,900	0	0	0	0	0	0	0	0	0	113,900
Laptops - Refresh Programme	Customers	24,400	10,000	15,000	294,000	0	0	0	0	0	0	343,400
Leased Cars	Resources	0	141,000	0	0	0	0	0	0	0	0	141,000
Leisure Condition Survey Enhancements	Place	58,800	80,000	0	0	0	0	0	0	0	0	138,800
Letchworth Multi-storey Car Park - parapet walls,		,	,					-	-			,
soffit & decoration	Resources	129,000	0	0	0	0	0	0	0	0	0	129,000
Letchworth Outdoor Pool Boiler Replacement	Place	56,900	40,000	0	0	0	0	0	0	0	0	96,900
Match funding for Electric Vehicle charging	Regulatory	100,000	0	0	0	0	0	0	50,000	0	0	50,000
Members Laptops Refresh Programme	Customers	0	30,000	0	0	30,000	30,000	0	0	0	0	90,000
Microsoft Enterprise Software Assurance	Customers	617,000	0	0	679,000	0	747,000	0	0	0	0	2,043,000
Mrs Haward Hall Replacement Boiler & Windows	Resources	63,000	0	0	0	0	0	0	0	0	0	63,000
Museum Storage Facility	Commercial	2,000,000	2,000,000	0	0	0	0	0	0	0	0	4,000,000
New wasoleum	Place	250,000	0	0	0	0	0	0	0	0	170,000	80,000
Newmarket Road Royston Skatepark & Access	Place	0	90,000	0	0	0	0	0	0	0	0	90,000
NH Museum & Community Facility	Commercial	48,300	0	0	0	0	0	48,300	0	0	0	0
NH Museum Platform Lift Solutions	Commercial	40,000	0	0	0	0	0	0	0	0	0	40,000
NHLC Replacement	Place	0	200,000	0	0	0	0	0	0	0	0	200,000
NHLC Dryside Changing Area	Place	0	100,000	0	0	0	0	0	0	0	0	100,000
NHLC Interactive Water Feature	Place	0	0	0	0	0	120,000	0	0	0	0	120,000
NHLC Pool Flume Replacement	Place	0	0	0	0	0	150,000	0	0	0	0	150,000
NHLC Sauna Steam Refurbishment	Place	158,000	0	0	0	0	0	0	0	0	0	158,000
Northern Transfer Station	Place	0	0	3,000,000	3,000,000	0	0	0	0	0	0	6,000,000
Norton Common Footpaths	Place	0	10,000	0	0	0	0	0	0	0	0	10,000
Off Street Car Parks resurfacing and enhancement	Resources	209,400	8,000	0	0	0	0	0	0	0	0	217,400
Oughtonhead Common Footpaths	Place	0	20,000	0	0	0	0	0	0	0	0	20,000
		-	.,	-		-	-					,
Oughtonhead Common Signage and Interpretation		10,000	0	0	0	0	0	0	0	0	0	10,000
Parking Charging, Payments & Management	Regulatory	235,000	0	0	0	0	0	0	0	0	0	235,000
Parking Machines Replacement	Regulatory	0	0	0	150,000	150,000	0	0	0	0	0	300,000
Parking Machines Upgrade - Contactless Payment												
Facility Installation	Regulatory	56,000	0	0	0	0	0	0	43,000	0	0	13,000
PC's - Refresh Programme	Customers	9,300	7,000	13,000	7,000	8,000	26,000	0	0	0	0	70,300
Playground Renovation District Wide	Place	413,200	180,000	180,000	180,000	180,000	720,000	0	0	81,000	0	1,772,200
Private Sector Grants	Regulatory	119,600	60,000	60,000	60,000	60,000	240,000	0	0	0	0	599,600
Provide housing at market rents.	Commercial	41,700	10,000	0	0	0	0	0	0	0	0	51,700
Ransoms Rec Footpaths, Gates and Railing Refurbishment and improvement of community	Place	10,000	20,000	0	0	0	0	0	0	0	0	30,000
facilities	Legal and Community	193,800	0	0	0	0	0	0	0	0	0	193,800
Refurbishment of lifts at Lairage Car Park	Resources	4,200	0	0	0	0	0	0	0	0	0	4,200
Refuse and Recycling Bins	Place	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	6,400	0	0	0	0	0	0	0	0	0	6,400
Renovate skate park at KGV Hitchin	Place	0	250,000	0	0	0	0	0	0	0	0	250,000
Replace and enhance lighting at St Mary's Car Park	Resources	60,000	0	0	0	0	0	0	0	0	0	60,000

				Spend / For	recast Spend					Funding					
Project	Service Directorate	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			
Replace items of play equipment Holroyd Cres,															
Baldock	Place	300	0	0	0	0	0	0	0	0	0	300			
Replace items of play equipment Wilbury Recreation Ground, Letchworth	Place	300	0	0	0	0	0	0	0	0	0	300			
Replacement of Newark Close, Royston	Commercial	0	65,000	0	0	0	0	0	0	0	0	65,000			
Replacement of the timber access bridge at Norton															
Common	Place	75,000	0	0	0	0	0	0	0	0	0	75,000			
Resurface Lairage Car Park	Resources	3,700	346,300	0	0	0	0	0	0	0	0	350,000			
Royston Leisure Centre extension	Place	0	1,000,000	0	0	0	0	0	0	0	0	1,000,000			
Riverside walkway, Biggin Lane	Place	53,000	0	0	0	0	0	0	0	0	0	53,000			
Royston Leisure Centre Changing Village Refurbishment	Place	0	225,000	0	0	0	0	0	0	0	0	225,000			
Royston Leisure Centre Dry Side Toilet															
Refurbishment	Place	0	0	0	30,000	0	0	0	0	0	0	30,000			
Royston Leisure Centre Members Changing															
Refurbishment	Place	0	0	150,000	0	0	0	0	0	0	0	150,000			
Royston Leisure Centre Boiler Replacement	Place	0	0	0	0	0	100,000	0	0	0	0	100,000			
Royston Leisure Centre Fitness Equipment Replacement	Place	0	0	0	0	150,000	0	0	0	0	0	150,000			
Royston Leisure Centre Fitness Facility															
Refurbishment	Place	0	0	0	0	50,000	0	0	0	0	0	50,000			
Royston eisure Centre Solar Thermal Installation	Place	70,000	0	0	0	0	0	0	0	0	0	70,000			
S106 Djects	Various	169,000	0	0	0	0	0	0	0	169,000	0	0			
Security Firewalls	Customers	20,500	0	16,000	0	18,000	18,000	0	0	0	0	72,500			
Share Prosperity Fund Community and Place Interventions	Resources	60,000	0	0	0	0	0	0	60,000	0	0	0			
Solar PV installation at Hitchin Swim Centre	Place	0	115,000	0	0	0	0	0	0	0	0	115,000			
Solar PV Installation at North Herts Leisure Centre	Place	0	260,000	0	0	0	0	0	0	0	0	260,000			
Solar PV installation at Royston Leisure Centre	Place	0	185,000	0	0	0	0	0	0	0	0	185,000			
St Johns Cemetery Footpath	Place	0	0	40,000	0	0	0	0	0	0	0	40,000			
Tablets - Android Devices	Customers	16,700	10,000	10,000	10,000	10,000	20,000	0	0	0	0	76,700			
Telephony system	Customers	6.900	0	0	0	0	0	0	0	0	0	6.900			
Thomas Bellamy House, Hitchin	Commercial	65,000	0	0	0	0	0	0	0	0	0	65,000			
Town Centre Parks Play Provision	Place	15,000	0	0	0	0	0	0	0	0	0	15,000			
Transport Plans implementation (GAF)	Regulatory	250,000	0	0	0	0	0	0	250,000	0	0	0			
Walsworth Common Pavilion - contribution to															
scheme	Place	0	300,000	0	0	0	0	250,000	0	37,000	0	13,000			
Waste and Street Cleansing Vehicles	Place	0	0	0	4,000,000	0	0	0	0	0	3,200,000	800,000			
Weston Hills LNR Footpath Renovation	Place	20,000	0	0	0	0	0	0	0	0	0	20,000			
Wilbury Hills Cemetery Footpaths	Place	6,600	10,000	10,000	0	30,000	0	0	0	0	0	56,600			
WiFi Upgrade	Customers	0	0	0	40,000	0	0	0	0	0	0	40,000			

12,251,900 7,570,300 4,136,000 8,909,000 1,402,000 2,864,000 298,300 1,257,100 557,400 3,370,200 31,650,200

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Treasury Management Update

Quarterly report 30th June 2022

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Treasury Management Update Quarter Ended 30th June 2022

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

1. Economics update

- The second quarter of 2022 saw:
 - GDP fall by 0.1% m/m in March and by 0.3% m/m in April;
 - An easing rather than a collapse in the composite Purchasing Managers Index (PMI);
 - A further rise in Consumer Price Index (CPI) inflation to a new 40-year high of 9.1% in May;
 - The first signs that the weakening in economic activity is filtering into a slightly looser labour market;
 - Bank Rate rise to 1.25%, taking it to its highest level since the Global Financial Crisis;
 - Gilt yields caught up in the global surge in bond yields triggered by May's strong rise in US inflation;
 - Rising global bond yields and concerns over growth drive a global sell-off in equity markets.
- Following the 0.1% m/m fall in GDP in March and the 0.3% m/m contraction in April, the economy is now moving towards a recession (two quarters of falling output in a row). Indeed, GDP would need to rise by 0.4-0.5% m/m in both May and June to prevent the economy from contracting in Q2 as a whole. That said, without the joint wind down of the COVID-19 Test and Trace and vaccination programme, GDP would have risen by 0.2% m/m and 0.1% m/m in March and April respectively. That's hardly strong, but it suggests the underlying momentum is not quite as weak as the headline figures imply.
- There is not much evidence that higher inflation and higher interest rates have yet become a big drag on activity. Services output did fall by 0.3% m/m in April. But output in consumer-facing services, conversely, rose by a solid 2.3% m/m in April. And although the Office for National Statistics (ONS) said that some of the 1.0% m/m fall in manufacturing output was linked to the drag on activity from higher prices, it also said that some of the 0.4% m/m drop in construction output in April was a drop back after the boost in the wake of February's Storm Eunice.
- The fact that the composite PMI didn't fall in June also suggests that in Q2 (Apr June) real GDP has softened rather than collapsed. The S&P Global/CIPS all-sector PMI for June was unchanged from its level of 53.1 in May, signalling tepid but positive growth. According to the Lloyd's barometer, business confidence in May also remained remarkably resilient.
- Despite the fall in the GfK composite measure of consumer confidence to a new record low of -41 in June,
 April's £1.4bn rise in consumer credit suggests households appear to have turned to credit to support their
 spending as the cost-of-living squeeze has intensified. Meanwhile, the household saving rate held steady
 at 6.8% in Q1 in line with its long-term average and we expect households to lower their saving rate further
 when the bigger falls in real incomes come in Q2 and Q3 to cushion the blow to spending.
- The Chancellor's latest fiscal support of £10.3bn (0.5% of GDP), which comprised £15.3bn of handouts to households, partly funded by a £5bn tax on the profits of oil and gas producers, will help support GDP in the second half of the year. And with the Prime Minister and the Chancellor desperately needing to boost their popularity, some tax cuts may be announced in the Autumn Budget.
- There has been early signs that the recent weakening in economic activity is filtering through into a slightly looser labour market. The unemployment rate edged up from 3.7% in the three months to March to 3.8%. The single-month data showed that employment fell by 254,000 in April and the unemployment rate rose from 3.5% to 4.2%. And the upward march in the number of job vacancies slowed, with the three-month average only rising from 1.296m in April to 1.300m in May. A seasonal adjustment of the single-month data implies that vacancies fell in May for the first time since COVID-19 was rife in December.

- At the same time, a 1.8% m/m fall back in average earnings in April meant that the 3myy rate of earnings eased from 7.0% in March to 6.8% in April. And a lot of the 0.5% m/m rise in earnings excluding bonuses was probably due to the 6.6% rise in the National Living Wage on 1st April. The 3myy rate of earnings excluding bonuses stayed at 4.2%.
- That said, conditions in the labour market remain exceptionally tight. The unemployment rate is still close to its recent 47-year low, and there is the same number of unemployed people as job vacancies and at 6.8% in April, the 3myy rate of average earnings is at a 10-year high (although it is still falling in real terms) and is well above the 3.0-3.5% that is broadly consistent with the 2.0% inflation target (assuming that productivity growth is 1.0-1.5%).
- CPI inflation rose from 9.0% in April to a new 40-year high of 9.1% in May and it is not yet close to its peak. The increase in CPI inflation in May was mainly due to a further leap in food price inflation from 6.7% to a 13-year high of 8.5%. With the influence of increases in agricultural commodity prices yet to fully feed into prices on the supermarket shelves, we think that food price inflation will rise above 10% in September. And with two-thirds of the observation period for the Ofgem price cap having now passed, something like a 40% rise in utility prices is pretty much baked in the cake for October. The further rise in core producer price inflation, from 13.9% to 14.8%, suggests that core goods CPI inflation will probably rise to 14% before long. We think that will take CPI inflation to a peak of around 10.5% in October.
- The rise in services CPI inflation from 4.7% in April to 4.9% in May suggests that domestic price pressures are still strengthening.
- There now seems to be an even greater likelihood that second-round effects, whereby high inflation feeds back into higher price and wage expectations, keep inflation higher for longer. For some time, the Monetary Policy Committee (MPC) has placed a lot of weight on the results of the Bank of England's monthly Decision Maker Panel which asks businesses how they expect to change their prices and wages over the next year. May's survey revealed that businesses still expect to raise their selling prices by 6.0% and their wages by 4.8% over the next year. Meanwhile, XpertHR said that pay settlements across the economy stayed at a 30-year high of 4.0% in May. The government appears to be contemplating raising public sector pay by up to 5%. And the 7.1% pay rise granted to some railway workers sets a high bar for the negotiations that led to train strikes across large parts of the country in mid-June.
- The MPC has now increased interest rates five times in as many meetings and raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed raised rates by 75 basis points (bps) in June and a handful of other central banks have recently raised rates by 50bps, the Bank of England's action is relatively dovish. The MPC's decision not to follow the Fed and raise rates by more makes some sense. The UK's status as a larger importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.
- But the MPC's new guidance is that if there are signs of "more persistent inflationary pressures" it will, "if
 necessary act forcefully in response". We expect the MPC to continue to raise rates in steps of 25bps rather
 than 50bps. We think the MPC will raise rates from 1.25% now to a peak of 2.75% next year. That's higher
 than the peak of 2.00% forecast by economists, but lower than the peak priced into the financial markets.
- Gilt yields have been caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. And in response to signs that central banks (particularly the US Fed) are going to raise interest rates faster to get on top of inflation, we now think that 10-year gilt yields will reach a peak of 2.70% (up from 2.39% currently) this year and into 2023.
- While the S&P 500 is 8.4% below its level a month ago, the FTSE 100 is 5.7% below it. Part of the sell-off has been driven by the rapid rise in global bond yields and the resulting downward pressure on equity valuations as well as concerns over economic growth.
- Finally, the pound has already weakened from \$1.37 and €1.21 earlier this year to \$1.21 and €1.16. A lot of these moves have been driven by concerns over the outlook for the global economy and the resulting poor performance of risky assets, which has increased the demand for the dollar relative to sterling. If interest rates rise faster and further in the US than in the UK, rate differentials and a worsening in risk appetite will push the pound even lower, from \$1.21 now to \$1.18 by the end of 2022. We don't expect the pound to fall by as much against the euro (from €1.16 to €1.14 next year). But once global inflation and global interest rates peak, the pound will probably benefit from the return of risk appetite. It may rise to \$1.25 by the end of 2023 and to \$1.30 by the end of 2024.

MPC meetings 5th May and 16th June 2022

- After the Bank of England became the first major western central bank to put interest rates up in this upswing in December, it has quickly followed up its first 0.15% rise by a further four 0.25% rises to 1.25%, in what is very likely to be a series of increases repeated throughout the rest of 2022 and into 2023.
- In May, the MPC voted 6-3 vote in favour of a 0.25% increase, but not only was this the first time in its 25-year history that the MPC had raised rates at four meetings in a row but also three members (Haskel, Mann and Saunders) wanted a 0.5% hike (up from none in March). However, GDP growth was forecast to drop to -0.25% in 2023 (+1.25% previously) and only +0.25% in 2024 (+1.00% previously). Anyone for a recession?
- Nonetheless, over Q2, it is clear central banks in the developed economies have placed the dampening down of inflation pressures front and centre of their primary objectives, even if it comes at the cost of sluggish growth or, indeed, recession (mild ideally but it is very difficult to micro-manage economic performance).
 The Monetary Policy Committee (MPC) is in step with this approach although, arguably, the UK economy is dragging its feet to a greater extent than that seen in the US.
- What are the key factors for consideration? First, the CPI measure of inflation is already at 9.1%, and the Bank of England anticipates it will peak near to 11% just before Christmas. With the cost-of- living squeeze in full swing by that juncture, and unemployment likely to be ticking upwards, we judge that the Bank will pause following its March 2023 meeting and judge it has done enough so long as inflation starts to fall, albeit at a slow pace. To that extent, we can envisage the MPC waiting a full year before loosening the reins and starting to cut Bank Rate in spring 2024. However, given the number of geopolitical factors that could push this forecast off track, we would caution against taking a strong view on how interest rate movements evolve and instead focus on optimising balance sheet management and the risk management of investment and debt portfolios.
- Regarding gilt yields, all developed economies have seen a considerable uplift in government bond yields
 across the whole curve since the start of 2022 and, in many ways, gilts have simply played catch-up of late.
 To that end, we have revised our PWLB forecasts upward and you will even see we have a 3.7% PWLB
 rate projected for the 25-year part of the curve in both 2022 and 2023. However, as headline inflation falls
 back, we project a slow reduction in gilt yields as investors acknowledge that price pressures are gradually
 coming under control.
- At the 16th June MPC meeting, part of the reason for the Committee only seeing a 0.25% hike as necessary is the prevailing weak economic data. The vote was again 6-3 (the same as in May) but the words were more hawkish with the Bank strengthening its forward guidance. It deleted the previous phrase that "some degree of further tightening...may still be appropriate" and replaced it with "the scale, pace and timing of any further increases in Bank Rate will reflect the Committee's assessment of the economic outlook and inflationary pressures" and that "the Committee will be particularly alert to indications of more persistent inflationary pressures, and will, if necessary, act forcefully in response."
- Whereas in May two members objected to the guidance that rates will rise further, it appears that all
 members are behind this new, stronger guidance. However, the growing evidence that firms' price and
 wage expectations have become dislodged from the 2.0% target suggest that the Bank is between a rock
 and a hard place in navigating the appropriate monetary policy response. As always, the economic data
 will be key to anticipating whether our assumptions remain sound.

2. Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 21st June is compared below to the previous forecast (10th May). A comparison of these forecasts shows that PWLB rates have increased generally and show a speed up in the rate of increase in Bank Rate as inflation is now posing a greater risk. The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally as inflation concerns abound. To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but without pushing the economy into recession.

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

Link Group Interest Rate View	ink Group Interest Rate View 21.06.22														
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25			
BANK RATE	1.75	2.25	2.75	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25			
3 month ave earnings	2.00	2.50	2.80	2.80	2.80	2.80	2.60	2.50	2.30	2.30	2.20	2.20			
6 month ave earnings	2.50	2.80	3.00	3.00	2.90	2.90	2.80	2.70	2.60	2.50	2.40	2.30			
12 month ave earnings	3.10	3.20	3.20	3.20	3.00	2.90	2.80	2.60	2.50	2.40	2.40	2.40			
5 yr PWLB	3.20	3.30	3.30	3.30	3.30	3.20	3.10	3.00	3.00	3.00	2.90	2.90			
10 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.30	3.20	3.20	3.20	3.10	3.10			
25 yr PWLB	3.70	3.70	3.70	3.70	3.70	3.70	3.60	3.50	3.50	3.40	3.40	3.30			
50 yr PWLB	3.40	3.40	3.50	3.50	3.40	3.40	3.30	3.20	3.20	3.10	3.10	3.00			

Link Group Interest Rate View	10.5.22												
	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
BANK RATE	1.25	1.50	1.75	2.00	2.00	2.00	2.00	2.00	1.75	1.75	1.75	1.75	1.75
3 month ave earnings	1.20	1.50	1.70	2.00	2.00	2.00	2.00	2.00	1.70	1.70	1.70	1.70	1.70
6 month ave earnings	1.60	1.90	2.10	2.20	2.20	2.20	2.20	2.10	2.00	1.90	1.90	1.90	1.90
12 month ave earnings	2.00	2.20	2.30	2.40	2.40	2.30	2.30	2.20	2.20	2.10	2.10	2.10	2.10
5 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.50	2.50	2.50	2.50	2.50
10 yr PWLB	2.80	2.80	2.90	2.90	2.90	2.90	2.90	2.90	2.80	2.80	2.80	2.80	2.80
25 yr PWLB	3.00	3.10	3.10	3.20	3.20	3.20	3.10	3.10	3.00	3.00	3.00	3.00	3.00
50 yr PWLB	2.70	2.80	2.80	2.90	2.90	2.90	2.80	2.80	2.70	2.70	2.70	2.70	2.70

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of our previous forecasts, our money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- Our central forecast for interest rates was last updated on 21st June and reflected a view that the MPC will be keen to further demonstrate its anti-inflation credentials by delivering a 0.25% increase in Bank Rate in August, September, November, December, February and March i.e., the next six MPC meetings.
- The CPI measure of inflation is now forecast to rise to close to 11% in Q4 2022 and the MPC will be keen to stifle the prospect of average earnings data (6.8% y/y currently including bonuses) providing further upside risk to inflationary factors that are primarily being driven by supply-side shortages.
- When Bank Rate reached 1% in May, the MPC indicated (no earlier than August) that it will also consider the extent to which it implements Quantitative Tightening (QT), primarily the selling of its gilt holdings. However, they are likely to take any such decision cautiously as they are already not refinancing maturing debt
- Notwithstanding the MPC's clear desire to increase Bank Rate throughout 2022, negative real earnings, the 54% hike in the Ofgem energy price cap from April (to be followed by a potential 40%+ further increase from October), at the same time as employees (and employers) have incurred a 1.25% Health & Social Care Levy, growing commodity and food inflation plus council tax rises all these factors will hit households' finances hard. However, lower income families will be hit disproportionately hard despite some limited assistance from the Chancellor to postpone the full impact of rising energy costs.
- Given the above outlook, it poses a question as to whether the MPC may shift into protecting economic growth if it flatlines or contracts through 2022. Accordingly, we remain tentative about whether the MPC will increase Bank Rate as far as the market is currently pricing in (3.25% in April 2023).
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies, but the on-going conflict between Russia and Ukraine, including the manner in which the West and NATO respond through sanctions and/or military intervention. Currently, oil, gas, wheat and other mainstream commodities have risen significantly in price and central banks will have to balance whether they prioritise economic growth or try to counter supply-side shock induced inflation.
- On the positive side, consumers are estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above increases. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income before these increases hit and have few financial reserves.

PWLB RATES

- The yield curve has steepened considerably through the quarter and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 2.75% to 3.75%.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook (although we thought that in May and markets went much further than expected in respect of the gilt market sell-off).
- It is difficult to say currently what effect the Bank of England starting to sell gilts will have on gilt yields now that Bank Rate has gone to above 1%. Nothing will be decided before August, however, but the Bank is likely to act cautiously as it has already started on not refinancing maturing debt. A pure roll-off of the peak £875bn gilt portfolio by not refinancing bonds as they mature, would see holdings fall to about £415bn by 2031, which would be about equal to the Bank's pre-pandemic holding.
- Increases in US treasury yields over the next few months could add further upside pressure on gilt yields as they have done since the turn of the year.

The balance of risks to the UK economy: -

• The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- The Bank of England acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **UK / EU trade arrangements** if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks,** for example in Ukraine/Russia, Iran, China, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.
- The Government acts too quickly to cut taxes and/or increases expenditure in the light of the cost-of-living squeeze.
- The pound weakens on the back of UK/EU trade friction resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term US treasury yields continue to rise strongly and pull gilt yields up higher than forecast.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 11th February 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

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

As shown by the interest rate forecasts in section 2, rates have improved dramatically during Q1 and Q2 2022 and are expected to improve further as Bank Rate continues to increase over the next year or so.

Creditworthiness.

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

Investment counterparty criteria

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

CDS prices

Although CDS prices (these are market indicators of credit risk) for banks (including those from the UK) spiked at the outset of the pandemic in 2020, they have subsequently returned to near pre-pandemic levels. **However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.**

Investment balances

The average level of funds available for investment purposes during the quarter was £58.2m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Council holds £20m core cash balances for investment purposes (i.e. funds available for more than one year).

	Amount	Average
	£	Interest Rate %
Managed By NHDC		
Banks	13,000,000	1.14
Building Societies	5,000,000	0.72
Local Authorities	8,000,000	0.28
Government	24,500,000	1.09
NHDC Total	50,500,000	0.81
Managed by Tradition		
Building Societies	1,500,000	0.25
Local Authorities	2,000,000	0.95

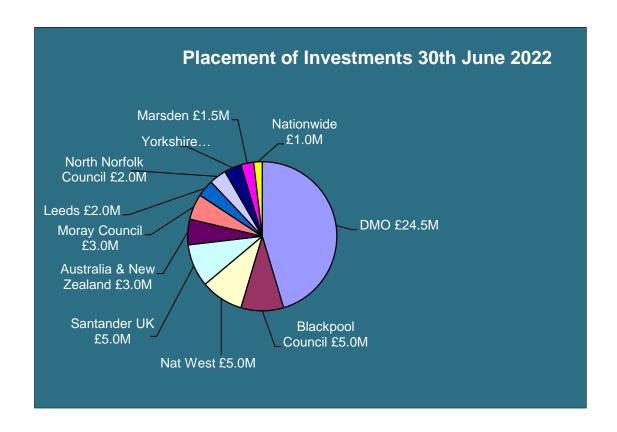
Tradition Total	3,500,000	0.54	
TOTAL	54,000,000	0.77	

In percentage terms, this equates to:

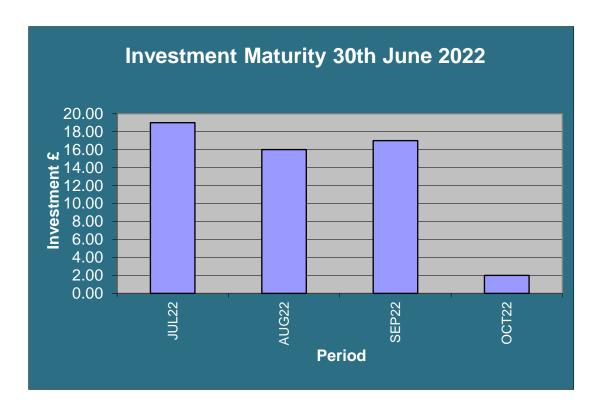
	Percentage
Government	45
Banks	24
Local Authorities	19
Building Societies	12

The approved 22/23 strategy is that no more than 60% of investments should be placed with Building Societies and Property Funds with a maximum value of £23M. The value at 30 June was £6.5M.

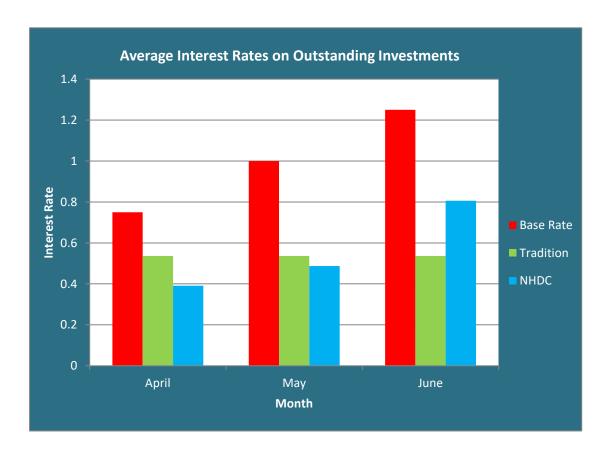
The pie chart below shows the spread of investment balances as at 30 June 2022. This is a snapshot in time that demonstrates the diversification of investments.



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



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



The higher rates achieved by the Council in June reflect that the Tradition investment are longer-term investments whereas the shorter term inhouse investments can be renewed at higher rates as the Bank Rate rises. The Council only undertakes new investments through Tradition where the rate achieved (after fees) are greater than what the Council could achieve for a similar investment. There are two Tradition deals totalling £3.5M.

Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2022.

4. Borrowing

No borrowing was undertaken during the quarter ended 30th June 2022.

It is anticipated that further borrowing will not be undertaken during this financial year but this is dependant on the profiled spend in the Capital Programme and incoming Capital receipts.

Based on 1st quarter estimates for capital expenditure, the Council's capital financing requirement (CFR) for 2022/23 is expected to be -£2.65M (-£4.61M at the end of 21/22). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions and future forecasts.

Loans Outstanding at 30 June 2022:

	Amount	Average Interest Rate
	£	%
Public Works Loans Board	£387k	10.18

Estimated outstanding debt:

Year	Forecast Borrowing £m	Forecast other long- term liabilities £m	Less: Internal Borrowing £m	Forecast Total External Debt £m	Operational Boundary £m	Authorised Limit £m
31st March 2023 (Forecast)	0.367	1.183	0	1.550	2.1	7.1
31 st March 2024 (Forecast)	0.347	0.604	0	0.951	1.6	6.6
31st March 2025 (Forecast)	0.567	0.413	0.242	0.738	1.5	6.5
31st March 2026 (Forecast)	6.244	0.336	5.939	0.641	1.5	6.5
31 st March 2026 (Forecast)	7.333	0.259	7.043	0.549	1.4	6.4

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

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

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

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

The Prudential Indicator below considers the cost of borrowing as a % of the net revenue budget of the Council.

Year	Estimated cost of borrowing £m	Forecast net revenue budget £m	Estimated cost of borrowing as a % of net revenue budget
2022/23	0.039	18.067	0.216
2023/24	0.037	16.650	0.222
2024/25	0.047	15.860	0.296
2025/26	0.302	15.619	1.934
2026/27	0.364	15.529	2.344

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

Year	Estimated cost of borrowing £m	Less: Forecast of interest earned £m	Net Financing Costs £m	Forecast net revenue budget £m	Estimated cost of borrowing as a % of net revenue budget
2022/23	0.039	0.708	-0.669	18.067	-3.703
2023/24	0.037	0.700	-0.663	16.650	-3.982
2024/25	0.047	0.637	-0.590	15.860	-3.722
2025/26	0.302	0.510	-0.208	15.619	-1.334
2025/26	0.364	0.517	-0.153	15.529	-0.988

5. Debt rescheduling

No debt rescheduling was undertaken during the quarter.

6. Compliance with Treasury and Prudential Limits

The prudential and treasury Indicators are shown in Appendix 1.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the year to date as at 30th June 2022, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2022/23. The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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

APPENDIX 1: Prudential and Treasury Indicators for 2022-23 as at 30th June 2022

Authorised limit for external debt 7,100 387 Operational boundary for external debt 2,000 387 Gross external debt 387 387 Investments 47,400 54,000 Net borrowing 47,013 53,613 Maturity structure of fixed rate borrowing - upper and lower limits 19 19 12 months to 2 years 21 21 2 years to 5 years 155 57 5 years to 10 years 1,271 40 Upper limit for principal sums invested over 365 days 18,000 Max 0 Prudential Indicators 2022/23 Budget £'000 31.03.22Actual £'000 Capital expenditure 9,347 529 Capital Financing Requirement (CFR) -3,789 -4,532 Annual change in CFR 819 76 In year borrowing requirement 0 0	Treasury Indicators	2022/23 Budget £'000	30.06.22 Actual £'000
Section 387	Authorised limit for external debt	7,100	387
Investments	Operational boundary for external debt	2,000	387
Net borrowing 47,013 53,613 Maturity structure of fixed rate borrowing - upper and lower limits 19 19 Under 12 months 19 19 12 months to 2 years 21 21 2 years to 5 years 155 57 5 years to 10 years 1,271 40 Upper limit for principal sums invested over 365 days 18,000 Max 0 Prudential Indicators 2022/23 Budget £'000 31.03.22Actual £'000 Capital expenditure 9,347 529 Capital Financing Requirement (CFR) -3,789 -4,532 Annual change in CFR 819 76	Gross external debt	387	387
Maturity structure of fixed rate borrowing - upper and lower limits Under 12 months 19 19 21 21 21 2 years to 5 years 155 57 5 years to 10 years 1,271 40 Upper limit for principal sums invested over 365 days Capital expenditure 9,347 529 Capital Financing Requirement (CFR) Annual change in CFR	Investments	47,400	54,000
upper and lower limits 19 19 12 months to 2 years 21 21 2 years to 5 years 155 57 5 years to 10 years 1,271 40 Upper limit for principal sums invested over 365 days 18,000 Max 0 Prudential Indicators 2022/23 Budget £'000 31.03.22Actual £'000 Capital expenditure 9,347 529 Capital Financing Requirement (CFR) -3,789 -4,532 Annual change in CFR 819 76	Net borrowing	47,013	53,613
upper and lower limits 19 19 12 months to 2 years 21 21 2 years to 5 years 155 57 5 years to 10 years 1,271 40 Upper limit for principal sums invested over 365 days 18,000 Max 0 Prudential Indicators 2022/23 Budget £'000 31.03.22Actual £'000 Capital expenditure 9,347 529 Capital Financing Requirement (CFR) -3,789 -4,532 Annual change in CFR 819 76			
12 months to 2 years 2 years to 5 years 155 5 years to 10 years 1,271 40 Upper limit for principal sums invested over 365 days Prudential Indicators 2022/23 Budget £'000 2020/23 Budget £'0000 2020/23 Budg			
2 years to 5 years 5 years to 10 years 1,271 40 Upper limit for principal sums invested over 365 days Prudential Indicators 2022/23 Budget £'000 2000 Capital expenditure 9,347 529 Capital Financing Requirement (CFR) -3,789 -4,532 Annual change in CFR 819 76	Under 12 months	19	19
5 years to 10 years 1,271 40 Upper limit for principal sums invested over 365 days 18,000 Max 0 Prudential Indicators 2022/23 Budget £'000 \$\frac{2022/23 Budget}{\frac{2}{3}000}\$	12 months to 2 years	21	21
Upper limit for principal sums invested over 365 days Prudential Indicators 2022/23 Budget £'0000 Capital expenditure 9,347 529 Capital Financing Requirement (CFR) -3,789 -4,532 Annual change in CFR 819 76	2 years to 5 years	155	57
Prudential Indicators 2022/23 Budget £'0000 Capital expenditure 9,347 529 Capital Financing Requirement (CFR) -3,789 -4,532 Annual change in CFR 819 76	5 years to 10 years	1,271	40
Prudential Indicators 2022/23 Budget £'0000 Capital expenditure 9,347 529 Capital Financing Requirement (CFR) -3,789 -4,532 Annual change in CFR 819 76			
Capital expenditure 9,347 529 Capital Financing Requirement (CFR) Annual change in CFR 819 76		18,000 Max	0
Capital Financing Requirement (CFR) -3,789 -4,532 Annual change in CFR 819 76	Prudential Indicators		
Annual change in CFR 819 76	Capital expenditure	9,347	529
	Capital Financing Requirement (CFR)	-3,789	-4,532
In year borrowing requirement 0	Annual change in CFR	819	76
	In year borrowing requirement	0	0
Ratio of financing costs to net revenue stream -0.442 -4.25	Ratio of financing costs to net revenue stream	-0.442	-4.25



CABINET 13 September 2022

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: FIRST QUARTER REVENUE BUDGET MONITORING 2022/23

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

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

1. EXECUTIVE SUMMARY

1.1. The purpose of this report is to inform Cabinet of the summary position on revenue income and expenditure forecasts for the financial year 2022/23, as at the end of the first quarter. The forecast variance is a £559k decrease in the net working budget of £18.615million, with an ongoing impact in future years of a £414k increase. Within these summary totals there are a number of budget areas with more significant variances, which are detailed and explained in table 3.

2. RECOMMENDATIONS

- 2.1. That Cabinet note this report.
- 2.2. That Cabinet approves the changes to the 2022/23 General Fund budget, as identified in table 3 and paragraph 8.2, a £559k decrease in net expenditure.
- 2.3. That Cabinet notes the changes to the 2023/24 General Fund budget, as identified in table 3 and paragraph 8.2, a total £414k increase in net expenditure. These will be incorporated in the draft revenue budget for 2023/24.
- 2.4. That Cabinet delegates to the Service Director: Resources (in consultation with the Executive Member for Finance and IT) authority to enter in to a Business Rate Pooling arrangement (if available) if it is estimated that it will be in the financial interests of the Council.

3. REASONS FOR RECOMMENDATIONS

3.1. Members are able to monitor, make adjustments within the overall budgetary framework and request appropriate action of Services who do not meet the budget targets set as part of the Corporate Business Planning process.

4. ALTERNATIVE OPTIONS CONSIDERED

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

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1. Consultation on the budget monitoring report is not required. Members will be aware that there is wider consultation on budget estimates during the corporate business planning process each year. Page 155

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 2022/23 of £18.198million in February 2022. As at the end of Quarter One, the working budget has increased to £18.615million. 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 2022/23 approved by Full Council	18,198
Quarter 3 2021/22 Revenue Budget Monitoring report – 2022/23	238
budget changes approved by Cabinet (March 2022)	
2021/22 Revenue Budget Outturn Report – 2022/23 budget changes	179
approved by Cabinet (June 2022)	
Current Working Budget	18,615

7.2. The Council is managed under Service Directorates. Table 2 below confirms the current net direct resource allocation of each Service Directorate and how this has changed from the original budget allocations approved by Council in February 2022.

Table 2 - Service Directorate Budget Allocations

Service Directorate	Original Budget 2022/23 £k	Changes approved at Q3 2021/22 £k	Changes approved at Outturn 2021/22 £k	Other Budget Transfers £k	Current Net Direct Working Budget £k
Managing Director	3,422	104	135	0	3,661
Customers	3,866	10	52	0	3928
Enterprise	(148)	(4)	0	0	(152)
Legal & Community	2,281	50	(9)	0	2,322
Place	4,818	(15)	(51)	0	4,752
Regulatory Services	1,407	43	52	0	1,502
Resources	2,552	50	0	0	2,602
TOTAL	18,198	238	179	0	18,615

7.3. Subsequent to the presentation of the Revenue Outturn 2021/22 report to Cabinet in June, an accounting adjustment to the income recorded from parking penalty charge notices was identified. This was identified prior to the publication of the Council's Draft Statement of Accounts for 202 7230 https://doi.org/10.100/10.1001/10.100

The outcome was a revised General Fund balance at the end of the 2021/22 financial year of £10.607m, an increase of £36k from the closing balance of £10.571m published in the Outturn Report. In addition, the net contribution from Earmarked Reserves to the General Fund balance was reduced by £3.3million from the £8.123m, as detailed in the Outturn Report, to £4.823m This followed the finalisation of the Collection Fund accounting for 2021/22. This meant that the Council held a total of £15.935m in earmarked reserves at the end of the last financial year. The Council's External Auditors have communicated that they plan to commence the 2021/22 Final Accounts audit in November. Further changes to the General Fund balance may therefore arise as a result of the audit.

8. RELEVANT CONSIDERATIONS

8.1. Service Managers are responsible for monitoring their expenditure and income against their working budget. Table 3 below highlights those areas where there are forecast to be differences. An explanation is provided for each of the most significant variances, which are generally more than £25k. The final columns detail if there is expected to be an impact on next year's (2023/24) budget:

Table 3 - Summary of significant variances

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2023/24 £k
Treasury Investments Interest Income	(119)	(708)	(589)	Increase in estimated interest income receivable is primarily due to the changes in 2022 to the Bank of England base rate and the consequent increase in the interest returns available on the investment of surplus cash balances. The income budget estimate, prepared in January, was based on the bank rate of 0.25% at the start of the year, but this has subsequently increased to 1.75%, with the most recent 0.5% increase agreed at the start of August. In addition, reprofiling of capital spend in the second half of the last financial year has increased the cash balances available for investment. The estimated ongoing impact will be updated when the Investment Strategy for 2023 – 2033 is finalised in January 2023.	0	(500)
Covid-19 Impacts central expenditure provision	1,740	110	(1,630)	Release of provision to mitigate the relevant adverse variances forecast at Quarter One, as highlighted below in this table, as well as the release of those provision amounts not required for commingled recycled materials processing (£290k) and Trade Waste (£110k) based on the positive forecasts also reported below. The remaining amount relates to income from the Hitchin Town Hall community facility. While income in Quarter One was in line with the budget expectation, it remains to be seen whether Covid-19 will continue to impact demand for mass indoor events in the winter.	0	0

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2023/24 £k
Staffing Cost Budgets - Staff Pay Award 2022/23	287	840	+553	The estimated additional cost of the pay award for 2022/23 is based on the final employer offer of an increase of £1,925 to every pay point. The assumption in the original budget for 2022/23 was a pay offer of 2%. While the Trade Unions are currently considering their response to this offer, it is highly unlikely that any further changes to the proposed award will reduce the cost to the Council.	0	553
Temporary Accommodation Net Cost	50	172	+122	The forecast outturn indicates the cost of nightly paid placements for homeless households, for which £39k of Rough Sleeping Initiative grant income has been allocated. At the end of Q1 there were 98	0	0
DLUHC Rough Sleeping Initiative Grant Income	0	(39)	(39)	households in temporary accommodation (8 in hotels), which represented a slight reduction on the 104 households in temporary accommodation (15 in hotels) at the end of the last financial year. As currently all the homeless households	0	0
Total Temporary Accommodation	50	133	+83	qualify for housing benefit, the additional cost to the Council relates to the estimated shortfall in Housing Benefit Subsidy, with housing benefit payments in respect of temporary accommodation not eligible for full reimbursement through the subsidy.	0	0
				Homeless costs were identified as an ongoing impact of Covid-19 in 2022/23. The forecast variance is mitigated by the release of the corresponding amount from the central Covid-19 impacts provision.		
Enterprise Directorate Staffing Costs	1,024	991	(33)	Forecast underspend relates to a Business Partner post held vacant while staffing arrangements are reviewed in light of the expansion of the Directorate to include the Economic Development team and the addition of Tourism to the Directorate portfolio.	0	0

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2023/24 £k
Commercial Rents Income	(1,340)	(1,492)	(152)	Forecast outturn follows the anticipated conclusion in this financial year of two rent reviews that have been ongoing for some time. Subject to these rent reviews concluding at the provisionally agreed annual rents, much of the additional income in 2022/23 will be the back-rent due. The annual uplift is expected to be £8,900 and £30,000 for the two sites respectively. The total variance is net of this year's target budget for additional income from rent reviews of £56k. There are similar targets for additional commercial rent income in future years. The excess ongoing income will be used to meet that target, so is not included in the 2023/24 estimated impact to avoid double-counting.	0	0
Leisure Centre Management Contract Fee Income	(857)	(429)	+428	Activity data for the first quarter of the year indicates a continuing recovery at the Council's Leisure Centres. The forecast variance is based on the Council receiving 50% of the income anticipated under the contract, which compares to 5% achieved in 2021/22. Actual income in this year will be dependent on the speed and strength of the ongoing recovery.	0	0
				A shortfall in Leisure Centre management fee income was identified as an ongoing impact of Covid-19 in 2022/23. The forecast variance is mitigated by the release of a corresponding amount from the central Covid-19 impacts provision.		
Domestic Waste & Recycling and Street Cleansing Contract Expenditure	5,605	5,953	+348	Overspend variance follows the calculation of the contract inflation for 2022/23. The budget for 22/23 assumed a contract inflation of 3.7%, based on the respective contractual indices at that time. Due to subsequent increases in the fuel price index and the Consumer Price Index, this, has resulted in an increase to contract prices of 9.9%.	0	348

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2023/24 £k
Commercial Waste and Recycling Services				It was reported at Q1 last year that there had been a loss of customers and some rationalisation of the services used, such as reduced frequency of collections, reduction		
Income from Customers	(1,113)	(1,153)	(40)	in the number of bins and / or bin sizes, due to the impacts of Covid-19. There has however since been some recovery in	0	(40)
Tipping Charges Contract	322	345	+23	commercial waste activity. The estimated income impact is partially offset by a projected increase in tipping charges,	0	23
Expenditure	96	100	+4	primarily due to the increase of around 11% in the disposal price per tonne, and higher contract costs from the higher level of	0	4
Net Total	(695)	(708)	(13)	activity.	0	(13)
Commingled Recycling – Haulage and Processing Costs	381	40	(341)	Amounts charged by the contractor for haulage and processing are net of income generated from the sale of the recycled materials collected. Material sale prices fluctuate significantly with global markets. The forecast variance reflects both the higher material prices achieved during Quarter 1, to the extent a small surplus income was generated for the quarter, and against this the current market intelligence suggesting prices received for cardboard are now falling rapidly as a result of a slow-down in consumer spending and consequently packaging. As the recycled materials market is very volatile, it is not assumed that this underspend will continue in future years.	0	0

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2023/24 £k
Waste Awareness and Minimisation – AFM Income from Herts County Council	(421)	(125)	+296	The AFM income value is impacted by recycling performance and residual waste disposal across the County. Greater levels of residual waste generated across Hertfordshire, as residents' routines and habits changed with home-working and more online shopping since the onset of the Covid-19 pandemic, have increased the overall costs of disposal incurred by HCC and therefore reduced the total AFM amount shared with collection authorities. In addition, while North Herts has maintained a similar level of recycling performance for a number of years, other Councils have made more recent service changes to improve their recycling performance, which has contributed to reducing North Herts share of the total allocation made available by HCC.	0	0
				Reduction in AFM income was identified as an ongoing impact of Covid-19 in 2022/23. The forecast variance is offset by the release of the amount included in the central Covid-19 impacts provision, which assumed zero income in this year.		
Car Parking Fees Income	(1,999)	(1,801)	+198	Forecast outturn for 22/23 is based on the experience of Quarter 1, with income receipts at approximately 90% of the level observed prior to the Covid-19 pandemic. The apparent plateau in the recovery may be indicative of one or both of; a long-term shift to working from home; and the increase in the cost-of-living deterring journeys into town centres for leisure activities and shopping.	0	0
				A shortfall in pay-as-you-use parking income was identified as an ongoing impact of Covid-19 in 2022/23. The forecast variance is mitigated by the release of the £200k amount included in the central Covid-19 impacts provision.		

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2023/24 £k
Car Park Season Ticket Income	(320)	(135)	+185	Season ticket sales in the first quarter were similar to that achieved in the first quarter of 21/22 and less than half that generated prior to the Covid-19 pandemic. This reduction is attributed to greater levels of home working, initially adopted in response to the pandemic, with a number of the bigger local businesses operating in North Herts ceasing season ticket purchases or significantly reducing the number purchased.	0	0
				A shortfall in car park season tickets income was identified as an ongoing impact of Covid-19 in 2022/23. The forecast variance is mitigated by the release of a corresponding amount from the central Covid-19 impacts provision.		
North Herts Local Plan 2011-31 Examination				The examination of the new Local Plan has now been ongoing for over five years (compared to a national average of around two years), reflecting the complexity of the		
Expenditure	0	56	+56	issues and the volume of submissions the Inspector has dealt with. The forecast spend	0	0
Contribution from Local Plan Earmarked Reserve	0	(18)	(18)	outturn is based on quotes received for the work involved and is therefore subject to change as actual hours worked by legal professionals and consultants could vary from the estimates. The contribution from	0	0
Total	0	38	+38	the earmarked reserve represents the transfer to the General Fund of the total balance held in reserve at the start of the year.	0	0
Emergency Planning – Contribution to Herts County Council	27	2	(25)	The original budget included provision for a full time Resilience Officer post, as per the staffing restructure proposal approved by the Council's Leadership Team. Following the appointment to this role, the Council no longer requires the Emergency Planning Support that to date has been contracted to Herts County Council. The overall net impact is a small saving of just over £1,000.	0	(27)
Expenditure on Electricity and Gas	291	316	+25	The revised forecast for the year reflects the energy price increases due to the global rise in wholesale electricity and gas prices. The impact has been lessened due to our supplier hedging their position in the autumn of 2022 meaning the procured rates are significantly lower than current market rates. Our supplier is expecting prices to be fixed for the remainder of the year.	0	25
Total of explained variances	3,654	3,025	(629)		0	387
Other minor balances	14,961	15,031	+70		0	27
Overall Total	18,615	18,056	(559)		0	414

- 8.2. Cabinet are asked to approve the differences highlighted in the table above (a £523k decrease in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to note the estimated impact on the 2023/24 budget, a £414k increase in budget, which will be incorporated in to the 2023/24 budget setting process (recommendation 2.3).
- 8.3. The original approved budget for 2022/23 (and therefore working budget) included efficiencies totalling £589k, which were agreed by Council in February 2021. Any under or over delivery of efficiencies will be picked up by any budget variances (table 3 above). However, there can be off-setting variances which mean that it is unclear whether the efficiency has been delivered. Where this is the case, this will be highlighted. The current forecast at the end of Quarter One is an overachievement of £589k. This relates to forecast interest income from investment of surplus cash balances being greater than identified in the efficiency proposal, which was based on the Investment Strategy 2022-2032, as highlighted and explained in table three above.
- 8.4. The working budget for 2022/23 includes budgets totalling £712k 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 2021/22 but was delayed into 2022/23. At Quarter One, it is forecast that all the budgets carried forward will be spent in this year.
- 8.5. Six corporate 'financial health' indicators have been identified in relation to key sources of income for the Council in 2022/23. Table 4 below shows the performance for the year. A comparison is made to the original budget to give the complete picture for the year. Each indicator is given a status of red, amber, or green. A green indicator means that they are forecast to match or exceed the budgeted level of income. An amber indicator means that there is a risk that they will not meet the budgeted level of income. A red indicator means that they will not meet the budgeted level of income.
- 8.6. At the end of Quarter One, three of the indicators are green, one indicator is amber, and two of the indicators are red. Explanations for the two red indicators are included in table 3 above. Whilst the individual budgets for the leisure management fee and car parking fees were not adjusted, there was an assumption that there was likely to be a shortfall in income in these areas, and forecasts at quarter one are in line with that forecast shortfall. The amber indicator for income from parking PCNs reflects that income recorded in the first quarter was approximately £25k lower than anticipated in the budget. A higher level of activity in the remainder of the year may mean that the budgeted expectation is ultimately met, but there is a risk that the budget will not be achieved.

Table 4 - Corporate financial health indicators

Indicator	Status	Original Budget	Actual to Date	Projected Outturn	Variance
		£k	£k	£k	£k
Leisure Centres Management Fee	Red	(857)	0	(429)	428
Garden Waste Collection Service Subscriptions	Green	(1,139)	(671)	(1,184)	(45)
Commercial Refuse & Recycling Service Income	Green	(1,113)	(372)	(1,153)	(40)
Planning Application Fees (including fees for pre-application advice)	Green	(1,006)	(615)	(1,006)	0
Car Parking Fees	Red	(1,999)	(416)	(1,801)	198
Parking Penalty Charge Notices (PCNs)	Amber	(573)	(71)	(573)	0

8.7. Table 5 below indicates current activity levels, where these drive financial performance, and how these compare to the prior year to indicate the direction of current trends. As performance against the planning applications fee income budget is generally determined by the number of large applications resolved in the year (rather than the total number of applications received), and this distinction is not captured in the data available, this indicator is omitted from table 5. Regarding the comparative reduction in the number of PCNs issued, it should be noted that activity levels in 2021/22 were above those anticipated in the original budget estimate.

Table 5 - Corporate financial health indicators - activity drivers

Indicator	Activity Measure	Performance Q1 2022/23	Performance Q1 2021/22	Percentage Movement	Direction of Trend
	Number of				
Leisure Centres	Leisure Centre				4
Management Fee	visits in quarter	312,679	171,823	+82.0%	_
	Number of bin				
Garden Waste	subscriptions at				
Collection Service	end of quarter	30,392	31,585	-3.8%	
	Number of				_
Commercial Refuse &	customers at end				
Recycling Service	of quarter	986	905	+8.9%	
	Car park tickets				
	sold / average				
	ticket price sold				
Car Parking Fees	during quarter	269,341 / £1.61	242,714 / £1.74	+11.0% / -7.5%	_
	Number of PCNs				
Parking Penalty Charge	issued during				
Notices	quarter	3,121	3,532	-11.6%	

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 2022 of the amount of New Homes Bonus, Lower Tier Services Grant and Services Grant it could expect to receive in 2022/23 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. The Council must repay in this year its share of the Council Tax and Business Rates Collection Fund deficits for the prior year, as estimated in January 2022. As reported previously, this means a contribution from the General Fund of £2k to the Council Tax Collection Fund and £5.345m to the Business Rates Collection Fund. The final totals recorded at the end of the last financial year (excluding the third instalment of the 20/21 deficit spread to be repaid in 2023/24) was a deficit of £6k in respect of Council Tax and a business rates deficit of £5.575m. The difference between the January estimates and the final position will affect the calculation of the surplus / deficit for 2022/23 and hence funding available in 2023/24.
- 8.10. The Council is also subject to a business rates levy from Central Government as it collects more in business rates than the baseline need determined by Central Government. In 2022/23 the Council is a member of the Hertfordshire Business Rates Pool with five other Hertfordshire Local Authorities. The Pool was formed with the expectation that this should reduce the business rates levy amount otherwise payable at the end of the year. At the end of 2021/22, the Council accrued a contribution to the pool levy of £300k, which represented a 'pooling gain' (reduction compared to the levy otherwise payable if outside the paol) of £700k. There are however a range of potential

outcomes for the current year, which depend on the actual level of rates collected by both North Herts as well as the other collection authorities in the Pool. The contribution to the pool required for 2022/23 will therefore not be known until all the pool authorities have declared their business rates income amounts to government, via the NNDR3 return, following the end of this financial year. In any case, the Council's contribution to the pool will be funded from grant held in reserve and as such will have a net zero impact on the General Fund balance at the end of the year.

- 8.11. 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 total grant allocation of £4.996m for reliefs in 2022/23, which includes an amount of £279k received as compensation for the Government's decision to freeze the business rates multiplier for 2022/23. 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 will therefore be used to fund the £5.345m deficit repayment required in this year and a further £3m will be used to ensure the business rates income charged to the General Fund in 2022/23 matches the estimated position declared to Government in January 2022 via the NNDR1 return, as required by statute.
- 8.12. 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 received a cash receipt of £2.6m from government in the last financial year 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. While overall there is a net nil effect on the Council's financial position, the compensating grant will be charged in this financial year, with the corresponding additional deficit repaid next year.
- 8.13. The Council received an e-mail from the Department of Levelling Up, Housing and Communities on 18 August in relation to Business Rate pooling. This e-mail did not commit that Business Rate pooling would be available for 2023/24, but if Authorities might be interested in forming a Pool then they have to commit to what that pool would be (i.e. which Councils would be part of a pool) by 22 September 2022. At the time of writing this report there has not been the opportunity for any discussion with other Hertfordshire Councils on whether to form a pool or start work on what the optimal pool would be. The optimal pool would include Hertfordshire County Council, and usually four of five District/ Borough Councils. There has also not been any confirmation on whether a Business Rates reset would take place. If there was a reset then it would remove any previous gains from the system and make pooling much less lucrative. Given the deadline for responding and the uncertainty, recommendation 2.4 seeks delegated approval (to the Service Director: Resources in consultation with the Executive Member for Finance and IT) for the Council to be part of a pool if the option is available and it is estimated to be in the financial interests of the Council
- 8.14. The Council does not expect to receive non-ringfenced emergency grant funding from government in 2022/23 to help mitigate the ongoing financial impacts of the Covid-19 pandemic. As detailed in the 2022/23 Revenue Budget Report presented to Full Council in February, a central provision of £1.740m was included in the budget for 2022/23. As explained in table 3, £1.630m of the allocation has been released based on the forecasts detailed at Quarter one, with £110k of the provision in respect of Hitchin Town Hall income not yet allocated. As shown in table 6 below, forecast adverse variances reported at quarter one totalling £1.190m in 2022/23 have been mitigated by the central provision, with a further £440k of the budget provision forecast to be unused and therefore can be released to the General Fund.

Identified Ongoing Financial Impacts from Covid-19	Original Provision	Forecast variance at Q1	Provision applied at Q1	(Shortfall in original provision) / provision amount unused
	£k	£k	£k	£k
Leisure Centre management fee income	420	+428	428	(8)
Pay as you use parking income	200	+198	198	2
Homeless costs	80	+83	83	(3)
Car park season tickets	120	+185	185	(65)
AFM income	420	+296	296	124
Trade Waste income	100	(13)	0	100
Recyclable materials	290	(341)	0	290
TOTAL Reported at Q1	1,630	836	1,190	440

8.15. Table 7 below summarises the impact on the General Fund balance of the position at Quarter One detailed in this report.

Table 7 – General Fund impact

	Working Budget	Projected Outturn	Difference
	£k	£k	£k
Brought Forward balance (1st April 2022)	(10,607)	(10,607)	-
Net Expenditure	18,615	18,056	(559)
Funding (Council Tax, Business Rates, NHB, Lower Tier Services Grant, 2022/23 Services Grant)	(15,820)	(15,820)	0
Release of the balance held in the earmarked Special Reserve	(639)	(640)	(1)
Contribution to Collection Fund	5,345	5,345	0
Funding from Reserves (including Business Rate Relief Grant)	(5,888)	(5,888)	0
Carried Forward balance (31st March 2023)	(8,994)	(9,554)	(560)

- 8.16. The minimum level of General Fund balance is determined based on known and unknown risks. Known risks are those things that we think could happen and we can forecast both a potential cost if they happen, and percentage likelihood. The notional amount is based on multiplying the cost by the potential likelihood. The notional amount for unknown risks is based on 5% of net expenditure. There is not an actual budget set aside for either of these risk types so, when they occur, they are reflected as budget variances (see table 3). We monitor the level of known risks that actually happen, as it highlights whether there might be further variances. This would be likely if a number of risks come to fruition during the early part of the year. We also use this monitoring to inform the assessment of risks in future years. The notional amount calculated at the start of the year for known risks was £1,808k, and at the end of the first quarter a total of £41k has come to fruition. The identified risks realised in the first quarter relate to
 - Usage of bed and breakfast accommodation for homeless households (as highlighted in table 3 above) £3k (net of £80k Covid-19 budget provision).
 - Additional costs associated with progressing the Local Plan (as highlighted in table 3 above) - £38k.

	£'000
Original allowance for known financial risks	1,808
Known financial risks realised in Quarter 1	(41)
Remaining allowance for known financial risks	1,767

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 recommendations contained within this report are to comply with the council's financial regulations with attention drawn to significant budget variances as part of good financial planning to ensure the council remains financially viable over the current fiscal year and into the future. Local authorities are required by law to set a balanced budget for each financial year. During the year, there is an ongoing responsibility to monitor spending and ensure the finances continue to be sound. This means there must be frequent reviews of spending and obligation trends so that timely intervention can be made ensuring the annual budgeting targets are met

10. FINANCIAL IMPLICATIONS

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

11. RISK IMPLICATIONS

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

12. EQUALITIES IMPLICATIONS

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

13. SOCIAL VALUE IMPLICATIONS

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

14. ENVIRONMENTAL IMPLICATIONS

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

15. HUMAN RESOURCE IMPLICATIONS

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

16. APPENDICES

16.1. None.

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

18.1. None.

FINANCE, AUDIT AND RISK COMMITTEE 7 SEPTEMBER 2022

*PART 1 - PUBLIC DOCUMENT

TITLE OF REPORT: MEDIUM TERM FINANCIAL STRATEGY

REPORT OF: Service Director: Resources

EXECUTIVE MEMBER: Finance and IT

COUNCIL PRIORITY: SUSTAINABILITY

1. EXECUTIVE SUMMARY

This report recommends the Medium Term Financial Strategy (MTFS) for 2023/24 to 2027/28 to guide and inform the Council's Business Planning Process. The focus is primarily on setting a budget for 2022/23, as well as determining the actions that will be necessary in setting a longer term budget following on from that. It reflects on the many uncertainties that the Council faces, including continuing impacts of Covid-19, cost of living pressures and future funding uncertainty. Whilst it recommends a five year budget strategy, there is likely to be a need to amend the strategy over time as further information becomes available.

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

2. RECOMMENDATIONS

- 2.1. That Finance, Audit and Risk Committee note and comment on the Medium Term Financial Strategy, as attached at Appendix A, including the recommendations that will be made to Cabinet.
 - That Cabinet that recommends to Full Council the adoption of the Medium Term Financial Strategy 2023-28 as attached at Appendix A.

3. REASONS FOR RECOMMENDATIONS

3.1 Adoption of a MTFS and communication of its contents will assist in the process of forward planning the use of Council resources and in budget setting for 2023/2024 to 2027/2028, culminating in the setting of the Council Tax precept for 2023/24 in February 2023. This will (alongside the Council Plan) support the Council in setting a budget that is affordable and aligned to Council priorities.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The Council needs to have a strategy for setting its budget to ensure that it meets its statutory duty to set a balanced budget over the medium term, and ensure that spend is prioritised towards delivering statutory services and its strategic aims (as set out in the Council Plan).
- 4.2 In line with the Financial Management Code (published by the Chartered Institute of Public Finance and Accountancy), the Council aspires to set a longer-term financial strategy (e.g. 10 years) that considers the various risks and plans scenarios to deal with them. However, this MTFS deliberately takes a shorter-term view, which reflects the significant uncertainty faced in relation to the still ongoing effects of Covid-19 and the cost of living pressures.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 The Executive Member for Finance and IT and Deputy have been consulted in developing this Strategy.
- 5.2 No external consultation has been undertaken in the preparation of this report.
- 5.3 Members will be aware that consultation is an integral part of the Corporate Business Planning process, and consultation on the individual actions and projects planned to support the Objectives will be carried out in accordance with the Corporate Business Planning Timetable and the Council's Consultation Strategy.
- 5.4 As in previous years, Member workshops will be held in regard to corporate business planning proposals.

6. FORWARD PLAN

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

7. BACKGROUND

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

8. RELEVANT CONSIDERATIONS

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

9. LEGAL IMPLICATIONS

9.1 Finance, Audit and Risk Committee's Terms of Reference include at 10.1.5 (b) "[t]o review and recommend the Medium Term Financial Strategy to Cabinet (including, although not limited to consideration of associated procedures, policies and process)".

- 9.2 Cabinet's terms of reference include at 5.6.38 the power, by recommendation "to advise the Council in the formulation of those policies within the Council's terms of reference". Council's terms of reference include at 4.4.1(b) "approving or adopting the budget". The MTFS is part of the budget setting process.
- 9.3 Councillors are reminded of the requirement, under section 30 of the Local Government Finance Act 1992, to set a balanced budget prior to the commencement of the financial year in question; and also that the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of estimates and the adequacy of reserves allowed for in the budget.

10. FINANCIAL IMPLICATIONS

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

11. RISK IMPLICATIONS

- 11.1 The key risks within the budget assumptions are referred to in Appendix A.
- 11.2 There are financial and reputational risks involved in arriving at a balanced budget against the uncertainty surrounding levels of government funding. We seek to mitigate the risks through the use of the established corporate business planning process and early involvement of members in the process.

12. EQUALITIES IMPLICATIONS

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

13. SOCIAL VALUE IMPLICATIONS

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

14. ENVIRONMENTAL IMPLICATIONS

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

15. HUMAN RESOURCE IMPLICATIONS

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

16. APPENDICES

16.1 Appendix A- Medium Term Financial Strategy 2023-28

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

18.1 None

North Herts Council

Medium Term Financial Strategy 2023-28

Purpose of the Strategy

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

The strategy continues to be affected by the impacts of Covid-19. We will continue to use some of our reserves to fund ongoing impacts during 2023-24. It is also now heavily affected by the cost of living crisis, and specifically high levels of inflation. The strategy assesses our ability to use reserves to fund some of that impact, so we can avoid having to cut services at a time when our residents might need them the most.

We also face continued uncertainty over our future funding. It is expected that there will be a two-year funding settlement for 2023/24 and 2024/25 announced by the end of this calendar year. However, work on that will have been delayed by the process to elect a new Conservative party leader. It is also possible that Government priorities may change in relation to Local Government. All this means that we are likely to have less time to react as the financial outlook becomes clearer.

This strategy goes hand in hand with our Council Plan, as we can't promise to deliver things that we can't afford. The detailed projects contained within the Council Plan have been incorporated into our forecasts.

Delivering our Vision and Priorities

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

Our vision is that 'we put people first and deliver sustainable services, to enable a brighter future together'. Our priorities therefore focus on: People First, Sustainability and A Brighter Future Together.

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

Some of what we might like to achieve uses up resources (such as money, staff time or energy). We will look to be creative in identifying opportunities that deliver our priorities without using up resources. This will include looking for external funding and working with others.

Looking forward

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

Over the last few years, we had taken the opportunity to increase the level of our general fund reserves. The plan was that they would be used to soften the impact of expected future funding reductions. We have instead had to use these reserves to respond to Covid-19 and expect that this need will continue in 2023/24. We will also need to use them to help with the impact of rising costs from exceptionally high levels of inflation. Given the scale of these issues, we will also release any other reserves that we no longer need and add these to the general fund reserve. However reserves can only be spent once, and it is clear that spend will need to be reduced in the medium term and balanced against the funding we receive. This will require some difficult decisions on which services meet our statutory obligations and best deliver against our priorities.

This strategy is based on significant uncertainty and as better information becomes available then this will be used. The budget that Full Council sets in February 2023 will be focused on 2023/24, but will also consider the medium term impact.

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Our current budget position

Our budget for this year (2022/23) was set at a meeting of Council in February 2022. This also set indicative budgets for future years. In June 2022 we reported our end of year position for 2021/22. This report also detailed spend that had not taken place in 2021/22, that would now take place during 2022/23. The numbers below also reflect our forecasts for 2022/23 as reported at the end of the first quarter of the year (up to end of June).

	£ millions
General Fund balance at the end of 2021/22	10.607
Less: How much we plan to spend during 2022/23	18.056
Add: Our expected funding during 2022/23	15.820
Add: other reserves that we plan to use to fund our expenditure *	1.183
Equals: General Fund balance at the end of 2022/23 (start of	
2023/24)	9.554

^{*} We can only use our reserves once. The use of reserves in response to Covid-19 and the cost of living crisis is exceptional and must not form part of an ongoing sustainable strategy.

We have a Business Rates grant reserve. Government provide businesses with various Business Rate reliefs and provide us with funding to cover them. Due to the way that Business Rate income is dealt with, we often receive the funding earlier than the actual impact on our accounts. So, the funding is put into a reserve until it is needed. In the past we have also gained from Business Rate pooling arrangements and have put these gains into the reserve to protect us from future risks. The total balance on the reserve as at the end of 2021/22 was £9.4m. Around £0.5m was previously agreed to be released to the General Fund in 2022/23, while we know that we will also need to use around £4.9m of the reserve to cover the unwinding of Covid-19 impacts on Business Rates and other costs in this year and next. We will also continue to set aside £1m to cover fluctuations in Business Rates income, which is made up of £0.5m for normal risk and an additional £0.5m to reflect the uncertainty from the current economic situation. Therefore £3m will be released into the General Fund.

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

Covid-19 impacts

For the 2022/23 budget we assumed that spend and income would be back to normal but made a central budget provision of £1.74m (i.e. these are assumed additional costs which are based on specific budget assumptions, but as the actual impact is very uncertain the resulting total budget will be managed corporately and allocated to individual budgets when there is greater certainty over the specific impacts). This was based on the table below.

Type of spend/ income	Normal budget (£m)	Basis of provision for 2022/23	Amount of provision in 2022/23 (£m)	Basis of provision for 2023/24	Amount of provision in 2023/24 (£m)
Leisure Centre management fee income	0.82	50% of management fee	0.42	20% of management fee	0.16
Pay as you use parking income	2.02	10% of annual income	0.20	5% of annual income	0.10
Hitchin Town Hall	0.23	50% of annual income	0.11	20% of annual income	0.04
Trade Waste income	1.01	10% of annual income	0.10	5% of annual income	0.05
Homeless costs	0.08	100% increase	0.08	50% increase	0.04
Car park season tickets	0.32	40% of annual income	0.12	20% of annual income	0.06
Recyclable materials	0.29	100% increase	0.29	50% increase	0.15
AFM income	0.42	100% of annual income	0.42	50% of annual income	0.21
			1.74		0.81

An amount for 2023/24 was also estimated. Whilst the Quarter 1 monitoring for 2022/23 shows differences in terms of specific continuing impacts, the overall estimate is currently about in line. Therefore, the overall assumption for 2023/24 of £0.81m will be retained. This then assumes that budgets will return to normal (pre Covid-19 levels) from 2024/25 onwards. It also assumes that any future waves of Covid-19 will not lead to significant mandatory or voluntary changes in behaviour, as these are likely to further delay the return to pre Covid-19 levels. There is also a risk that some budgets e.g. parking season tickets will never return to pre Covid-19 levels.

Inflation and cost of living impacts

The UK (as well as many other countries) is facing a period of extremely high inflation (expected to be above the target 2% target level for 2 years), and there is also an expectation that the UK will enter a period of recession. As a result the Council needs to consider the following impacts:

- The cost of providing contracted services
- Pay inflation for our staff
- Increases in fees and charges, and impact on demand/ability to pay
- Eligibility for Council Tax Reduction Scheme
- Other support that the Council can provide
- Interest rate increases

Contracted services inflation

Our largest contract is for waste collection and street cleansing. The contract is inflated in May each year based on a basket of indicators (35% wage inflation, 40% general inflation, 15% fuel inflation and 10% uninflated). The increase in May 2022 was just under 10%, and forecasting a similar increase in May 2023, before returning to around 2% from May 2024.

Inflation on our grounds maintenance contract is linked to CPI and the increase for 2023/24 is estimated at around 5%.

Electricity and gas prices are expected to increase by around 20% in 2023/24, which is on top of a similar increase for 2022/23.

Overall the estimate for contract expenditure inflation is just over £800k in 2023/24, and then reducing to around £400k in 2024/25.

Pay inflation

Previous financial strategies had assumed average pay inflation of 2%. The pay claim from the Unions for 2022/23 sought a minimum £2,000 increase on all pay grades, or an RPI increase if this was greater. The employer offer is for a flat £1,925 increase across all pay grades. The percentage increase therefore varies by grade and ranges from around 10% (at grade 1 and the bottom of grade 2) to under 2% (at grade 16). The intention of the employer offer at a high level (compared to what had been budgeted by Councils) was to try and seek a relatively quick resolution, to get the money to employees and allow the focus to move to 2023/24. The Unions have said they are going to ballot their members on the offer, with one of them likely to recommend it is rejected and two of them expected to be neutral.. It needs two Unions (of the three) to agree.

For the purpose of medium term planning, we will assume:

- A 2022/23 pay award in line with the employer proposal, but noting the risk that this may turn out to be too low. The overall cost of this is £840k, or around 5% of the pay bill.
- A 2023/24 pay award at an average of 4%
- For 2024/25 onwards a pay award at an average of 2%, which is line with longer term inflation forecasts.

Increases in fees and charges, and impact on demand/ ability to pay

It has previously been decided that parking charges and garden waste changes should increase at a fixed 2% per year. These increases will be continued. We will also continue to gradually move the month when car parking charges are increased to bring it back to the start of the Summer. In 2023/24 the aim is that the increase will be applied from August, July in 2024/25 and June from 2025/26 onwards.

As mentioned previously, inflation on the waste contract is around 10%. We believe that trade waste and the trade recycling market can bear an increase of this level, so intend to pass on this increase. Other

suppliers of this service will also be faced with costs increases that are heavily linked to fuel inflation. Therefore, we do not want to distort the market by increasing our charges by too small an amount.

For other fees and charges where we have discretion as to how they are set, we have previously assumed an increase of CPI + 2%. But against this presumption we have considered whether the charge is covering the full cost of the service and the impact on demand of a price increase.

Given the current high CPI level, we don't think that most of our costs will increase at quite that level and certainly would expect an increase at that level to have an impact on demand. Therefore we will assume that our other discretionary fees and charges will increase at around 4% for 2023/24, and then 2% per year thereafter. As part of the 2023/24 detailed budget process we will review all fees and charges (including concessions) and put forward proposals on what these charges should be. This will allow greater transparency as to how these charges are set.

Our current assumption is that increases at these levels would not affect demand. For most of our services we seek payment in advance of receiving the service, so we are also not expecting an increase in levels of overdue debt.

Eligibility for Council Tax Reduction Scheme

The Council Tax Reduction Scheme (CTRS) determines who is eligible for a discount on their Council Tax bill. For pensioners there is a mandatory scheme set by Government. For working age residents, we can determine how any discounts are determined.

We are developing a proposal to change the way that working-age CTRS eligibility is determined. This will be subject to consultation before a final decision is made by Council in January. The current modelling is that the proposed scheme would cost slightly more than the current scheme. The increase is sufficiently small that it can be absorbed into assumptions around future tax base growth. The impact of CTRS is that it decreases the equivalent number of properties that would pay Council Tax.

These tax base assumptions will also have to consider the general economy and the impact on household income levels. If the UK does enter into a recession, then this is likely to cause further problems beyond the impact of price inflation.

Rising building costs and lower householder income may have an impact on housebuilders' willingness to invest in new housing and bring housing to the market. This in turn impacts on Council Tax base growth. However, demand is still vastly outstripping supply, housebuilding projects take time to deliver and inflation is expected to be brought back under control.

Overall, it is considered reasonable to continue with estimated Council Tax base growth of 0.5% per year. This is lower than the forecasts pre-Covid-19. This forecast is a net increase, which reflects that actual increases will be higher but will be accompanied by costs that vary with numbers of households (i.e. waste collection). This assumes that Full Council will adopt the North Hertfordshire Local Plan. If the plan is not adopted then it is likely that housing growth will be lower.

Other cost of living support

Whilst we would like to be able to offer our residents more support during this very difficult economic time, we have to be mindful of the pressure on our own finances. Therefore, we will focus on continuing our discretionary services and working with our partners, voluntary sector and community groups to signpost where support can be obtained..

Pension costs

Our employees are eligible to join the Local Government Pension Scheme (LGPS), which is a defined benefit scheme. We make annual contributions to the scheme based on a percentage of payroll costs and a lump sum. The lump sum is to cover past service costs. Our budget assumes that the percentage rates will remain unchanged (although the actual amount still therefore goes up with inflation) and the lump sum will increase with inflation. There had been an early indication that the percentage contribution rate could decrease slightly, but that may have been impacted by high inflation and other economic factors. The latest triennial valuation (for March 2022) will be completed before the 2022/23 budget is set. That valuation will set our pension contribution rates for the next three years.

Waste costs

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

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

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

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

As there are so many uncertainties above (both in terms of costs and funding) we have not assumed any specific financial impact at this stage. But we will have to review this as more information becomes available and have to consider that the impact could be significant. Councillor workshops on planning for the new contract have highlighted that there is likely to be a need to make decisions on how to try and keep costs under control. This will include decisions that take advantage of the fact that we have a joint contract with East Herts Council.

Delivering our priorities

Our Council Plan sets out our vision and priorities for 2022-27. As there have been no changes to that vision and priorities, it has not been necessary to update the Council Plan this year. However, the Council Plan that was set in 2022 did include some examples of our key Council projects. As we now monitor our key projects through a regularly updated Council Delivery Plan, this section of the Council Plan can now be deleted.

The Council Delivery Plan for 2022/23 was agreed by Cabinet in March 2022, and a Quarter 1 update will be provided to Overview and Scrutiny and Cabinet in September 2022.

The table below shows the status of each of these in terms of resources and medium term financial assumptions:

Project	Resources			
Museum/ Hitchin Town Hall recovery	To be delivered from existing staffing resource. Assumed that income will return to pre-Covid-19 levels.			
Tourism Strategy	Strategy to be delivered in 2022/23 from existing resources. No allowance for additional resource to deliver the resulting strategy.			
Business Recovery Grants	Coping with delivery from existing resources. Expect to complete in 2022/23.			
Town Centre recovery and strategies	Generally being delivered from existing and new (part of Shared Prosperity Fund) grant funding.			
Health inequalities	Dependent on external funding (e.g. County Council Public Health funding). Some committed (elements led by Health and Wellbeing) but currently time limited and the remainder (elements led by Environmental Health) has not been bid for yet. No District Council funding assumed.			
Economic Development Strategy	Strategy to be delivered in 2022/23 from existing resources. No allowance for additional resource to deliver the resulting strategy.			
Resident/ Public EV charging in our car parks	Dependent on a private sector partner and Government funding. A small amount of match funding in capital programme.			
Cycling network	To be delivered from existing staffing following adoption of the strategy by HCC, which will limit what can be achieved.			
EV charging for Council Vehicles	To be completed in 2022/23.			
Royston Leisure Centre Solar Thermal	To be completed in 2022/23.			
Pay on exit review	Feasibility review to be completed in 2022/23. No resources identified for any capital works or impact on income.			
Replacement of Royston Town Hall Annexe	Expectation that funding will come from a third party, no Council capital funding has been allocated.			
Customer Portal	Elements will continue in future years, and will be subject to a business case to determine what will be taken forward. Currently not expecting any significant resources required.			
Help Residents Make Payments at Convenient Locations	To be completed in 2022/23.			
Supplier Self-Service	Currently cost unknown, with expectation that cost would be off-set by staff savings.			
Empty Homes Strategy	Strategy to be adopted by Cabinet in 2022/23, no dedicated resource to implement			
New Ways of Delivering Housing on Council Land	Investigation work part of 'Enterprise' work programme. No capital resource allocated, but will only continue if provides a net positive return compared to normal land sale. Impact on			

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Project	Resources			
	timing of capital receipts would impact funding of capital programme.			
Work with Stakeholders to Increase Accommodation for Homeless People	As the Council is not a stock holding Authority, the resource has to come from stakeholders (including Government). Support to be provided from existing staffing resources, although that is becoming challenging.			
Local Plan Implementation	Anticipated that the Local Plan will be taken to Full Council for adoption in late 2022, adoption will follow predominately in 2023/24.			
Master Planning	No dedicated resource with the expectation that funding will come from those looking to develop large sites.			
Financial Sustainability/Balancing our Budget	Monitoring of impacts and prompting action to be met from existing resources. Will require decisions on priorities.			
Full Review of Council Tax Reduction Scheme	To be completed in 2022/23.			
Response to Government Resources and Waste Strategy	As detailed previously, no assumptions have been on the financial impact of this.			
Green Space Management Strategy	To be delivered from existing resources, including capital programme allocations.			
Charnwood House	Council decision in February 2022 was to support the project but not to allocate a specific amount of funding, pending plans (including direct and third-party funding contributions) from community groups. That is still the overall approach. However asbestos removal works are in the process of being undertaken as otherwise certain rooms cannot be accessed without specialist protective equipment. This is being funded from the existing property condition capital budget. This has been considered necessary to ensure the safety of those accessing the building, which will therefore help with generating community offers. It is also a pre-requisite for any improvements to the building. It was always expected that the total funding that the Council would provide would be greater than this amount, and the overall principle will still be to maximise third party contributions.			
Museum Storage	Included in the capital programme with assumed income from commercial storage.			
Review Boundary	Expected to be delivered from existing resources.			
Other capital projects to reduce the Council's carbon impact	Some projects included within the existing capital programme (e.g. solar PV at leisure facilities). Any other projects would need be determined through a decarbonisation plan/ net zero roadmap, and capital resources allocated. Recent grant funding opportunities have all had requirements that the Council would not meet.			
Shared Prosperity Fund	Grant includes an element for administration which will be used for required monitoring and performance returns.			
Churchgate area regeneration	There will be a report setting out next steps. Overall expected that the scheme will be better than cost neutral. Cost neutral used for financial planning at this stage.			

There is not currently any resource allocated for any new projects that are not listed above. Whilst these could be added as part of the budget setting process, the forecast section below determines that net savings need to be identified and delivered. Any discretionary cost increases will therefore increase the savings that have to be made in other areas.

Future funding from Government

Our funding is controlled by Government in the following ways:

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

There was supposed to be a significant change to the way that we and other local authorities were funded. This would have included a new funding formula and a change to how much of the Business Rates that we collect we could retain. It is now expected that the earliest that this change will be introduced will be 2025/26, although it is possible that it could be from 2024/25. The assumption that it will be 2025/26 is based on a commitment from Government that there will be a two-year funding settlement this year, that would therefore cover 2023/24 and 2024/25.

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

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

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

For 2023/24 and 2024/25, the forecast is made on the following assumptions:

- There will be a two-year funding settlement, and therefore 'negative RSG' will **not** be applied.
- We will receive New Homes Bonus (or equivalent) funding of £150k. This is based on previous estimates of what we would receive as the old scheme is withdrawn, combined with the assumption that the Local Plan will be adopted and that we will see more significant housing growth.
- Continuing funding of £100k to cover the costs of the Social Care levy employer contributions.
 Assumed at a flat amount even though it should grow with inflation.

For 2025/26 onwards, these additional assumptions are used:

- Negative RSG (or the equivalent of) will be applied and phased in over two years. Half the total impact (estimated at £629k in 2025/26) and the full impact from 2026/27 (estimated at around £1.3m and to increase with inflation).
 - There is the potential that we will also be able to gain from the Business Rates that we collect being above whatever baseline level is set. However, at this stage, this is not included in the forecasts.
- When Negative RSG is applied, we will cease to provide funding to Parish, Town and Community
 Councils relating to Council Tax support. The current funding will be reduced by half in 2025/26, and
 then withdrawn completely from 2026/27.

Council Tax

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

We are assuming that Government will continue to allow Council Tax increases by up to the higher 2% or £5 for a band D property (with the other bands increased in proportion), without the need for a local referendum. In calculating the funding that is available, Government assume that councils will increase their Council Tax by the maximum available. To do as much as we can to maintain our service provision, we will increase our Council Tax by the maximum possible, without the need for a referendum. For a band D property this increase will be around £5 per year, or 10p per week.

Our reserves

We are required to make sure that we have a certain level of reserves when we set our budget. This is to provide protection against known and unknown risks. This includes us being able to react to changes in demand and any emergencies that may arise. Our allowance of known risks is based on estimating the monetary impact of an event happening and applying a percentage to this, based on the likelihood of it happening (high, medium or low). Our allowance for unknown risks is based on 5% of net expenditure and 3% of budgeted income (excluding Housing Benefit). For 2022/23 this gave a minimum balance of £3.05m. It is assumed that it will need to continue to be at around that level.

We are forecasting that our General Fund reserves at the start of 2023/24 will be £9.5m. We will plan to use our reserves to continue deliver our existing services for as long as is financially viable, to support our residents through the current economic conditions. That means using a proportion of our General Fund reserves and the £3m released from the Business Rates grant reserve. In planning our future budgets we need to make sure that we stay safely above the minimum General Fund level.

Our future forecasts and savings required

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

£ thousands	2023/24	2024/25	2025/26	2026/27	2027/28
General Fund balance at the start of the year	9,554	9,554	9,554	9,196	8,593
Less: How much we plan to spend during the year on existing services (before making savings)	17,223	17,350	17,376	17,244	16,918
Less: provision for additional Covid-19 costs	810	0	0	0	0
Add: Our expected funding during the year	15,883	16,326	16,092	15,841	16,220
Add: other reserves that we plan to use to fund our expenditure	1,950	724	326	0	0
Add: additional net savings that we need to deliver *	200	300	600	750	750
Equals: General Fund balance at the end of the year	9,554	9,554	9,196	8,543	8,545

^{*} These are the additional savings that need to be delivered in each year. Over the five year period the cumulative annual savings that will be required are £2.6 million.

Addressing our funding gap

The table above shows savings that we need to deliver to achieve a balanced budget by 2027/28. That means that by that year our funding will equal our expenditure. Savings could mean any of the following:

- Being able to deliver our existing services at a lower cost. The use of technology and automation
 may enable to do this in some areas. But generally the savings that we have delivered across a
 number of years have been through efficiencies, meaning that there are fewer opportunities left.
- Being able to generate additional income from services that we are able to charge for, less any costs in providing that additional level of service.
- Being able to generate income from commercial activities. The opportunities to do this are limited by economic conditions and government policy. We also need to make sure that these activities are in line with our priorities.
- Reducing the level of services that we provide, or no longer providing services that we are not required to provide. Whilst we would always want to avoid this, we have to consider the overall sustainability of our Council.

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

We have carried out a budget challenge process to identify the areas where we are most able to make savings through service reductions. We will revisit that work when we have greater certainty over our future funding, or if it becomes apparent that we cannot sustain the current strategy until that point. We will use public consultation to support our decisions on which services we should prioritise.

Capital budgets

We are currently able to fund our capital expenditure (spend on assets that have a useful life of more than one year) from our capital reserves. This means that the revenue cost of our capital investments is fairly low. Over the next few years we will run out of capital reserves and will need to borrow to fund our capital spend. That will add to our revenue costs as we will charge a Minimum Revenue Provision (MRP). A MRP charge is a revenue cost that spreads the cost of unfunded (i.e. not met from capital receipts or grant funding) capital expenditure over the life of the Councils assets, so that over time capital expenditure is fully funded. The life of the assets will be assumed to be 40 years, so for unfunded capital expenditure of £40m there would be a revenue cost of £1m per year for 40 years. In the longer term we will also have to fund borrowing costs too. Therefore, all discretionary capital spend will be assessed on the assumption that funding costs will be incurred.

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

Previously, we have made an assumption that we will dispose of our surplus land at the best price attainable (subject to the purchaser adhering to all planning conditions). Under our climate change strategy, we have committed to dispose of surplus land so to enable the building of 'greener' housing. It is estimated that this will result in a reduction in value of around 10% based on a high standard of sustainable housing.

ANNEX 1 Other Budget Assumptions

- Investment income is based on cashflow projections and a 1.79% return. This is significantly affected by the timing of expenditure in the capital programme.
- · Contract inflation in accordance with the individual contract terms.
- No allowance is made for general inflation on remaining expenditure. Although after allowing for salary and contractual inflation, the remaining amount is insignificant.
- An assumed 99% collection rate for the purposes of calculating the Council Tax base.
- · An assumed 97% collection rate for Business Rates
- Any future changes to the local Council Tax Reduction Scheme will aim to have a cost neutral impact.
- A vacancy factor set at approximately 2.5% of salary budget to yield in the region of £300k is included in the base budget in each year.
- The Council will not subsidise areas which are the responsibility of another precepting body other than through a one-off match-funding arrangement where this is in the interests of the local Council taxpayers.
- The impacts of Covid-19 are only reflected to the extent mentioned.
- All assumptions are subject to further refinement during the budget process as more certain information becomes available.

