

NORTH HERTFORDSHIRE DISTRICT COUNCIL



27 February 2023

Our Ref Finance, Audit and Risk Committee/8
March 2023
Contact. Committee Services
Direct Dial. (01462) 474655
Email. committee.services@north-herts.gov.uk

To: Members of the Committee: Councillors Terry Tyler, Clare Billing, George Davies,
Morgan Derbyshire, Phil Weeder, Sean Nolan and Terry Hone

Substitutes: Councillors Steve Jarvis, Nigel Mason, Adam Compton, Simon Bloxham and
Chris Hinchliff

NOTICE IS HEREBY GIVEN OF A

MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE

to be held in the

**COUNCIL CHAMBER, DISTRICT COUNCIL OFFICES, GERON
ROAD, LETCHWORTH**

On

WEDNESDAY, 8TH MARCH, 2023 AT 7.30 PM

Yours sincerely,

Jeanette Thompson
Service Director – Legal and Community

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

Agenda

Part I

Item		Page
1.	APOLOGIES FOR ABSENCE 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 - 25 JANUARY 2023 To take as read and approve as a true record the minutes of the meeting of the Committee held on the 25 January 2023.	(Pages 5 - 10)
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.	ANNUAL GOVERNANCE STATEMENT REPORT OF THE POLICY AND COMMUNITY MANAGER	(Pages 11 - 24)
	For the Committee to approve the Annual Governance Statement (AGS) for the year 2021/22 and Action Plan.	

7. **LOCAL CODE OF GOVERNANCE** (Pages
REPORT OF THE POLICY AND COMMUNITY MANAGER 25 - 40)
- For the Committee to approve the Local Code of Corporate Governance for 2023.
8. **AUDIT RESULTS REPORT** (Pages
REPORT OF ERNST AND YOUNG 41 - 88)
- To consider the Audit Results Report.
9. **STATEMENT OF ACCOUNTS 2021/22** (Pages
REPORT OF THE SERVICE DIRECTOR – RESOURCES 89 - 198)
- For the Committee to approve the audited Statement of Accounts for 2021/22.
10. **SAFS PROPOSED ANTI-FRAUD PLAN 2023/24 AND PROGRESS WITH DELIVERY OF 2022/23 AUDIT PLAN** (Pages
REPORT OF THE SHARED ANTI-FRAUD SERVICE 199 - 212)
- To review and approve the Shared Anti-Fraud Services (SAFS) Anti-Fraud Plan 2022/23.
11. **AUDIT PLAN 2023/24** (Pages
REPORT OF THE SHARED INTERNAL AUDIT SERVICE 213 - 232)
- To approve the audit plan for 2023/2024.
12. **Q3 2022/23 AUDIT UPDATE REPORT** (Pages
REPORT OF THE SHARED INTERNAL AUDIT SERVICE 233 - 246)
- To receive and note the Q3 Audit Update Report.
13. **THIRD QUARTER REVENUE BUDGET MONITORING 2022/23** (Pages
REPORT OF THE SERVICE DIRECTOR – RESOURCES 247 - 260)
- To consider the Third Quarter Revenue Budget Monitoring report for 2022/23.
14. **THIRD QUARTER 2022/23 INVESTMENT STRATEGY (CAPITAL AND TREASURY)** (Pages
REPORT OF THE SERVICE DIRECTOR – RESOURCES 261 - 292)
- To receive an update on progress with delivering the capital and treasury strategy for 2022/23, as at the end of December 2022.
15. **POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS**
The Chair to lead a discussion regarding possible agenda items for future meetings.

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Public Document Pack Agenda Item 2

NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MEETING HELD IN THE COUNCIL CHAMBER, DISTRICT COUNCIL OFFICES, GERNOH
ROAD, LETCHWORTH

ON WEDNESDAY, 25TH JANUARY, 2023 AT 7.30 PM

MINUTES

Present: *Councillors: Terry Tyler (Chair), George Davies, Terry Hone, Sean Nolan
Nigel Mason*

John Cannon (Independent Person)

In Attendance: *Melanie Stimpson (Democratic Services Manager), Ian Couper (Service
Director – Resources), Eleanor Hopcraft (Committee, Member and
Scrutiny Officer)*

Also Present:

*At the commencement of the meeting there was 1 member of the public,
including registered speakers.*

71 APOLOGIES FOR ABSENCE

Audio recording – 1 minute 32 seconds

Apologies for absence were received from Councillors Clare Billing and Phil Weeder¹.

Having given due notice Councillor Nigel Mason substituted for Councillor Clare Billing.

72 MINUTES - 7 DECEMBER 2022

Audio recording- 1 minutes 51 seconds

Councillor Tyler as Chair proposed and Councillor Terry Hone seconded and, following a vote it was:

RESOLVED: That the Minutes of the Meeting held on 7 December 2022 be approved as a true record of proceedings and be signed by the Chair.

73 NOTIFICATION OF OTHER BUSINESS

Audio recording- 2 minutes 35 seconds

The Chair advised that there was a SIAS training session by Chris Wood for Members once the formal meeting had closed.

74 CHAIR'S ANNOUNCEMENTS

Audio recording- 2 minutes 57 seconds

¹ Apologies for absence regarding Cllr Weeder were submitted prior to the meeting, but not announced as notification was not sent to the appropriate Team email address.

The Chair:

- (1) advised that, in accordance with council policy this meeting was being recorded and the recordings would be available on Mod Gov or via the Council's YouTube Channel.
- (2) reminded Members that they must make declarations of interest before an item, the detailed reminder about this and speaking rights was set out under Chair's announcements in the Agenda.
- (3) advised for purposes of clarification that 4.8.23(a) of the constitution did not apply to this meeting.

75 PUBLIC PARTICIPATION

Audio recording- 3 minutes 41 seconds

There was no public participation at this meeting.

76 FINAL REVENUE BUDGET 2023/24

Audio recording- 3 minutes 48 seconds

The Chair invited Ian Couper, Service Director: Resources to present the report.

In summary the Service Director: Resources advised:

- The Council was over halfway through the budget process for the year, starting with the Medium-Term Financial Strategy in September through to Council approving a budget in February.
- That there were a few changes between the version presented at this meeting and Cabinet version of the report, primarily the addition of recommendation 2.7 to be presented to Cabinet, with regard to the additional funding for the Leisure Contract.
- Paragraph 8.7 onwards of the report looked at the finality of the outcomes of the draft local government settlement. Overall, in terms of funding, the Council were slightly better than forecasted but inflation pressures have brought the Council back to where they started.
- Whilst the Council hoped that in 2023/24 to be part of a Business Rate Pool, revaluation of Business Rates meant greater risk which resulted in all the Councils withdrawal from the Pool.
- Paragraph 8.12 detailed other grants that the Council gets, including general and specific grants. It also gave an overview on where the Council thought changes would occur and how funds and resources would be affected.
- Paragraph 8.19-8.21 detailed the minimum balance for the General Fund, including the processes that were followed.
- Allowance for General Risk in relation to percentages of the Council's spend and income. Specific Risks were also covered in Table 5 and Appendix A which may have an impact in the coming year.
- The recommended Minimum Balance was £2.5million. The Council was not near that balance; however, this would help forecast for the coming years.
- Budget Position refresh at the end of November (month 8) is used to flag any issues in the current budget year going forward. This was detailed in Table 7.
- Paragraph 8.25 onwards detailed the Capital Budget and the Revenue impact. It was important the Revenue impact was brought forward as adjustments such as borrowing capital and borrowing internally had to be considered.

- Paragraph 8.27 detailed areas that are of interest and of concern with risks.
- Paragraph 8.35 referred to the Financial Resilience Index, with more detail in Appendix B. There were no concerns on the Index, but it was flagged for consideration.
- Paragraph 8.37 detailed cumulative impact, with more detail in Appendix C.
- In the short term, the Council was in a better position due to lower use of Reserves.
- In the medium term, the Council needed to make annual savings of £2.5million based on current forecasts by 2027/28.
- Due to this, there was the capacity to take a gradual approach in the next two years to factor in the recovery from the Cost-of-Living crisis and to get more certainty over future funding.
- In future years, significant savings will need to be identified and delivered.

Questions were asked by the following:

- Councillor Sean Nolan
- Councillor Terry Hone
- John Cannon

In response, the Service Director: Resources advised:

- There were two components to the £2.5million minimum balance. The amount for specific risks and additional funds also set aside for unknown risks.
- With any large contract there will be concerns around the price of a new tender. There are further concerns during periods of high inflation, and remaining uncertainty over government proposals in relation to waste collection.
- Areas such as Legal and Planning were struggling with recruitment. Different methods of recruiting were being tried such as welcome payments.
- No financial impact is expected in terms of current contract with SLL following the company losing the Stevenage Borough Council Leisure contract, as the open book arrangements only allowed for the direct costs of our contract to be charged.
- Reserves were being used to fund the General Fund position by £3million.

The Chair advised that this report was presented to FAR for comment before referral to Cabinet.

That Chair asked about losses to the reserves over the next financial year.

Ian Couper advised that this was detailed in Appendix C. It was forecast that in 2023/24 £750k reserves added to a potential penalty from Central Government of £1million in 2025/26 could be the losses.

Councillor Terry Tyler proposed and Councillor Terry Hone seconded, there being no debate, it was:

RECOMMENDED TO CABINET:

That Cabinet recommends that Council:

1. Notes the position on the Collection Fund and how it will be funded.
2. Notes the position relating to the General Fund balance and that due to the risks identified a minimum balance of £2.5 million is recommended.

3. Notes the net revenue savings that are likely to be required in future years, combined with the Chief Finance Officer's commentary on the reliability of estimates and the resilience index.
4. Approves the revenue savings and investments as detailed in Appendix B.
5. Approves a net expenditure budget of £18.123m, as detailed in Appendix C.
6. Approves a Council Tax increase of 2.99%, which is in line with the provisions in the Medium Term Financial Strategy.

REASONS FOR DECISIONS:

To ensure that all relevant factors are considered in arriving at a budget and Council Tax level for 2023/24. To ensure that the budget is aligned to Council priorities for 2023/24 as set out in the Council Plan.

77 INVESTMENT STRATEGY (INTEGRATED CAPITAL AND TREASURY)

Audio recording- 29 minutes 44 seconds.

The Chair invited Ian Couper, Service Director: Resources to present the report.

In summary the Service Director: Resources advised:

- The report detailed the capital budget and treasury position.
- Section 7 detailed the Current Capital Position.
- Section 8 onwards summarised Appendix A, the full Investment Strategy.
- Format described assets that the Council had currently, how to maintain those, detailed new assets that the Council was planning to acquire and planned investments into current assets.
- The Service Director highlighted a mistake in the Report in Paragraph 5. It referred to the additional allocation for CCTV cameras. The correct figure was £0.15million, not £0.015million. The amounts were correct in the detailed tables.
- The Strategy would lead to medium-term borrowing to fund investment due to Capital Reserves being used up.
- The report detailed borrowing internally against the Cash Reserve, which is recommended as best practice.
- The Council needed to consider a buffer balance for borrowing as well as structuring the borrowing.
- Paragraph 8.9 detailed some changes to limits where investments can be made due to less cash. It also covered a proposal to change the sovereign (country) rating of investments in non-UK banks from AAA to A- to allow more countries to pass and to diversify investments.

Questions were asked by the following:

- Councillor Terry Hone
- John Cannon

In response, the Service Director: Resources advised:

- The Council received a fully funded grant for a gum removal machine.

- This report does include a commitment to invest in Green/ESG investments, where available and provide reasonable rates.
- The Council hoped that all Council vehicles would be electric. All current vehicles are leased bar one. The capital allocation is to reflect a change in accounting treatment.
- The lease rates are similar to those of petrol and diesel equivalents.

The Chair advised that the report is presented to FAR for comment before referral to Cabinet.

Councillor Terry Tyler proposed and Councillor Sean Nolan seconded, there being no debate it was:

RECOMMENDED TO CABINET:

That Cabinet recommends that Council approve the adoption of:

1. the Investment Strategy (as attached at Appendix A), including the capital programme and prudential indicators.
2. the four clauses in relation to the Code of Practice on Treasury Management (as detailed in paragraphs 8.11 to 8.16).

REASONS FOR DECISIONS:

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

78 POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS

Audio recording- 41 minutes 13 seconds

The Chair led a discussion regarding possible agenda items for future meetings.

Property Investment and the Churchgate project (when considered an appropriate time for the Committee to consider the project) were discussed as future agenda items.

Councillor Terry Hone commented on the Overview and Scrutiny Committee item surrounding Property Investment and Churchgate. Councillor Hone asked if there was remit within the Terms of Reference for the Finance, Audit and Risk Committee to consider this matter, either as well as or instead of the Overview and Scrutiny Committee.

The Service Director: Resources advised that once there was a project proposed for Churchgate that included financials, then it would be an appropriate time for the Committee to be involved in the matter. Until that time, it was still an Overview and Scrutiny matter.

Councillor Ian Albert advised that there was nothing financial in place yet for Churchgate as ideas were still being generated via the public consultation, which had over 1600 replies to date. He further advised that it was important to bring the consultation results together before the next stage, and that financial implications needed to be considered by the Council as its impact would be felt across the district.

Wednesday, 25th January, 2023

In response to a question Councillor Ian Albert confirmed that it would be presented to the Finance, Audit and Risk Committee once the project included financial information.

The Service Director: Resources advised that at the next Finance, Audit and Risk Committee meeting the Statement of Accounts 2021/22 should be approved. Therefore, immediately before the next meeting there would be a training session delivered on the Statement of Accounts to provide a brief overview for Members.

The Chair requested that, should any Members have any suggestions for agenda items for future meetings, they advise himself, relevant officers or the Committee, Member and Scrutiny Team.

The meeting closed at 8.18 pm

Chair

FINANCE, AUDIT & RISK COMMITTEE 8 March 2023

*PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: ANNUAL GOVERNANCE STATEMENT 2021/22

REPORT OF: POLICY AND COMMUNITIES MANAGER

EXECUTIVE MEMBER: [NON-EXECUTIVE FUNCTION]

COUNCIL PRIORITY: PEOPLE FIRST/SUSTAINABILITY/A BRIGHTER FUTURE TOGETHER

1. EXECUTIVE SUMMARY

- 1.1 For the Finance, Audit & Risk Committee to approve the Annual Governance Statement (AGS) for the year 2021/22 and Action Plan. The Statement reviews the Council's governance arrangements for the 2021/22 period. It also proposes an Action Plan to update/improve those arrangements for the next financial year.

2. RECOMMENDATIONS

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

3. REASONS FOR RECOMMENDATIONS

- 3.1 The AGS must be considered and approved by this Committee before the approval of the Statement of Accounts under Regulation 6(4)(a) of the Accounts and Audit Regulations ('AAR') 2015/234.
- 3.2 The Committee is the legal body with responsibility for approval of the AGS.
- 3.3 Reviewing the AGS Action Plan during 2022-23 will provide the Committee with assurances that the Council is examining and where necessary improving its governance arrangements.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 There are no alternative options to be considered.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 At the Committee meeting on the 7 December, members were asked to provide feedback on the draft AGS that was presented at that meeting. A copy of the draft was also provided to both the Shared Internal Audit Service (SIAS) and Ernst & Young (External Auditors). The Leadership Team provided additional information for Principle G - Assurance and effective accountability, additional commentary has been added at

Principle F from the self-assessment document in line with a query raised at the December meeting and officers have responded to queries from Ernst & Young raised in January. The amendments include the following additions:

- Principle F- additional information has been added regarding the Council's Data Sharing statement which outlines the way in which information is collected, handled, recorded, and used. A Data sharing protocol provides a framework for the Partner Organisations for the regulation working practices between Partner Organisations and is in accordance with the ICO's data sharing code of practice. The use of encrypted emails by default are used by services areas that handle private, sensitive, and confidential information.
- Principle G - Assurance and effective accountability – An assurance statement has been completed by the Service Directors for each of their service areas. Each Service Director is responsible for producing their own assurance statements and where relevant for mitigating identified risks and governance weaknesses as part of the Service Planning process. The areas of governance reviews included, but is not limited to; legislative compliance, project management, training and development, performance management, and conflicts of interest.
- Principle G - Reference to the EY external Audit Annual report has been updated.

The final version of the AGS is attached as Appendix A.

6. FORWARD PLAN

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

7. BACKGROUND

- 7.1 Reference is made to the report of the 12 July 2021, which sets out the legal requirements for preparation, review, and approval of the AGS, together with the matters included/ and parties involved in that process. As indicated, this must be considered by Members of the Committee and the AGS approved under Regulation 6(4)(a) AAR 2015 in advance of approving the Statement of Accounts (Regulation 9(2)(b)) at this Committee meeting. The AGS reviews the systems in place and identifies any actions to be undertaken in the forthcoming year.
- 7.2 The review was undertaken against the relevant CIPFA/ SOLACE Framework, which continues to be the *Delivering good governance in Local Government Framework 2016 Edition* and any CIPFA/ SOLACE guidance¹. The AGS was prepared following an in-depth review/ input and scoring of arrangements by Leadership Team against the Framework 2016 Principles (in accordance with the guidance²). The detailed self-assessment document has not been appended. It has been loaded on the Council's Corporate Governance internet page and will remain on the site until the next review is undertaken [[Leadership AGS self-assessment document 2021-22](#)].³
- 7.3 The format of the AGS conforms to recommended practice, as per the advice provided by CIPFA: a '*meaningful but brief communication*'; there is no requirement to repeat all the arrangements that have been comprehensively assessed. Nevertheless, the AGS

¹ CIPFA/SOLACE Delivering good governance in Local Government Guidance Notes for English Authorities 2016 Edition.

² As above (*ibid*)

³ CIPFA/SOLACE Delivering good governance in Local Government Guidance Notes for English Authorities 2016 Edition.

highlights some key areas under the Principles, the overall conclusion on the arrangements and appends the Action Plan.

8. RELEVANT CONSIDERATIONS

- 8.1. The preparation of the AGS provides the Council with an opportunity to consider the robustness of its governance and internal control arrangements. It highlights areas where governance can be further improved or further reinforced.
- 8.2. The AGS for 2021-22 is attached as Appendix A for approval.
- 8.3. The Council will publish the approved 2021-22 AGS alongside the Statement of Accounts as it has in previous years.
- 8.4. Updates to the Action Plan will be reported to this Committee again at future meetings.

9. LEGAL IMPLICATIONS

- 9.1 Under the LAAA 2014/ AAR 2015 Regulations the 2021-22 AGS must be approved by this Committee by 31 July. An amendment to the regulation (The Accounts and Audit (Coronavirus) (amendment) Regulations 2021, due the impact of Covid-19, has extended that deadline. The Regulations also detail what is required to do if the deadlines are not met, and the Council has complied with those requirements i.e. publishing a notice on the website explaining the delay. Otherwise, the legal implications are set out under section 7 above.
- 9.2 The Terms of Reference of this Committee under 10.1.5(i) are: *“To ensure that an annual review of the effectiveness of internal controls (accounting records, supporting records and financial) systems is undertaken and this review considered before approving the Annual Governance Statement.”* This approval of the AGS therefore falls within the Committee's remit.

10. FINANCIAL IMPLICATIONS

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

11. RISK IMPLICATIONS

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

12. EQUALITIES IMPLICATIONS

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.1 There are no direct equality implications of this report or the AGS. Where relevant the Council's arrangements have been assessed against the 2016 Framework Principles.

In respect of those arrangements, the Leadership AGS self-assessment identifies the procedures in place and any outcomes. Council reports include any equality implications and are assessed by the Corporate Policy Team. Where appropriate an impact assessment will be undertaken, and mitigation measures identified. The Corporate Policy Team undertake an Annual Cumulative Equality Impact Assessment and publishes it on the internet.

13. SOCIAL VALUE IMPLICATIONS

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

14. ENVIRONMENTAL IMPLICATIONS

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

15. HUMAN RESOURCE IMPLICATIONS

- 15.1 Council employees the Organisational Values and Behaviours and Employee Handbook provide further guidance on the standards we expect from our staff. Human resources will support the relevant actions within the Action Plan for 2022-23.

16. APPENDICES

- 16.1 Appendix A –Annual Governance Statement for 2021-22 and Action Plan for 2022-23.

17. CONTACT OFFICERS

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

Contributors

- 17.2 Ian Couper, 01462 474243 Service Director - Resources:
ian.couper@north-herts.gov.uk
- 17.3 Rebecca Webb, 01462 474481 Human Resources Services Manager:
Rebecca.webb@north-herts.gov.uk
- 17.4 Jeanette Thompson, 01462 474370. Service Director – Legal and Community, Monitoring Officer: Jeanette.thompson@north-herts.gov.uk
- 17.5 Tim Everitt, Performance & Risk Officer 01462 474646
Email: tim.everitt@north-herts.gov.uk
- 17.6 Georgina Chapman, Policy and Strategy Team Leader
georgina.chapman@north-herts.gov.uk; ext. 4121

18. BACKGROUND PAPERS

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

NHDC ANNUAL GOVERNANCE STATEMENT 2021-22

Introduction

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

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

In discharging this overall responsibility, NHDC should have proper arrangements for the governance of its affairs in place. It is legally required¹ to review arrangements and prepare an Annual Governance Statement ('AGS'). It should prepare this Statement in accordance with proper practices set out in the Chartered Institute of Public Finance and Accountancy (CIPFA)/the Society of Local Authority Chief Executives and Senior Managers (SOLACE) Delivering Good Governance in Local Government: Framework 2016. This AGS explains how NHDC has complied with these requirements. The Finance, Audit & Risk (FAR) Committee Members have been informed of progress on producing this AGS and will review it and evaluate the robustness of the underlying assurance statements and evidence. FAR Committee approves the final AGS and monitors the actions identified.

Delivering good governance:

The Governance Framework comprises of systems, processes, culture and values, by which the authority is directed and controlled. It enables NHDC to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) applies to AGS prepared for the 2016/17 financial year onwards. The Principles are further supported by examples of what good governance looks like in practice. The Principles are set out in the diagram below:

Key Elements of the Governance Framework:

- ✦ Council, Cabinet and Strong Leader model that provides leadership, develops, and sets policy.
- ✦ A decision-making process that is open to the public and decisions are recorded / available on the NHDC website.
- ✦ An established Shared Internal Audit Service (SIAS) that undertakes detailed reviews.
- ✦ Risk Management and performance procedures that enable risks to be identified and these to be monitored by the Leadership Team and Members on a quarterly basis.
- ✦ Overview & Scrutiny (O&S) Committee reviewing performance and policies.
- ✦ An effective FAR Committee as the Council's Audit Committee that reviews governance and financial arrangements.
- ✦ The Council has a strategic officer leadership team which meets weekly. This includes the Head of Paid Service (Managing Director) and Directors (which includes all statutory officers). The statutory Officers also meet quarterly

How NHDC complies with the 2016 Governance Framework

NHDC has approved and adopted:

- ✦ a [Local Code of Corporate Governance](#) in March 2022 which incorporate the Framework 2016 Principles.
- ✦ a number of specific strategies and processes for strengthening corporate governance.

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

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

NHDC ANNUAL GOVERNANCE STATEMENT 2021-22

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

What NHDC has or does:

✦ Operates Codes of Conduct for Members (refreshed LGA model adopted in April 2021 and effective after the 2021 election) and Employees, maintaining arrangements for sign off of those, awareness of key policies and reporting / investigating any allegations of breaching those Codes. Code of conduct training usually takes place following elections and training was compulsory for members during the 2021-22 municipal year. Training was delivered via three online sessions after the 2021 election and is available for district councillors to access via the council's YouTube account. This was noted in the Standards Committee meeting in October 2020 and March 2021 (and subsequent annual report to Council).

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

✦ A Standards Committee which oversees and promotes high standards of Member conduct. It is composed of 12 Councillors and 2 non-voting co-opted Parish Councillors. The 3 Independent Persons (IP) are invited to attend the meetings of the Standards Committee. The Committee oversees the Complaints Handling Procedure, which was reviewed in October 2021 and June 2022.). The Chair of Standards Committee provides an annual report to Full Council in July. This is designed to promote shared values with Members, employees, the community and partners.

✦ The Council's Constitution includes a scheme of delegation and terms of reference for each of the

Council's Committees, and decision-making practices are outlined. The Council's Constitution is typically reviewed annually but has of recent been reviewed more frequently due to the pandemic. In 2021, an annual review report was presented to Full Council at the July meeting, with various sections undergoing review throughout 2021-22

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

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

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

Standards to be on hand to provide advice. A Finance Officer attends Full Council, Cabinet and FAR Committee. Legal services/The MO maintain records of advice provided.

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

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

✦ Further Planning training was provided to members via the Planning Advisory Service (PAS). An independent organisation who advises central and local government on planning issues to provide members with the relevant skills and knowledge.

Principle B: Ensuring openness and comprehensive stakeholder engagement.

What NHDC has or does:

✦ The Council's vision and relevant documents are made available on the Council's website with

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

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Council Delivery Plan that show how the Objectives will be delivered in practical terms [[Council Plan page](#)].

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

† An Annual Monitoring Report is produced containing indicators and targets across the District to aid with future planning decisions and identification of local priorities. We are awaiting the 2021-22 report. [[Annual Monitoring Report 2020-21](#)].

† NHDC have a duty to review air quality in the district to provide comprehensive information on the quality of air within the region through the Air Quality Annual Status Report [[Air Quality Annual Status report 2021](#)].

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

† There is a presumption of openness and transparency, with reports (or confidential parts of reports) only being exempt so long as statutory exemption requirements³ apply. Report authors consider such matters with the designated Constitutional “Proper Officer”. Meetings are open to the press and public (unless an exemption applies).

† There is a Council and Democracy page on the NHDC website. This links to information about the Council, Councillors, MPs, Council meetings, Council departments, Forward Plan of Key Decisions, Petitions,

Notices of Part 2 (exempt) decisions that the Council intends to take in the near future, delegated decisions, recordings/ the right to record Council meetings and Notices of Urgent Decisions [[Council and Democracy](#)]. Public Registers and Delegated Decisions are available on the NHDC website [[Public Registers and Delegated Decisions](#)] and Planning applications/ decisions [[View Planning Applications](#)]. Delegated Executive and Non-Executive decisions⁴ are on the Council's website [[Delegated Decisions](#)].

† The Constitution also sets out what information is available to the public and how to engage with the Council [[Constitution](#)].

† The Council's Consultation Strategy 2016-2020 [[Consultation Strategy 2016-2020](#)] for the review period was updated in 2022. It will set out the methods that will be used to consult and practical considerations for doing so. This entails various approaches to consultation. A Statement of Community Involvement (SCI) sets out how the Council will involve the community in preparing the Local Plan and in considering planning applications [[Statement of Community Involvement – Adopted July 2020](#)]. The SCI was adopted in July 2020 following a public consultation.

† The Council conducts a District Wide Survey every two years, though the 2021 Survey was delayed due to the pandemic. A 2022 survey is therefore currently underway and the most recent survey results can be accessed here: [[2019 District Wide Survey - Key Findings Report](#)]. Residents who take part in the District Wide Survey are invited to join the Council's Citizens Panel, which is used for consultation.

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

† The Council convened a Inclusion Officer Group, which is designed to bring together staff and Councillors to input into the future direction of the organisation with regards to inclusion and diversity.

† The Inclusion Group feeds into the Shaping our Future agenda on matters of equality, diversity, and inclusion. Its purpose is to understand the experiences of staff mainly in relation to protected characteristics as defined under the Equality Act 2010, and to drive forward the diversity/inclusion agenda. The Council is in the process of updating its Equality Strategy to the Equality, Diversity and Inclusion Strategy.

† The Council's Customer Care Standards aims to put people first [[Customer Care Standards](#)]. The Communications Strategy 2019-23 and action plan [[Communications Strategy page](#)] set out the approach to communicating with residents, partners and the media. The Council has a multi-media approach to communication – on-line, in person, by phone, by post, and social media sites (on Facebook, Twitter and Instagram). The use of social media sites and text alerts is geared towards engagement with the IT adept and/ or younger residents.

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

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

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

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† The Council is also a member of the Hertfordshire Growth Board (alongside the other 10 districts and borough councils and Local Enterprise Partnership). The [Growth Board](#) is the vehicle in which the county is working together to manage future growth and support economic recovery.

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

† Since the pandemic, Committee meetings are streamed live to YouTube from the Council chamber, and remain on the Council's YouTube channel afterwards which has increased accessibility to members of the public

† As a result of the pandemic, Councillor Surgeries, Town Talks, Area Committees and Environment Panel meetings were held virtually via Zoom. We have since trialled a hybrid town talk meeting, and have retained virtual Environment Panel meetings due to the environmental benefits. Monitoring reports of viewing figures of council meetings have tracked the wider engagement. <https://democracy.north-herts.gov.uk/documents/s15625/Virtual%20and%20Physical%20Meeting%20Attendance%20by%20members%20of%20the%20public%202019%20to%202021.pdf>

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

What NHDC has or does:

† The Council has a Council Priorities and Plan approval / review process, and its vision is based on

partnership aspirations. The Priorities provide the foundations for the Service planning process. Delivery is monitored through detailed Senior Management, Committee and Executive Member / Member procedures.

† The Corporate Equality Strategy contains equality objectives and contributes towards the Council's vision of equality and diversity [\[Corporate Equality page\]](#). This Strategy is being reviewed. These issues are monitored through the report / decision making process and [Annual Cumulative Equality Impact Assessment 2021/22](#).

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

What NHDC has or does:

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

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

† The Council has a Risk Management Framework, and Service Managers have to identify threats to service delivery/performance in their own areas, when undertaking projects, letting contracts, formulating or introducing new policies and engaging in partnership working. This is part of the [Risk Management Framework - Strategy](#). These are recorded on the Risk Register and monitored through the Council's Pentana performance/risk management system available to Councillors and staff. Project

management lessons are logged and detailed in a Corporate Lessons Log, which is available on the intranet. The corporate and individual risks are reported to the [Finance Audit and Risk Committee](#) on a quarterly basis.

† The Council's Financial Regulations [\[Constitution PART B Section 19 Financial Regulations\]](#) are an essential part of risk management / resource control for delivery of services (whether internally, externally or in partnership). The Medium-Term Financial Strategy (MTFS) is reviewed annually to set an indicative 5-year financial plan for the longer term strategic vision as well as a detailed one year budget. The MTFS and annual budget are prepared in line with the agreed Objectives and Council Plan/business planning process. Budget workshops are provided to Political groups prior to budget setting/budget approval, and this helps to optimise achievements.

† From 2019, the Investment Strategy replaced the Capital Programme and Treasury Strategy, and was considered by Finance, Audit, and Risk on 17th January 2021 and approved by Full Council on 10th February 2021.

† The Council's Procurement Strategy 2021-22 puts in place the aspirations for the district as they relate to the Council Plan, including taking a focus on achieving community benefits through emphasis of the Go Local policy and a widening of the scope of this to incorporate Community Wealth Building.

† That Council have been alerted to a forecast impact of Covid-19 in comparison to available reserves and confirmed that these reserves will be used to fund the impact.

† In 2020, the Council awarded grants to food banks and food provision services, and to groups providing support for residents suffering from loneliness or mental health issues. This was done as

part of the COVID-19 Community Support Fund with the aim to ensure the continued operation of vital services and organisations through and beyond the pandemic. See [Financial Impacts](#).

✚ The Council has also awarded money from the Health Protection Board Covid Community Grant to aid organisations whose funding has been adversely impacted by the pandemic.

✚ The Council also provided the following support during the pandemic to the community:

- Supporting the Food provision network and signposting families who need emergency help with food to local organisations in their area
- Distributing of food vouchers
- Providing Activity packs to families during the school holidays
- Supplying local charities and support groups with sanitary products to tackle period poverty
- Working with Survivors Against Domestic Abuse (SADA) to provide welfare packs to individuals and families who flee domestic abuse
- Supporting the Letchworth Best Before Café to purchase a basic kitchen for their new premises
- Working with the Hitchin Food Rescue Hub to stock up their non-perishable larder essentials
- In addition to these projects, we have also provided £42,150 from the Coronavirus Community Support Fund between June 2020 and May 2021 to help alleviate child poverty.
- The Council also received for distribution Central Government Grants to which the council developed policy criteria to support the access to payments; the Local Restrictions Support Grant (LRSG) to support businesses during lockdown and the Closed Business Lockdown Package (CBLP). The Council are in the process of developing an eligibility criteria policy for a local Restart Programme.
- The Council secured central government funding from the Next Steps Accommodation Programme

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(NSAP) to assist local authorities provide ongoing accommodation and support for rough sleepers housed during the current pandemic.

- The Council also received Homelessness Prevention Grant funding. The funding is ringfenced for use in managing homelessness pressures and supporting those who are at risk of homelessness and rough sleeping.

✚ In January 2022 The Council awarded [Household Support Fund](#) grants to a number of organisations to provide direct support for households in urgent need to cover costs of utilities and items to keep them warm during the winter.

The Council have also awarded money from the Health Protection Board Covid Community Grant to aid and assist the community to recover from the effects of the Covid pandemic. <https://www.north-herts.gov.uk/delegated-decisions-2022>

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

What NHDC has or does:

✚ The Council recognises the importance of employees, planning recruitment and development. The People Strategy 2015-20 incorporates the Workforce Development Plan ; Workforce profile (from the intranet), referenced externally through the [JSCC](#) and was developed with the Corporate Objectives (Priorities as was), Corporate Projects and workforce demands anticipated. The plan for a new People Strategy for 2020 – 2026 was postponed due to the impact of the pandemic and as an alternative a People Recovery plan has been developed to reflect recovery from the pandemic. A Recruitment Process form has replaced the Vacancy Control process [Recruitment information for managers | Intranet \(north-herts.gov.uk\)](#) to ensure compliance with proper recruitment practices. The Council promotes ILM Leadership & Management qualifications.

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

✚ The Council also considers and participates in Shared Service/ commercial ventures to develop services and resilience, such as the CCTV Partnership, the Local-Authority Building Control Company, 'Hertfordshire Building Control, and has been a Lead authority developing the Herts Home Improvement Agency and shared Waste service with East Hertfordshire District Council. It has its own private holding company – Broadwater Hundred Limited, set up as a contingency matter, during the pandemic (currently dormant).

✚ The Leader is part of Herts Leaders Group, East of England Leaders Group and County wide Growth board, has weekly Managing director/ Leader Briefings. Political Liaison Board (PLB) meetings are held, and opposition Member/ shadow Member briefings provided by the Managing Director / Service Directors and other senior officers.

✚ Weekly Leadership meetings are held where ongoing issues are discussed and during monthly business meetings, Policy, Projects, Performance and Risk are (amongst other things) monitored. The Council encourages close working liaison between Senior Officers and Executive Members.

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

✚ Following an [LGA Corporate Peer Challenge assessment, an Action Plan](#) has been developed to ensure the benefits of the CPS process are realised through thorough Organisational Development. This

has been further developed to provide peer support to the Overview & Scrutiny and Finance and Audit Committee.

† The Council has a Transformation Project which seeks to improve our services to residents using Artificial intelligence and development of self-serve systems. It also seeks to improve Council working and efficiency by automating processes that are currently manually handled.

† The Shaping Our Future Programme contributes towards the development of the organisation, by considering how the Council can change and adapt in order to continue to achieve its priorities. It includes (but is not limited to) staff and leadership development; work on equality, diversity and inclusion; moving towards a more commercial culture; digital transformation.

† The Inclusion Group considers staff experiences and looks to drive forward the equality, diversity, and inclusion agenda within the Council. It also receives feedback from HR on the gender pay gap. HR look to monitor and implement recommendations around the pay gap following the 2021 report.

† Staff Learning and Development sessions have also been instituted on the morning of every first Friday of each month. These are a mixture of themed and non-themed sessions to enable them to be used by teams or individuals to focus on an area of development most useful for them.

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

recovery plans. They meet regularly to respond to changing and current circumstances.

† The Values of the organisation were revised in 2022. The new values shape how we aim to act as an organisation. They are:

TOGETHER: We work together and support each other to deliver the best we can

LISTENING: We listen to and consider the views of each other, our partners and our customers

LEARNING: We learn from others and are open to change

ADAPTABLE: We are adaptable in finding solutions for each other, our partners and our customers

INCLUSIVE: We are inclusive and value diversity

† The [Recruitment & Selection Policy](#) was last reviewed and updated in 2020/21 as part of the policy review process. This is currently under review.

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

What NHDC has or does:

† The Council has extensive mechanisms in place to manage risk and performance, for example, through the Risk Management Team/Group/Member Champion and the [Risk Management Policy Statement](#), [Risk Management Framework – Strategy](#), the [Risk Management Framework - Policy](#) and operational guide. The Pentana system supports the logging/monitoring process by identifying performance indicators, individual risks and relevant 'ownership'. These are reported to Leadership, FAR (risk) and O&S (performance) Committees and Cabinet for transparency and in Cabinet's case, overall management purposes. The Risk Management framework is embedded across all service areas and helps to inform decision making. The Risk Management Strategy is reviewed regularly and most recently was revised and approved by Cabinet in December 2020.

† [SIAS' reviews of Risk Management and Financial systems during 2020/21](#) provided overall Satisfactory level of assurance. SIAS concluded that the corporate governance and risk management frameworks substantially comply with the CIPFA/SOLACE best practice on corporate governance in their June 2021 report.

† The [COVID-19](#) emergency, the most serious public health crisis in the UK for over a Century, has and will continue to present a challenge for the Council to ensure the health and safety of its staff, Members and customers, as well as to services including leisure management. This has been reflected in some of the most recent Risk Management Updates presented to Finance, Audit, and Risk; as has the potential impact of the ongoing crisis in [Ukraine](#).

† The council maintains a [Data Sharing Statement](#) to ensure that information is handled and dealt properly when collected, recorded and used. This data handling is treated lawfully, correctly and adheres to the Data Protection Act. The Council has a Data Sharing Protocol which provides a framework for the Partner Organisations for the regulation working practices between Partner Organisations and is in accordance with the ICO's data sharing code of practice.

† Certain Service areas have their external emails encrypted by default (Housing, Revenues and Benefits, Systems Technical (Revenues and Benefits), Cashiers and Careline). All others are prompted for encryption of outgoing mail. Employees/ Members are instructed to encrypt an email if sending private, sensitive or confidential information to an external email address.

† The Council has a designated data protection (DPA) officer – the Revenues Manager and Data Controller is the Service Director - Customers [DPA - website](#) [Contacts](#) [information](#)

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

What NHDC has or does:

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

✦ SIAS undertake numerous planned audits (additional on request) and presents quarterly progress reports against these. An Annual Assurance Opinion and Internal Audit Annual Report is presented to the first FAR Committee of each year outlining the work undertaken in the previous civic year. On an annual basis SIAS is required to undertake a self-assessment of its conformance with the requirements of the Public Sector Internal Audit Standards (PSIAS). [Annual Assurance Statement and Annual Report 2020-21 presented in June 2021.](#) An external review is required at least once every five years and this last took place in June 2021 and was reported at the December FAR meeting. [SIAS 2021/22 PROGRESS REPORT PDF 721 KB](#)

✦ In [June 2022](#), SIAS' Head of Assurance reported to FAR committee that The SIAS annual self-assessment against the Public Sector Internal Audit Standards and Quality Assurance and Improvement Programme found that SIAS generally conformed to the required standards; and that the external quality assurance assessors also held that SIAS conforms with the standards. In terms of performance 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 CFO follows: the CIPFA Code of practice on local authority accounting in the United Kingdom 2020/2021 and the CIPFA Statement on the role of the Chief Financial Officer in Local Government 2016 by ensuring that the financial statements are prepared on a timely basis, meet legislative requirements, financial reporting standards and professional standards as reflected in CIPFA's Code of Practice.

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

Review of Effectiveness

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

Assurance from Internal and External Audit

✦ One of the fundamental assurance statements the Council receives is the Head of Internal Audit's Annual Assurance Opinion on the work undertaken. From 1 April 2021, SIAS have adopted the CIPFA assurance definitions (previously SIAS have used their own definitions). During [21/22 SIAS](#) reported on 24 areas of which 5 received a Substantial assurance, 6 a Reasonable assurance, 1 a limited assurance, 8 not assessed and 4 not finalised. The limited assurance opinion related to Resilience in Revs and Bens Systems and Technical Team and there were three high priority recommendations made and implemented. All key financial/ risk systems/ contract management were also reviewed and a Reasonable assurance opinion overall on financial systems was concluded. Recommendations are detailed in the [June 2022 SIAS Annual Assurance Statement](#). SIAS concluded that the corporate governance and risk management frameworks substantially comply with the CIPFA/SOLACE best practice guidance on corporate governance. Recommendations are in the process of being actioned and outstanding ones will be taken

forward and monitored through reports to FAR Committee. A review of FAR committee was not undertaken in 2021/22.

✦ The Council's external auditors provide assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money. Following the national impact of Covid-19, Ernst & Young added all new Covid related risks for all councils. The last Annual Audit Letter was presented to the FAR Committee in January 2021 and was generally very positive, with unqualified opinions on both the Council's financial statements and the value for money in use of its resources. This did include a paragraph emphasising the material uncertainty in relation to the valuation of the Council's property assets (including investment property) as a result of Covid-19. This was not a qualification or modification to the audit opinion. [\[NHDC Annual Audit Letter 2019-20\]](#). The External Audit Update report issued in June 2020 [\[External Audit plan for year ending 31/3/20\]](#) indicated the addition of new risks – all Covid-19 related and in line with other local authorities. The [External Audit Annual report](#) for 2020/21 was presented at the September Finance Audit and Risk meeting. An unmodified report with no commentary in relation to any weaknesses was presented.

Assurance from self-assessment

✦ The review of effectiveness is informed by the work of the Senior Managers within the authority who have responsibility for the development and maintenance of the governance environment. Each Service Director is responsible for producing their own assurance statements and where relevant for mitigating identified risks and governance weaknesses as part of the Service Planning process. The areas of governance reviews include but is not limited to: legislative compliance, project management, training and development, performance management, and conflicts of interest. [The Council Delivery Plan](#)

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highlights key projects to support achievement of our Council Plan.

† Leadership Team is chaired by the Managing Director respectively, includes the MO, CFO and key senior managers. It follows the CIPFA/ SOLACE recommended self-assessment process of reviewing the Council's arrangements against the 2016 Framework Principles/ sub-principles guidance examples. This is usually undertaken during March-June and so as Leadership can confirm satisfaction that appropriate and overall Substantial 2016 Framework governance arrangements are in place. The detailed AGS self-assessment is available on the Corporate Governance page⁵.

Assurance from Risk Management

† The top risks (scoring a 9 on the risk matrix) for the Council, as reported to the FAR Committee in March 2022 ([Risk Management Update report March 2022](#)), are: The Local Plan; Managing the Council's Finances; Covid-19 Recovery; and Covid-19 – Leisure Management Contracts.

† Other risk scoring highly on the matrix (8s and 7s) are: **Cyber Risks; Delivery of Waste Collection and Street Cleansing Services Contract; Sustainable Development** – Neighbouring Authorities; Income Generation; Increased Homelessness; and National and Regional Planning Issues. External factors affecting the future provision of waste services scores a 6 on the matrix. Brexit - EU Transition risk score has subsequently been reduced to 5 (medium in terms of impact and likelihood).

† From March 2019 **Brexit** had been a top risk, but has subsequently been downgraded to a score of 5 on the matrix (medium in terms of impact and likelihood).

† **Leisure Management contract** - The facilities, operated by Stevenage Leisure Ltd (SLL) under a contract with NHDC, were heavily impacted by coronavirus (COVID-19) since the start of the pandemic. The council agreed a revised package of financial support to ensure the continued delivery of Council owned leisure facilities in the district to support the health and wellbeing of our residents.

† Delivery of the **Local Plan** has been and remains a top risk. The Planning Inspector published the Main Modifications arising from the Local Plan examination process in November 2018. These were reported to Cabinet in December 2018, when approval was granted for consultation on the proposals. The Council concluded consultation on the Main Modifications in April 2019. Following the consultation on the Main modifications in January 2020, the Inspector arranged for further hearing sessions for March 2020. During 2020-21 consultation upon the Inspector's proposed Further Main Modifications to the Plan and documentation produced under delegated authority was undertaken. Following receipt of the Inspectors report and consideration this was recently adopted by Full Council on 8 November 2022.

† **Managing the Council's Finances** is an ongoing top risk which is reported through the FAR Committee and Cabinet process. The MTFs, budgets and capital programme are, however, noted as soundly based and designed to deliver the Council's strategic objectives.

† A top risk relating to **Delivery of the Waste Collection and Street Cleansing Services Contract** was first introduced in 2019/20, which replaced the previously reported Waste Management, Recycling and Street Cleansing risk. The updated risk focuses on the operational effectiveness of the contractor and the potential high-profile impacts on residents, businesses and the Council's reputation. The reduced overall risk

score of 8 reflects improvements in service provision and the positive direction of travel of performance since the new contract commenced.

Assurance from Complaints outcomes Local Government Ombudsman (LGO):

† The Council reports complaints to Leadership and O&S. The summary for the full period 2020/2021, was presented at the [July 2021 Overview and Scrutiny](#) meeting the summary indicated that the number of complaints received decreased from 764 in 2019/20 to 527 in 2020/21. 57% of complaints received in 2020/2021 were related to services delivered by key contractors. We are awaiting the updated 2021/22 report.

Standards complaints involving Councillors

† A detailed update on Member complaints was given to the Standards Committee in a report delivered by the Service Director for Legal and Community on the 19th October 2021 and June 2022. During the 2020 and 2021 calendar years 6 complaints (involving 12 Councillors) and 52 complaints were received. All of the 2020 complaints were formal and against District Councillors. Of 2021 49 were formal (involving 66 Councillors, with some duplication). Of these, 29 of the formal complaints related to district Councillors, with one complaint being related to two district councillors and nine complaints being related to three district councillors.

Whistle Blowing Complaints

† In line with the published Whistleblowing Policy, we note that the Council received only 1 complaint during 2021. This was not upheld and found to relate to a grievance issue at the time and dealt with accordingly.

Information Commissioner's office (ICO)

† The Review time limit supplements the statutory one for handling requests (20 working days)

⁵ <https://www.north-herts.gov.uk/home/council-performance-and-data/corporate->

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and during 2021 calendar year, the Council only failed to handle 2.84% of the 635 FOIs/EIRs requests within that period. There were 9 reviews, 3 of which were successful, and the information released, 1 of which was partially successful, and 5 which were unsuccessful.

✚ In respect to requests for information under the Data Protection Act - 180 Data Protection cases (including 19 Subject Access Requests) were received in the 2021 calendar year, of which 98.31% were successfully answered within the 40-calendar day deadline.

There was 1 complaint lodged at the ICO. No action was taken against us and the ICO closed the case once we had provided further clarification and an apology to the Data Protection Subject.

Conclusion

✚ No significant governance issues have arisen as a result of the review of effectiveness for the 2021/22 financial year. The Council is satisfied that it has appropriate arrangements in place. The Council proposes over the coming year to take actions set out in the Action Plan. Implementation will be monitored through the Finance Audit and Risk Committee.

Cllr Elizabeth Dennis-Harburg, Leader of the Council

Anthony Roche, Managing Director

Action Plan 2022/2023

1. Ethical awareness training – increased staff/member uptake of the Anti-bribery e-learning module; noting uptake levels through the Civic year; risk assessment of relevant officer update of training as complementary training to council role. (Learning & Development).
2. Consider the recommendations of the Inclusion Group for 2022/23, and where implement where practical. (Leadership Management Team).
3. Targeted peer support for Overview & Scrutiny and Finance Audit and Risk committee from the Local Government Association (LGA): identify areas for development and form an action plan from recommendations. [Leadership Management Team].

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FINANCE, AUDIT & RISK COMMITTEE
8 March 2023

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: LOCAL CODE OF CORPORATE GOVERNANCE 2023

REPORT OF: POLICY AND COMMUNITIES MANAGER

EXECUTIVE MEMBER: [NON-EXECUTIVE FUNCTION]

COUNCIL PRIORITY: PEOPLE FIRST, SUSTAINABLE, BRIGHTER FUTURE TOGETHER.

1. EXECUTIVE SUMMARY

- 1.1. For the Finance, Audit & Risk Committee to approve the Local Code of Corporate Governance for 2023 – 2024.

2. RECOMMENDATIONS

- 2.1. Approval of the Local Code of Corporate Governance 2023 (Appendix A).

3.0 REASONS FOR RECOMMENDATIONS

- 3.1 It is recommended practice to review the Local Code of Corporate Governance each year to ensure it remains up to date and relevant.

4.0 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 There are no alternative options to be considered.

5.0 CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

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

6.0 FORWARD PLAN

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

7.0 BACKGROUND

Local Code of Corporate Governance:

- 7.1 It is recommended good practice for the Local Code of Corporate Governance ('the Local Code') be reviewed annually and was last updated in March 2021. It was based on the (2016) CIPFA/ SOLACE Framework Delivering Good Governance in Local Government Framework 2016 Edition principles. This remains the basis for an assessment of governance arrangements for the 2022/23 period. The Council's new vision and objectives for the period 2022-2027 (approved in September 2021) have been added in at Section 4 of Appendix A.

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

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

8.0 RELEVANT CONSIDERATIONS

8.1. The Local Code 2023 – 2024 is at Appendix A.

9.0 LEGAL IMPLICATIONS

9.1 The Accounts and Audit (Amendment) Regulations 2022 extended the deadline for the audit of accounts to no later than the 30th September for 2023 to 2027. Otherwise, the legal implications are set out under section 7 above.

9.2.1 The Terms of Reference of this Committee under 10.1.5(i) are: “*To ensure that an annual review of the effectiveness of internal controls (accounting records, supporting records and financial) systems is undertaken and this review considered before approving the Annual Governance Statement.*” Review and approval of the AGS is a non-executive function and falls within the Committee’s remit.

10.0 FINANCIAL IMPLICATIONS

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

11.0 RISK IMPLICATIONS

11.1. Ineffective corporate governance arrangements have a number of inherent risks in the context of organisational management, the use of resources and service delivery. Approving a Local Code of Corporate Governance based on the national CIPFA/ SOLACE Framework is a means of mitigating potential risks.

12.0 EQUALITIES IMPLICATIONS

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

12.2 There are no direct equality implications of this report. Where relevant, the Council’s arrangements have been assessed against the 2016 Framework Principles. In respect of those arrangements, the SMT AGS self-assessment identifies the procedures in place and any outcomes. Council reports include any equality implications and are assessed by the Corporate Policy Team. Where appropriate an impact assessment will be undertaken, and mitigation measures identified by the report author and Policy team. The Corporate Policy team undertake an Annual Cumulative Equality Impact Assessment of these and publishes it on the Council’s website¹.

13.0 SOCIAL VALUE IMPLICATIONS

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

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

14.0 ENVIRONMENTAL IMPLICATIONS

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

15.0 HUMAN RESOURCE IMPLICATIONS

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

16.0 APPENDICES

16.1 Appendix A – Local Code of Governance 2023.

17. CONTACT OFFICERS

17.1 Reuben Ayavoo Policy and Communities Manager:
Email: Reuben.ayavoo@north-herts.gov.uk 01462 474212.

Contributors:

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

16.3 Rebecca Webb Human Resources Services Manager:
Email: rebecca.webb@north-herts.gov.uk 01462 474481.

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

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

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

16.7 Ellie Hollingsworth, Trainee Policy Officer
Email: Ellie.hollingsworth@north-herts.gov.uk 01462 474420

17. BACKGROUND PAPERS

17.1 The [Finance, Audit & Risk Report](#) and Appendix A (March 2022).

17.2 [Local Code of Governance](#) updated in March 2022.

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LOCAL CODE OF CORPORATE GOVERNANCE

1. INTRODUCTION

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

2. WHAT IS CORPORATE GOVERNANCE?

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



- 2.2. The 2016 Framework defines governance as comprising of: “...***the arrangements (including political, economic, social, environmental administrative, legal, and other arrangements) put in place to ensure that the intended outcomes for stakeholders are defined and achieved.***”

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

2.4. These principles and sub-principles are:

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

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

ii) *Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements.*

iii) *Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders.*

iv) *Dealing with breaches of legal and regulatory provisions effectively.*

v) *Ensuring corruption and misuse of power are dealt with effectively.*

Principle B. Ensuring openness and comprehensive stakeholder engagement.

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

1) Openness

i) *Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness.*

ii) *Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided.*

iii) *Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear.*

iv) *Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/courses of action.*

2) Engaging comprehensively with institutional stakeholders

i) *Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably.*

ii) *Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively.*

iii) *Ensuring that partnerships are based on:*

- trust*
- a shared commitment to change*
- a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit.*

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

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

ii) *Ensuring that communication methods are effective, and that members and officers are clear about their roles with regard to community engagement.*

iii) Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs.

iv) Implementing effective feedback mechanisms in order to demonstrate how their views have been taken into account.

v) Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity.

vi) Taking account of the interests of future generations of taxpayers and service users.

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

The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.

1) Defining outcomes

i) Having a clear vision which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation's overall strategy, planning and other decisions.

ii) Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer.

iii) Delivering defined outcomes on a sustainable basis within the resources that will be available.

iv) Identifying and managing risks to the achievement of outcomes.

v) Managing service user's expectations effectively with regard to determining priorities and making the best use of the resources available.

2) Sustainable economic, social and environmental benefits

i) Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision.

ii) Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints.

iii) Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs.

iv) Ensuring fair access to services.

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

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action

is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.

1) Determining interventions

i) Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided.

ii) Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts.

2) Planning interventions

i) Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets.

ii) Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered.

iii) Considering and monitoring risks facing each partner when working collaboratively including shared risks.

iv) Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances.

v) Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured.

vi) Ensuring capacity exists to generate the information required to review service quality regularly.

vii) Preparing budgets in accordance with organisational objectives, strategies and the medium term financial plan.

viii) Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy.

3) Optimising achievement of intended outcomes

i) Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints.

ii) Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term.

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

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

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

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

1) Developing the entity's capacity

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

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

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

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

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

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

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

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

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

- ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged.
- ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis ensuring members and officers have the appropriate skills.

- knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis.
- ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external.

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

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

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

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

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

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

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

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

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

1) Managing risk

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

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

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

2) Managing performance

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

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

iii) Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made

thereby enhancing the organisation's performance and that of any organisation for which it is responsible.

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

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

3) Robust internal control

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

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

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

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

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

4) Managing data

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

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

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

5) Strong public financial management

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

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

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

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

1) Implementing good practice in transparency

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

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

6) Implementing good practices in reporting

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

ii) Ensuring members and senior management own the results.

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

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

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

7) Assurance and effective accountability

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

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

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

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

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

2.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) also launched a Financial Management (FM) Code. The intention is that the Code helps to create a culture of strong financial management to help address the financial pressures that Councils are facing. The intention is that a self-regulation approach will prevent any other Local Authorities 'failing'. This will then avoid any need for any external control or reductions in current powers. The Code does not currently have any specific statutory backing. However, CIPFA reference that compliance with the code should be linked to s151 of the Local Government Act 1972 ("every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of

their officers has responsibility for the administration of those affairs”). They also place an obligation on their members to adhere to the Code. The 17 standards contained within the Code have been provided to Members of the Committee by the Chief Finance Officer.

3. NHC'S GOVERNANCE AIM

3.1. NHC aims to meet the above Framework principles in a cost efficient and effective governance manner. The Council is required to review its arrangements annually and will assess these against the principles and prepare and publish an Annual Governance Statement (AGS) in accordance with Delivering Good Governance in Local Government: Framework (2016) and the statutory requirements².

3.2. Many of the requirements contained within the principles and this Code are included in the Council's Constitution and the Council's key strategies and policies, which are available through the Council's website:

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

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

4. NHC'S VISION

4.1. Leadership and collaborative working are developed themes within NHC. It has a vision and the Council Plan that sets out NHC's strategic priorities and thematic work for the district for 2022-2027.

4.2. NHC's Vision is:

'We will put people first and deliver sustainable services, to enable a brighter future together'.

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

4.3. NHC's internal corporate business planning process supports the delivery of the vision in terms of what we do and the collaborative work we carry out in conjunction with our partners.

4.4. The vision is supported by the Council's Priorities, which for 2022 onwards are:

- **People First**

People make North Herts work. We value all our residents, businesses, staff, contractors, councillors, and other partners, and place them at the heart of everything we do.

- **Sustainability**

We recognise the challenges our towns and district as a whole face and are committed to delivering services which are relevant and sustainable. In doing so we will place our environmental responsibilities, as well as sound financial planning, at the centre of our policy making.

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

- **A Brighter Future Together**

We are far-sighted and plan for the long term to secure the best outcomes for our people, towns and villages, and the local economy, ensuring North Herts continues to thrive.

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

5. CONCLUSION

To ensure that it keeps its aims, North Herts Council will:

- Review its Local Code of Corporate Governance annually to ensure that it reflects current recommended practice and remains a “live” document.
- Monitor all arrangements in place for practical effectiveness.
- Review practices, procedures and guidelines on a regular basis.
- Review its arrangements and report these through the AGS on how North Herts Council is complying with the principles/ the Code. This will include oversight of the assessment by the Leadership Team and Member consideration and approval (through appropriate bodies). This assessment will include review of the annual internal auditor’s opinion from the Head of the Shared Internal Audit Service (SIAS); external auditors’ opinion/ letter; managers’ assurance statements; the Finance, Audit and Risk Committee annual report/ review of its effectiveness; inspection reports (SIAS and the Shared Anti-Fraud Service – SAFS); Ombudsman’s recommendations; annual Scrutiny report; Standards Committee report; project governance and risk arrangements.
- Identify any necessary governance actions in the AGS including appropriate timescales and designate Lead Officers for the forthcoming year.
- Ensure that actions identified in the AGS are monitored and reported back through the Leadership Team process (as appropriate) and to Members of Finance, Audit and Risk Committee.

Review date – 8th March 2023

*This Code will be reviewed by 31 March 2024 unless any **significant changes** are required in the interim.*

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North Hertfordshire District Council Provisional Audit Results Report

Year ended 31 March 2022

24 February 2023

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Building a better
working world

Agenda Item 8

Private and Confidential

24 February 2023



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

Dear Finance, Audit and Risk Committee Members

2021/22 Provisional Audit Results Report

We are pleased to attach our Provisional Audit Results Report, summarising the status of our audit for the forthcoming meeting of the Finance, Audit and Risk Committee.

The audit is designed to express an opinion on the 31st March 2022 financial statements and address current statutory and regulatory requirements. This report contains our provisional findings related to the areas of audit emphasis, our views on North Hertfordshire's accounting policies and judgements and material internal control findings. Our audit is not yet fully complete and further issues may arise on the completion of the remaining work and manager and partner review. We will update the Committee on any further significant findings.

Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

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

We welcome the opportunity to discuss the contents of this report with you at the Finance, Audit and Risk Committee meeting on 08 March 2023.

Yours faithfully

Debbie Hanson

Partner, For and on behalf of Ernst & Young LLP

Encl

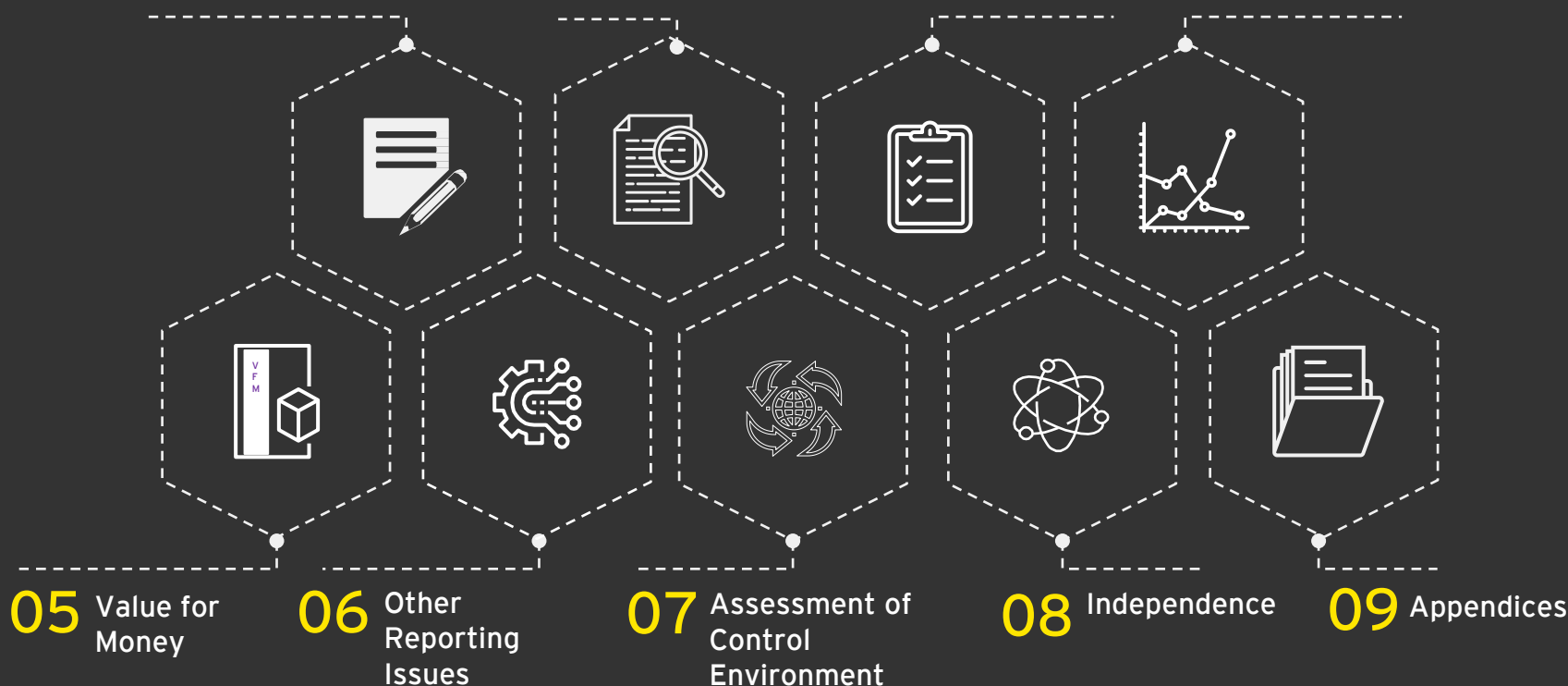
Contents

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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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>). 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 July 2021)" issued by the PSAA (<https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment-and-further-guidance-1-july-2021/>) 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 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.



01

Executive Summary



Executive Summary

Scope Update

In our Audit Planning Report presented to the 7th of December Finance, Audit and Risk Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

Materiality Update

In the Audit Plan dated 7 December 2022, we reported that our materiality has been set at £1.4 million, which represents 2% of gross revenue expenditure of the Council, and performance materiality set at £1.05 million. We have revisited these figures during the completion of our audit and are satisfied that they remain appropriate.

Status of the audit

We have substantially completed our audit of North Hertfordshire District Council's financial statements for the year ended 31 March 2022 and have performed the procedures outlined in our Audit Planning Report. The main outstanding area is the valuation of the pension fund liability, where we have not yet received the report from the Pension Fund auditors and hence have not concluded our work in this area. A full list of outstanding items can be seen at Appendix D.

Subject to satisfactory completion of the outstanding items, we expect to issue an unqualified opinion on the Council's financial statements. As the audit is ongoing and many areas are subject to Manager and Partner review, further amendments and issues may arise.

We expect to issue the audit certificate after we issue the audit opinion, once the requirements of the Whole of Government Accounts (WGA) submission have been completed.



Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020, we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the 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.

Status of the audit - Value for Money

In the Audit Plan dated 7 December 2022, we reported that our area of focus will be on the arrangements that the Council has in place in relation to financial sustainability. Our work on this area is ongoing. We will also revisit our risk assessment on completion of the audit of the financial statements. At the date of this report, we have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary shortly after issuing our audit opinion as part of issuing the Auditor's Annual Report.



Executive Summary

Audit differences

We have identified a number of audit differences throughout our audit work and details of these adjustments can be found in Section 04 of this report, including the following misstatements which Management agreed to correct:

- ▶ Overstatement of property, plant and equipment by £5.6 million due to duplicate recording of Hitchin Town Centre (with another asset code recorded in the fixed assets register as "Museum Services Development"). This also impacts 2020/21 comparative figures and opening balances for 2020/21.
- ▶ Understatement of operating expenditure and the revaluation reserve by £1.1 million due to an error in recording the downward movement in value of assets held for sale in the revaluation reserve instead of operating expenditure.
- ▶ £2.6 million unspent balance of Covid-19 Additional Relief Fund was incorrectly recorded as short term creditors instead of grants received in advance
- ▶ Overstatement of revaluation reserve by £0.178 million due to incorrect recording of upward movement in property, plant and equipment in revaluation reserves instead of a reversal of impairment loss previously charged to surplus/deficit on provision of services
- ▶ In preparing the cash flow statement, management includes the purchase and sale of short term liquid investments (presented as cash equivalents) as part of investing activities, which is not in line with the CIPFA Code. This resulted in an overstatement in the figures for purchase of short-term and long-term investments by £698.4 million, and proceeds from short-term and long-term investments by £710.4 million for 2021/22. The error in the comparative figures for 2020/21 is an overstatement for purchase of short-term and long-term investments by £545.5 million and proceeds from short-term and long-term investments by £542.4 million.

We will need to consult internally on the two errors which also impact on the prior year and will therefore result in an adjustment to the prior year comparatives.

We have identified a small number of disclosure differences in notes to the financial statements. This includes changes which flows from the audit adjustments affecting the primary statements above, as well as casting, referencing, classification which management have agreed to amend in the final set of accounts.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We plan to complete the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts after issuing our audit opinion and therefore will certify the completion of the audit at that point.



Executive Summary

Areas of audit focus

In our Audit Planning Report we identified a number of key areas of focus for our audit of the financial statements of North Hertfordshire District Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Fraud Risk	Findings & Conclusions
Misstatements due to fraud or error	We carried out standard procedures to address fraud risks as set out in our Audit Plan, including identifying risks, considering controls and their effectiveness, testing journal entries and looking at estimates for evidence of management bias. Using data analytics is central to our approach in this area. Our work in this area is substantially complete pending manager and partner review.
Inappropriate capitalisation of revenue expenditure	We have completed our audit work on capital additions and have not identified any misstatements.
Valuation of investment properties	We have completed our audit work on investment properties valuation, pending manager and partner review. We have not identified material differences in the valuation of investment property.
Valuation of property, plant and equipment (other land and buildings and surplus assets) and assets held for sale	We have completed our audit work on the valuation of property, plant and equipment and assets held for sale. We have noted an overstatement of property, plant and equipment of £5.6 million due to duplicate recording of Hitchin Town Centre (with another asset code recorded in the fixed assets register as "Museum Services Development"). This also impacts 2020/21 comparative figures and opening balances for 2020/21. Additionally, there was an understatement of operating expenditure and the revaluation reserve of £1.1 million due to an error in recording the downward movement in value of assets held for sale in the revaluation reserve instead of operating expenditure. Finally, we noted an overstatement of revaluation reserves by £0.178 million due to incorrect recording of upward movement in property, plant and equipment in the revaluation reserve instead of a reversal of impairment loss previously charged to surplus/deficit on provision of services.



Executive Summary

Areas of audit focus (continued)

Fraud Risk	Findings & Conclusions
Pension liability valuation	Our work on pension liability valuation is well-progressed, pending receipt of the final report from the Pension Fund auditors which we need in order to obtain assurance on the balance of pension fund assets and the resulting net liability in the Council's accounts. We have no issues to report at this stage of the audit.
Going concern	Our work on going concern is ongoing. We have no issues to report regarding this area at this stage of the audit.

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

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



Executive Summary

Control observations

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you internal controls that require certain improvements and have three matters to report to you. Please refer to Section 07 for our detailed findings and recommendations.

Independence

Please refer to Section 08 for our update on Independence.



02 Areas of Audit Focus





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

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

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What judgements are we focused on?

The journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
Accounting estimates such as the pensions liability property asset valuations; and
▶ Significant unusual transactions.

What did we do?

- Identified fraud risks during the planning stages.
- Inquired of management about risks of fraud and controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks, including;
 - ▶ testing of journal entries and other adjustments in the preparation of the financial statements;
 - ▶ reviewing accounting estimates for evidence of management bias; and
 - ▶ evaluating the business rationale for significant unusual transactions;

What are our conclusions?

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

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

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



Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

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

We have identified an opportunity and incentive to incorrectly capitalise revenue expenditure to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of the Council's annual capital programme, which is significantly higher than our materiality level. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants or borrowing.

What judgements are we focused on?

Whether management had inappropriately capitalised revenue spend

What are our conclusions?

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

What did we do?

- Obtained a general ledger breakdown of capital additions in the year, reconciled this to the Fixed Assets Register and reviewed the general ledger descriptions to identify whether there were any potential transactional items that could be revenue in nature;
- Sample tested additions to property, plant and equipment at a lower testing threshold to ensure they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised. We reviewed the sample selected against the definition of capital expenditure in IAS 16; and
- As part of our journals testing strategy, we reviewed unusual journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.



Areas of Audit Focus

Significant risk

Valuation of investment properties

What is the risk?

Investment properties represent a significant balance in the Council's accounts and are subject to valuation changes, market volatility and impairment reviews.

Material judgmental inputs and estimation techniques are required to calculate the year-end investment property valuations held in the balance sheet.

Considering that the level of estimation uncertainty and complexity is higher for assets valued using market information, we retained the significant risk on this account for 2021/22. As of 31 March 2022, investment properties are valued at £26.379 million.

What judgements are we focused on?

As this is a material accounting estimate and dependent on a high degree of subjectivity, we associated a significant risk to the valuation of investment properties in the 2021/22 audit.

What did we do?

- Considered the work performed by the Council's external and internal valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Selected a sample of investment property assets and tested the inputs, assumptions and methodologies employed by the Council's valuers and consider the reasonableness of the estimation techniques employed. We used our own valuation experts to review the methodology and assumptions used by the valuer for one asset;
- Assessed the accuracy of the classification of assets and the valuation basis assigned;
- Identified and corroborated any material increases or impairments during the year;
- Reviewed the annual cycle of valuations to ensure that assets have been valued annually;
- Considered if there are any specific changes to assets that have occurred and confirmed that these have been communicated to the valuer;
- Tested accounting entries, ensuring these have been correctly processed in the financial statements; and
- Reviewed appropriateness of the relevant accounting policies and disclosures.

What are our conclusions?

We have completed our audit work on investment properties valuation, pending Manager and Partner review.

We have not identified material differences in the investment property valuations work.



Audit risks

Other areas of audit focus

What is the risk/area of focus?

Valuation of property, plant and equipment (other land and buildings and surplus assets) and assets held for sale

The fair value of property, plant and equipment and assets held for sale represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

As of 31 March 2022, the Council held the following capital asset values valued at fair value (excluding investment properties):

Other land & buildings - £83.883 million

Surplus assets - £7.155 million

Assets held for sale - £3.227 million

The majority of this balance (£72.815 million from £94.265 million or 77%) was valued on the basis of depreciated replacement cost.

What did we do?

To address this risk, we:

- Considered the work performed by the valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Analysed the Council's asset base, disaggregating it based on the nature of the asset and valuation method used.
- Selected a sample of assets for detailed testing, ensuring that all significant asset groups are represented in our sample. For the sample selected we tested key assumptions and methodologies and consider the reasonableness of the estimation techniques employed and key asset information used by the valuer;
- For non-specialist assets such as offices, which are typically valued on an existing use value (EUV) basis, we challenged the Council on key inputs such as yield rates, income, lease periods and reversion rent;
- We sent one asset valued using EUV to our valuation expert (EY Real Estate) for review.
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
- Considered if there are any specific changes to assets that have occurred and whether these have been communicated to the valuer;
- Reviewed assets not subject to valuation in 2021/22 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;
- Tested accounting entries have been correctly processed in the financial statements; and
- Reviewed the disclosures to ensure they are adequate in relation to estimation uncertainty.



Audit risks

Other areas of audit focus

What are our findings/conclusions

We have completed our audit work on property, plant and equipment (other land and buildings and surplus assets) and assets held for sale valuation, subject to final Partner review.

We have identified a number of issues from our work as noted below.

We noted an overstatement of property, plant and equipment by £5.6 million due to duplicate recording of Hitchin Town Centre (with another asset code recorded in the fixed assets register as "Museum Services Development"). This also impacts 2020/21 comparative figures and opening balances for 2020/21.

Additionally, there was an understatement of operating expenditure and the revaluation reserve of £1.1 million due to an error in recording the downward movement in value of assets held for sale in revaluation reserve instead of operating expenditure.

Finally, we noted an overstatement of revaluation reserves by £0.178 million due to incorrect recording of upward movement in property, plant and equipment in revaluation reserves instead of a reversal of impairment loss previously charged to surplus/deficit on provision of services.



Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

Pension liability valuation

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

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. At 31 March 2022 this totalled £30.210 million.

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

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

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

What did we do?

To address this risk, we :

- Liaised with the auditors of Hertfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council;
- Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considered reviews of this by the EY actuarial team;
- Engaged our internal EY pensions team to calculate an estimate of the Council's pension liability by running their own 'actuarial model' and compared this to that produced by the Council's actuary; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our findings/conclusions

Our work on pension liability valuation is well-progressed, pending receipt of the report from the Pension Fund auditors to obtain assurance on the balance of pension fund assets and the associated net liability.

We have no issues to report at this stage of the audit.



Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?	What did we do?
<p>Going concern disclosure</p> <p>There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. The unpredictability of the current economic environment and the volatility of the market due to the ongoing impact of Covid as well as the Ukraine-Russia conflict are issues we would expect this assessment to consider, particularly in terms of the impact on the Council's day to day finances, its annual budget, cashflow and medium term financial strategy,</p> <p>The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.</p> <p>The disclosure should be based on the Council's actual year end financial position for the current year as well as projections for the going concern period of 12 months from the auditor's report date.</p>	<p>We met the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by:</p> <ul style="list-style-type: none">➤ Challenging management's identification of events or conditions impacting going concern.➤ Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).➤ Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.➤ Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, to form our conclusions on going concern.➤ Challenging the disclosure made in the accounts in respect of going concern. <p>Results of our work:</p> <p>Our work in this area is still in progress. We have no issues to report at this stage regarding the Council's ability to continue as going concern.</p>



03 Audit Report



Audit Report

Draft audit report

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH HERFORDSHIRE DISTRICT COUNCIL

Opinion

We have audited the financial statements of North Hertfordshire District Council for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 42 and the Expenditure and Funding Analysis on page 37, and
- Collection Fund and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of North Hertfordshire District Council as at 31 March 2022 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, 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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Service Director - Resources' with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Council's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2021/2022, other than the financial statements and our auditor's report thereon. The Service Director - Resources is responsible for the other information contained within the Statement of Accounts 2021/2022.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.



Audit Report

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Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in these respects

Responsibility of the Service Director - Resources

As explained more fully in the Statement of the Service Director - Resources' Responsibilities set out on page 1, the Service Director - Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Service Director - Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Service Director - Resources is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.



Audit Report

Draft audit report

Our draft opinion on the financial statements

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant are:

- Local Government Act 1972,
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992)
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020, and 2022,
- The Local Government Finance Act 2012,
- The Local Audit and Accountability Act 2014 (as amended), and
- The Accounts and Audit Regulations 2015.

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how North Hertfordshire District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit, those charged with governance, and the monitoring officer and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, through enquiry of employees to confirm Council policies, and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether the North Hertfordshire District Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the North Hertfordshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.



Audit Report

Draft audit report

Our draft opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the North Hertfordshire District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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Certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements. In addition, we cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2022. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report. Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of North Hertfordshire District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Debbie Hanson
Ernst & Young LLP (Local Auditor)
Luton
Date



04 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £1.054 million which have been corrected by management that were identified during the course of our audit

- ▶ Overstatement of property, plant and equipment by £5.6 million due to duplicate recording of Hitchin Town Centre (with another asset code recorded in the fixed assets register as “Museum Services Development”). This also impacts 2020/21 comparative figures and opening balances for 2020/21.
- ▶ Understatement of operating expenditure and the revaluation reserve by £1.1 million due to an error in recording the downward movement in value of Assets Held for Sale in revaluation reserve instead of operating expenditure.

£2.6 million unspent balance of Covid-19 Additional Relief Fund was incorrectly recorded as short term creditors instead of grants received in advance

We also noted that in preparing the cash flow statement, management includes the purchase and sale of short term liquid investments (presented as cash equivalents) as part of investing activities, which is not in line with the CIPFA Code. This resulted in an overstatement in the figures for purchase of short-term and long-term investments by £698.4 million and proceeds from short-term and long-term investments by £710.4 million for 2021/22. The error in the comparative figures for 2020/21 is an overstatement for purchase of short-term and long-term investments by £545.5 million and proceeds from short-term and long-term investments by £542.3 million.

We have identified a small number of disclosure differences in notes to the financial statements. These includes changes which flows from the audit adjustments affecting the primary statements above, as well as casting, referencing, classification, which management have agreed to amend in the final set of accounts.

There are no other unadjusted differences identified above £0.07 million that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2022.



05 Value for Money



Value for money

The Council's responsibilities for value for money (VFM)

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

As part of the material published with its financial statements, the **Council** is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the **Council** tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment and the status of our work

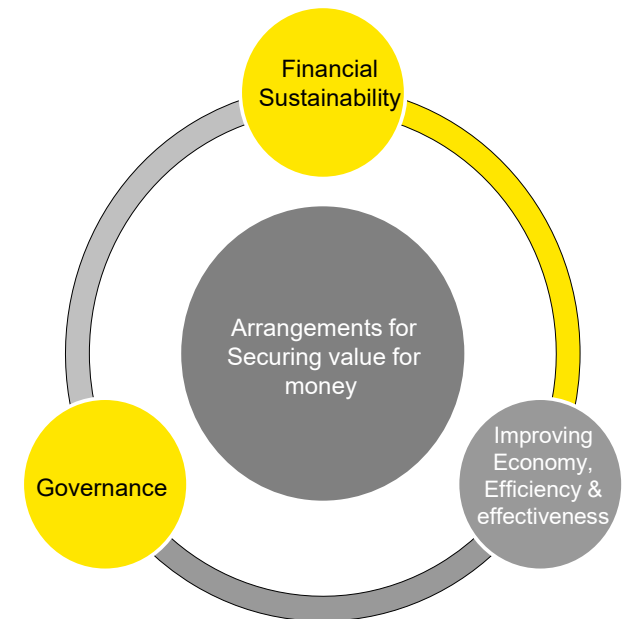
We reported in our Audit Plan that we had yet to complete our detailed VFM planning, but that one area of focus will be on the arrangements that the Council has in place in relation to financial sustainability.

We have not yet completed our risk assessment but have not identified any significant risks during the course of our audit work. We will update the Committee if we identify any risks of significant weaknesses in arrangements once we have completed this work.

Reporting on VFM

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

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





06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the North Hertfordshire Statement of Accounts 2021/22 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the North Hertfordshire Statement of Accounts 2021/22 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We plan to complete the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts after issuing our audit opinion and therefore will certify the completion of the audit at that point.

We cannot issue our audit certificate until these procedures are complete.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014.

We did not identify any issues that require use of these powers.

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Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations; and

We have no other matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

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

We have not 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 we do however raise the following recommendation:

Cash flow statements

We noted that in preparing the cash flow statement, management includes the purchase and sale of short term liquid investments (presented as cash equivalents) as part of investing activities, which is not in line with the CIPFA Code. This resulted in an overstatement in the figures for purchase of short-term and long-term investments by £698.4 million and proceeds from short-term and long-term investments by £710.4 million for 2021/22. The error in the comparative figures for 2020/21 is an overstatement for purchase of short-term and long-term investments by £545.5 million and proceeds from short-term and long-term investments by £542.3 million.

As per the Code, cash equivalents investments should not be included within this note and have therefore been incorrectly included within the note. As per the Code, cash equivalents investments should not be included within this note and have therefore been incorrectly included within the note. We recommend that the Council pays particular attention to the presentation of transactions in the Cash Flow Statements to ensure that compliance with the requirements of the CIPFA Code.

Fixed asset register

The Council identified a duplicate asset (Hitchin Town Hall) in the fixed assets register in response to an audit query we raised as part of the audit of property, plant and equipment. This resulted in an overstatement by £5.6 million as of 31 March 2022. This also impacts 2020/21 comparative figures.

We recommend that the council conduct a full review of the assets within the register to confirm existence of all assets.



08

Independence

Relationships, services and related threats and safeguards

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

There are no relationships from 1st April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Other communications

EY Transparency Report 2021

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

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

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

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2021/22	Final Fee 2020/21
	£	£
Scale fee - Code work	40,068	40,068
Additional fees (Note 1)		
Covid 19	0	8,750
Increased FRC challenge	4,000 to 5,000	3,500
ISA 540	3,500 to 5,000	3,490
Pension valuation	4,000 to 5,000	2,625
PPE valuation	4,000 to 5,000	2,875
VFM commentary	6,000 to 11,000	6,000
Work of an internal expert	TBC	5,500
Other	TBC	2,455
Total audit fee	TBC	75,263
Other non-audit services not covered above (Housing Benefits)	6,000 to 11,000	20,840
Total other non-audit services	TBC	20,840
Total fees	TBC	96,103

The scale fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

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

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

Note 1:

We proposed an additional fee of £42,325 in relation to the 2020/21 audit. This relates to uplifts to the base scale fee due to increased regulatory requirements, as well as additional work in respect of risks identified and outlined in the 2020/21 Audit Plan and Audit Results Report, new NAO Code of Audit Practice and ISA requirements including VFM and accounting estimates. PSAA have now determined our submission and have approved an additional fee of £35,195. The breakdown of this is detailed in the table.

For 2021/22, the scale fee will again be impacted by the increased regulatory requirements as well as a range of other factors which will result in additional work, including some of those that were present in the prior year. We have included our current estimate of the likely fee range for these areas in the table, where it is possible to estimate at this stage. We will confirm our final proposed fee once the audit is complete. This will again be subject to determination by PSAA






09

Appendices

Appendix B

Required communications with the Audit Committee

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




Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Finance, Audit and Risk Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Plan - December 2022
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report - March 2023 Auditor's Annual Report - March 2023

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report - March 2023
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit results report - March 2023
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements 	Audit results report - March 2023
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Finance, Audit and Risk Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Finance, Audit and Risk Committee responsibility 	Audit results report - March 2023

Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report - March 2023
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Plan - December 2022</p> <p>Audit results report - March 2023</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report - March 2023
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Finance, Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Finance, Audit and Risk Committee may be aware of 	Audit results report - March 2023

Appendix B




Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Internal controls	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit 	Audit results report - March 2023
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - March 2023
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - March 2023
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report - March 2023 Auditor's Annual Report - March 2023
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Plan - December 2022 Audit results report - March 2023
Value for Money	<ul style="list-style-type: none"> Risks of significant weakness identified in planning work Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses. 	Audit Plan - December 2022 Audit results report - March 2023 Auditor's Annual Report - March 2023

Appendix D

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Pension liability	To receive the pension fund auditor response	EY
Going concern review and disclosures	EY central review process and finalisation of disclosures and opinion wording	EY and management
Management representation letter	Receipt of signed management representation letter	Management and audit committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Final Review Procedures	Final review of areas listed above	EY
Other miscellaneous audit enquiries	Management to provide responses on the queries raised. Also pending are manager and partner review of other areas	Management (to provide) EY (to review)

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures on going concern remain to be finalised and audited. A draft of the current opinion (with outstanding areas highlighted) is included in Section 3.

DRAFT Management representation letter

Management Representation Letter - DRAFT

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young
400 Capability Green
Luton
Bedfordshire
LU1 3LU

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This letter of representations is provided in connection with your audit of the financial statements of North Hertfordshire District Council ("the Council") for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of North Hertfordshire District Council as of the 31 March 2022 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and are free of material misstatements, including omissions. We have approved the financial statements.

DRAFT Management representation letter

Management Representation Letter - DRAFT

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

OR

There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

OR

We do not agree that items [specify items in question] constitute differences because [specify reasons for disagreement].

6. We confirm the Council does not have securities (debt or equity) listed on a recognized exchange.

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

DRAFT Management representation letter

Management Representation Letter - DRAFT

1. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:
 - involving financial improprieties;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council’s financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council’s activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Finance, Audit and Risk Committee meetings (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date].
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the yearend. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with applicable financial reporting framework.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

DRAFT Management representation letter

Management Representation Letter - DRAFT

7. From the date of our last management representation letter (30 June 2022) through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 41 to the financial statements all guarantees that we have given to third parties.

E. Going Concern

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

F. Subsequent Events

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

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises Audited Statement of Accounts 2021/2022, including the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

DRAFT Management representation letter

Management Representation Letter - DRAFT

Comparative information - corresponding financial information

1. The balances for 2020/21 in the statement of accounts have been restated to reflect the following prior period errors:

Property, plant and equipment

1. The balance of property, plant and equipment as of 31 March 2021 was decreased by £5.6 million due to duplicate recording of Hitchin Town Centre.

Cash Flow Statement

1. The figures in the cash flow statement and related notes for 2020/21 for purchase of short-term and long-term investments were overstated by £545.5 million and proceeds from short-term and long-term investments by £542.4 million due to the inclusion of purchase and sale of short term liquid investments (presented as cash equivalents) as part of investing activities, which is not in line with the CIPFA Code.
2. The comparative amounts have been correctly restated to reflect the above matter(s) and appropriate note disclosure of these restatements has also been included in the current year's financial statements.

Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

Reserves

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

Use of the Work of a Specialist

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

DRAFT Management representation letter

Management Representation Letter - DRAFT

Estimates - property, plant & equipment, investment properties, the defined benefit pension scheme liability and NNDR appeals provision

1. We confirm that the significant judgments made in making the valuation of property, plant & equipment and investment properties, the defined benefit pension scheme liability and NNDR appeals provision have taken into account all relevant information and the effects of the COVID-19 pandemic on 31 March 2022 of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of property, plant & equipment and investment properties, the defined benefit pension scheme liability and NNDR appeals provision.
3. We confirm that the significant assumptions used in making the valuation of property, plant & equipment and investment properties, the defined benefit pension scheme liability and NNDR appeals provision appropriately reflect our intent and ability to carry out our procedures on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on 31 March 2022, are complete and are reasonable in the context of the applicable financial reporting framework.
5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of property, plant & equipment and investment properties, the defined benefit pension scheme liability and NNDR appeals provision.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

Retirement benefits

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

Yours faithfully,

(Service Director - Resources)

(Chairman of the Finance, Audit and Risk Committee)

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

FINANCE, AUDIT AND RISK COMMITTEE 8 March 2023

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: STATEMENT OF ACCOUNTS 2021/22

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: *NON-EXECUTIVE*

COUNCIL PRIORITY: SUSTAINABILITY

1. EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to ask Finance, Audit and Risk Committee to approve the audited Statement of Accounts for 2021/22. The Statement of Accounts has been subject to external audit and a draft is enclosed with the report as Appendix A. The version that is attached will still be subject to some changes, and an addendum (final) version will be provided as soon as possible.

2. RECOMMENDATIONS

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

3. REASONS FOR RECOMMENDATIONS

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

4. ALTERNATIVE OPTIONS CONSIDERED

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

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. Consultation on the Statement of Accounts is not required.
- 5.2. The draft Statement of Accounts 2020/21 was published on the Council's website at the end of July 2022.
- 5.3. The accounts are subject to audit by the Council's External Auditors, Ernst and Young LLP (EY).
- 5.4. Under the Local Audit and Accountability Act 2014 (sections 26 and 27) and the Accounts and Audit Regulations 2015 (sections 14 and 15), members of the public and Local Government electors have certain rights in respect of the audit process. This includes inspection of the accounts, associated documents and being able to ask

questions. This opportunity was advertised in accordance with the regulations. No one took up this opportunity

6. FORWARD PLAN

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

7. BACKGROUND

- 7.1. The Council is legally required to annually produce a statement of accounts detailing the financial activities for the year and overall financial position as at 31st March. Generally it has a statutory responsibility to publish its draft Statement of Accounts by 31st May, and that an audited version should be approved by 31st July 2021. Due to the continuing issues that audit firms have with resourcing, and trying to catch up from Covid-19, these deadlines have been extended. The Council published unaudited accounts by the revised deadline of 31 July 2021. An audited version should have been approved by 30th November 2021. This was delayed by resourcing issues at Ernst & Young LLP. In line with legislation, the Council published a notice on its website detailing this delay, alongside a letter from Ernst and Young: [Statement of Accounts | North Herts Council \(north-herts.gov.uk\)](https://www.north-herts.gov.uk/statement-of-accounts).
- 7.2. The Council's external auditors, Ernst & Young LLP (EY) commenced their audit work in November 2022. At the time of writing this report their work is still ongoing, but it is expected that they will have finished in time for this Committee.

8. RELEVANT CONSIDERATIONS

- 8.1. A draft of the audited version of the Statement of Accounts is attached at Appendix A. The Narrative Report within the statement of accounts provides an overview of how the accounts are presented and highlights the most significant matters. Changes from the draft unaudited accounts published in July 2021 are highlighted in green. The final signed version of the accounts will have these highlights removed. As the audit is not fully complete at the time of writing this report, any further changes identified will be presented either as a verbal update (if very minor) or an addendum report. There may be a need to add an additional recommendation to delegate final approval to the Chair of the Committee.
- 8.2. The Audit Results Report from Ernst and Young, will be considered immediately prior to this item. That report highlights all the significant recommended changes to the accounts that have been identified during the audit. We have the choice as to whether we adjust for the changes that are recommended. If we did not adjust for a material error, then that would lead to a qualified audit opinion. For non-material errors, they would just be noted as unadjusted in the Audit Results Report. We have chosen to adjust for all the errors that have been identified. In summary, this includes:

- The expenditure on the redevelopment of Hitchin Town Hall and Museum had remained on the asset register after the project had been completed and a revaluation of the completed asset had been carried out (in 2018/19). At the point of that revaluation, the combined value of the previous valuation plus the sum of the cost of the works carried out, should have been replaced by the new valuation. This means that the asset value is over-stated by £5.6million. The result of correcting this is that asset values are reduced by £5.6million, and this is off-set by changes to the Revaluation Reserve (to remove the balances that had previously been shown as an upwards valuation) and the Capital Adjustment Account (for the remaining difference). There is no impact on

General Fund balances. The asset register has been reviewed to ensure that there are no other similar errors. This is not reflected in the version of the accounts that is appended to this report but will be adjusted in the addendum version.

- An Asset held for Sale had been subject to a downwards valuation of £1.1million. This asset had an existing revaluation reserve balance from before it had been classified as being held for sale (i.e., it had previously been revalued upwards). For most asset classes, where there is an existing revaluation reserve balance, you would off-set the downwards revaluation against the previous upwards valuation. That is the treatment that was in the draft accounts, but that is incorrect for an Asset held for Sale. The downwards revaluation is charged to the Income and Expenditure account, before being reversed through to the Capital Adjustment Account, so that there is no impact on the General Fund. This has been corrected in the accounts appended to this report.
- £2.6 million unspent balance of Covid-19 Additional Relief Fund was recorded as short-term creditors instead of grants received in advance. This has been corrected in the accounts appended to this report.
- Our calculation of certain items within the cash-flow statement was not in line with the CIPFA Code and we have therefore corrected this. The correction has not changed the opening and closing cash balances recorded in the draft accounts.

- 8.3 On page 29 of Audit Results Report, Ernst and Young make some recommendations in relation to the Council's financial controls. We have already commenced a review of the fixed asset register, and (depending on available audit days) we will look to involve SIAS in reviewing that exercise. This has identified a few other assets that have been duplicated in the same way (although the values concerned are much lower). In relation to the cash-flow recommendation, we will keep up to date with Code requirements, and undertake training on an annual basis.
- 8.4 Once approved by the Committee, the Statement of Accounts will be formally signed. The Chair will sign page 1 of the Statement of Accounts to confirm that they have been approved by the Committee. The Service Director- Resources (as the Council's Chief Finance Officer) will sign the Statement of Responsibilities (page 1 of Appendix A) to certify that the statement of accounts give a true and fair view of the financial position of the Authority as at 31 March 2022 and its income and expenditure for the year then ended. The Service Director- Resources (as Chief Finance Officer) and the Chair of the Committee will also sign the Letter of Representation on behalf of the Council. The wording of the Letter of Representation can be found as an appendix to the final Audit Results Report document presented by EY this evening.
- 8.5 Officers are not aware of any events that have occurred since the year end that provide additional evidence of conditions that existed at 31st March 2022 or materially affect the amounts in the Statement of Accounts. In particular, there has not been any subsequent event that would require an amendment to the contingent assets and liabilities listed in the accounts.
- 8.6 The Annual Governance Statement (AGS) is required to be approved in advance of approving the Statement of Accounts, which is why that item is also on the agenda for this meeting. The Council will ensure that the publication of the Statement of Accounts is accompanied by the publication of the Annual Governance Statement.

9. LEGAL IMPLICATIONS

- 9.1. The Accounts and Audit Regulations 2015 determine how and when the Annual Statement of Accounts should be approved and published. For 2021/22 the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 have amended the dates by which the accounts have to be prepared and approved.
- 9.2. The Accounts and Audit Regulations 2015 (section 9) state the accounts should be signed and dated by the Member presiding at the meeting which formally approves the accounts. Under the constitution, the Finance, Audit & Risk Committee has responsibility to “review and approve the Statement of Accounts” (constitution 10.1.5a).
- 9.3. The Local Audit and Accountability Act 2014 (sections 26 and 27) and the Accounts and Audit Regulations 2015 (sections 14 and 15) grant members of the public and Local Government electors certain rights in respect of the audit process.
- 9.4. The Local Government Act 2003 (section 21) determines that the Council must follow ‘proper practices’ in the preparation of the annual Statement of Accounts

10. FINANCIAL IMPLICATIONS

- 10.1. The outturn reports were presented to Members in June 2022. These provided the end of year position of the General Fund, other reserves and capital expenditure. None of the changes to the Statement of Accounts identified from the audit have resulted in any change to the outturn position reported.

11. RISK IMPLICATIONS

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

12. EQUALITIES IMPLICATIONS

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

13. SOCIAL VALUE IMPLICATIONS

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

14. ENVIRONMENTAL IMPLICATIONS

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

15. HUMAN RESOURCE IMPLICATIONS

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

16. APPENDICES

- 16.1. Appendix A - Draft Statement of Accounts 2021/22 (current version at the time of writing the report).

17. CONTACT OFFICERS

- 17.1. Ian Couper, Service Director – Resources
ian.couper@north-herts.gov.uk; ext 4243
- 17.2. Antonio Ciampa, Accountancy Manager
antonio.ciampa@north-herts.gov.uk; ext 4566

18. BACKGROUND PAPERS

- 18.1. None.

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**Unaudited Statement of
Accounts
2021/2022**

**North
Hertfordshire
District Council**

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The Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

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

Service Director – Resources' Responsibilities

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

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

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

The Service Director – Resources has also:

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

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at the 31 March 2022 and its income and expenditure for the year then ended.



Ian Couper

Service Director – Resources

Independent Auditor's Report

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Independent Auditor's Report

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Independent Auditor's Report

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Narrative Report

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

The Council Plan, Vision and Objectives

In September 2021, the Council approved a new Council plan which set out a vision that “we put people first and deliver sustainable services, to enable a brighter future together”.

Underneath that vision are three key priorities and four themes:



The full plan can be found on our website (<https://www.north-herts.gov.uk/council-plan>). The plan covers a 5 year period from 2022 to 2027, but is reviewed each year. When the plan was set, it was considered alongside the Medium Term Financial Strategy. This helps to ensure that we are mindful of the resources that are available when setting out our ambitions.

The plan includes some of the projects that are intended to be delivered to support the priorities set out above. In March 2022, the Council adopted a 'Council Delivery Plan' which added to those projects and also set out in more detail how, and when, they would be delivered. The Council Delivery Plan can also be found on our website (<https://www.north-herts.gov.uk/council-delivery-plan>). The Delivery Plan also includes any risks to the delivery of the projects and any performance indicators that will show how well the projects and their outcomes are being delivered. The Delivery Plan will be reviewed by Cabinet on a quarterly basis, assisted by the Overview and Scrutiny Committee.

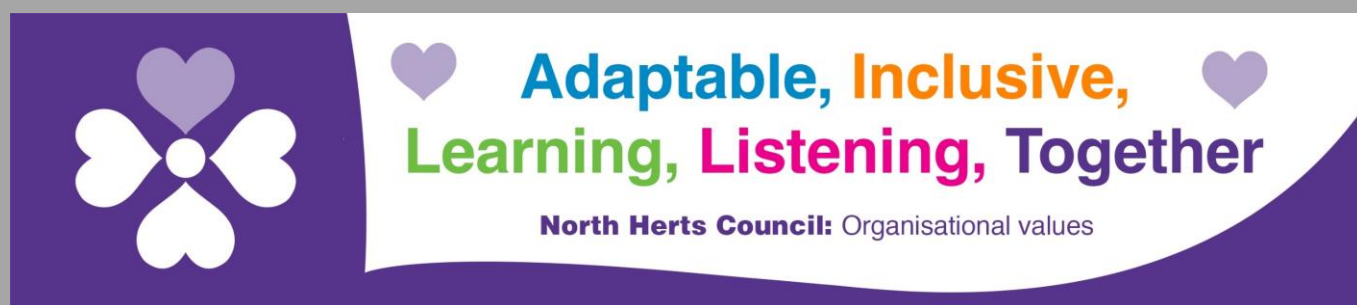
The Council also adopts co-operative values, which means that we value and build mutual support, accountability, fairness, and responsibility into all that we do.

Narrative Report

Valuing our Staff

The Council is also an organisation that values its staff. We have embarked on a 'Shaping our Future' programme to give our staff the skills and opportunities that they need to deliver our vision and priorities. The particular focus is on understanding and delivering "People First".

The Council adopted new organisational values in 2019, and these have been recently refreshed and simplified. These values are:



What we do

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

Examples of the delivery of statutory duties are:

- Waste collection from just over 58,000 households
- 57% of household waste sent for re-use, recycling and composting
- Street cleansing over 400 miles of roads
- Food inspections of around 300 premises.
- Collecting Council Tax and Business Rates from just over 58,000 homes and 4,500 businesses
- Planning for the second largest district in Hertfordshire at 145 square miles.
- Issuing of approximately 2,200 licences to premises and licenced individuals, around 550 licences to taxi and private hire vehicles and drivers and in the region of 650 temporary licenses to premises/individuals.
- Homelessness provision
- Housing Benefit to around 3,700 claimants
- Regulation, e.g. Parking, Fly-tipping.

Non-statutory services provided include:

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

Narrative Report

Impact of Covid-19

During 2021/22, the Council continued to see the impacts of the Covid-19 pandemic. However, during the later part of the year, the focus has been on moving towards recovery.

During the early part of 2021/22, all our services reopened:

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

The financial impact of Covid-19 during the year has been £774k, which is made up of:

- Additional homeless accommodation costs of £232k
- Lost income from leisure centres, parking, trade waste and Hitchin Town Hall of £1,419k
- Off-set by Leisure Recovery Grant from Sport England of £11k
- Off-set by Government Sales, Fees and Charges compensation (up to 30 June 2021 only) of £308k
- Off-set by general Covid-19 government grant of £558k

The impact was generally funded by reviewing specific reserves and releasing those unneeded reserves (e.g. the funding equalisation reserve and special reserve) back to the General Fund reserve.

In addition to the specific impacts highlighted above, there have been some financial impacts that are, at least partly, due to Covid-19 impacts. The bad debt provision for sundry debtors has increased from £172k (at 31st March 2021) to £267k (at 31st March 2022). We have also made a provision for non-payment against the loan that we granted to Stevenage Leisure Limited (SLL) for the purchase of fitness contract. This was supposed to be paid off from surpluses above the contracted management fee. The impact of Covid-19 on leisure centre usage has meant that SLL have not returned to paying the full management fee.

Looking forward to 2022-23, we expect that there will be ongoing impacts from Covid-19. As part of the budget, a contingency budget of £1.74million was created to allow for continuing additional costs and income shortfalls. This was based on potential continuing impacts in relation to:

- Leisure contract income
- Parking pay as you use and season ticket income
- Hitchin Town Hall income from events and room hire
- Homelessness costs
- Trade waste income
- Uncertainty over recyclable materials disposal costs / income

There was also an assumption that this contingency budget may have to continue in to 2023-24, estimated at £0.81million. This will be kept under review as part of the budget setting process for 2023-24.

The relaxing of restrictions in relation to Covid-19, combined with (in general) some reduction in the additional work that has been taken on by the Council, has resulted in a reduction in the level of outstanding holiday and flexi-leave balances. This is demonstrated by the accumulated absence accrual which has decreased from £428k to £33k. The Council is very aware of the need to continue to support our staff, and is being flexible over the period that outstanding leave needs to be taken.

Narrative Report

Supporting Covid-19 recovery

During 2021-22, the Council has supported the wider recovery of the District. This has included town centre recovery, business support grants and working with the County Council to prevent further outbreaks.

In 2020-21, we were successful in being awarded £88k from the Reopening High Streets Safely (RHSS) Fund. At the end of the year, £68k had not been spent. In 2021/22 this has been combined with £61k of Welcome Back funding received, with the total of £129k supporting the following projects during the year:

- Town centre promotion and maintaining planters in the Town Centres.
- Developed Town Centre plans for what they will look like post-pandemic and provide a basis on which to apply for future regeneration funding.
- Working with partners (e.g. Business Improvement Districts, Parish, Town and Community Councils) to fund specific interventions that will make a difference to their local economies.

We have made sure that business grant money and self-isolation payments are paid out as quickly as possible, whilst ensuring that appropriate checks are in place. During 2021/22 we have paid out:

- £3.7million of Additional Restrictions Grant (ARG) money to support those businesses that were missed by the mandatory schemes.
- £5.8million of RESTART grants to support businesses to reopen safely.
- £1million of grants to support the Retail, Leisure and Hospitality sector.
- £0.5million of Self-Isolation payments (discretionary and mandatory) to support individuals impacted by Covid-19.

The Council has continued to work with Hertfordshire County Council to make best use of Contain Outbreak Management Funding (COMF). This funding is targeted to break the chains of transmission and protect the vulnerable. The majority of the COMF was allocated to the County Council and following agreement with them, we have spent just over £720k on:

- Activities to support Test and Trace
- Covid marshals
- Grants to support community groups
- Support for staff to prevent burnout
- Additional resource for the Careline Service to manage staff absence due to Covid-19

We have also spent a total of £96k (out of specific District allocation of COMF of £144k) on:

- £51k on Health and Wellbeing projects to provide support to vulnerable residents.
- £45k on technology to enable residents, Councillors, and staff to interact in more Covid-safe ways.

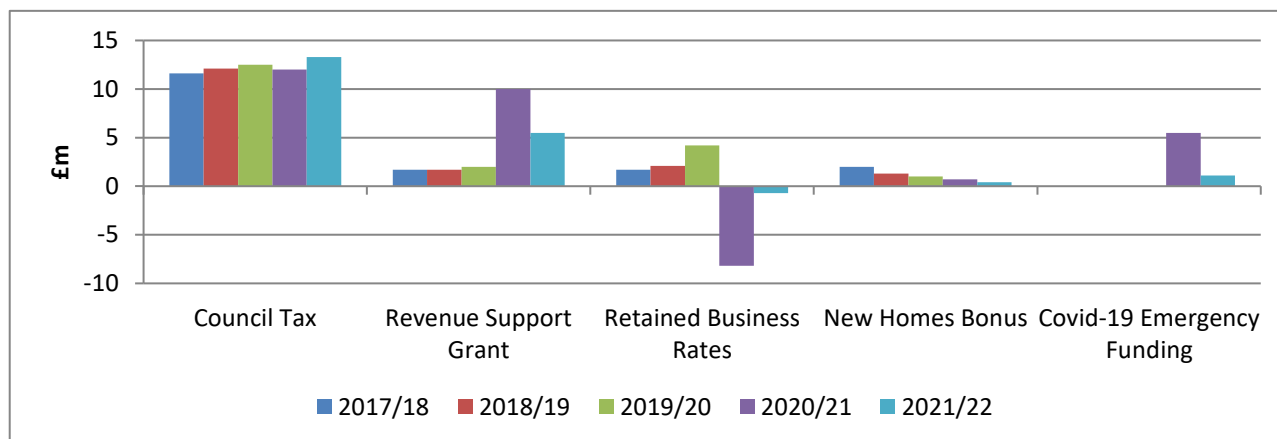
We will look at ways that we can spend the remainder during 2022-23.

Narrative Report

Our funding

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

Revenue funding sources (Taxation and General Grants):



Increases in Council Tax are limited by Central Government, unless agreed by a local referendum. In 2021/22 we raised our element of Council Tax by £5 for a band D property (with other bands pro-rata to this), which was the maximum possible without a referendum.

The Revenue Support Grant total includes section 31 grants, which is where Central Government provides reimbursements for reliefs and discounts in relation to Business Rates. This has been higher during the Covid-19 pandemic due to the reliefs that have been provided. We no longer receive any ongoing funding to support general expenditure. In 2021-22 we received £116k through a new one-off general grant (Lower Tier Services Grant).

Government provided grant funding to Councils in 2021/22 to support the additional expenditure and lost income caused by Covid-19. This is shown separately on the graph above. As detailed in the Covid-19 impacts section, the Council is still facing a significant shortfall that we will meet from reserves.

The graph above excludes the grant funding that the Council has received to pay on to businesses. For some of these grants the Council has had discretion as to which specific businesses that they are paid to (£3.7m of the total paid out) and for some it has been mandated as to how they should be paid (£7.1m of the amounts paid).

The current Business Rates system involves 50% of funding being retained within Local Government, and the balance going to the Department for Levelling Up, Housing and Communities. Each Authority has an assessed baseline need and, as the Council's assessed need is a lot lower than the income we collect, it has to pay a levy which redistributes the funding to other Authorities. The Council retains some of any growth in Business Rates, but is also exposed to falls as well (subject to a safety net level). This would mean that we would usually keep around 9p out of every £1 that we collect. During 2021/22, the Council was part of a Business Rates Pool with Hertfordshire County Council and four other Hertfordshire Districts/Boroughs. This resulted in a greater proportion of Business Rates being retained locally, although this was significantly affected by the pandemic. Overall, we retained approximately 10p of every £1 collected.

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

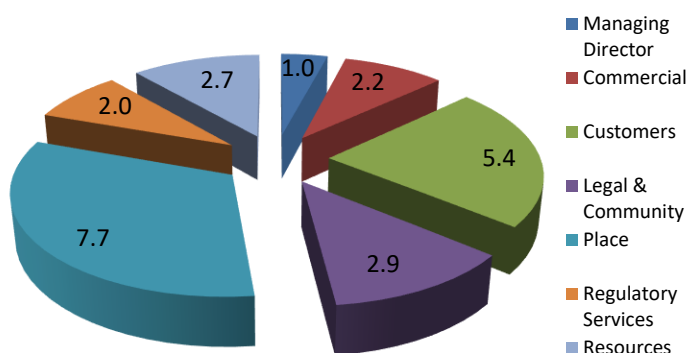
Our overall funding of £19.6m in 2021/22 was lower than the total received in 2020-21. This relates to the reduction of Covid-19 support, which was partly off-set by inflationary increases.

Narrative Report

Spend by service area

The Council is managed under 6 Service Directorates and the Managing Director area (including Communications), and spend against these in 2021/22 was as follows:

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



Future Funding

Reforms to Council funding are expected to happen at some time, but it is now very uncertain (due to other Government priorities such as Covid-19 and cost of living crisis) when this will take place. This reform could still include a move to 75% Business Rate Retention, a Business Rate reset and a new Fair Funding Formula. However, Covid-19 has added to the question as to whether these are suitable mechanisms for funding Local Government. A new funding formula will mean that the way in which the overall pot of money is allocated to individual Councils will change. It is expected that this will result in more money being provided to Social Care authorities, and therefore less to District Authorities like us. Any change will be phased in, although it is expected that this phasing will be quite short.

How we allocate our funding

At the same time that the Council reviews its Council Plan, it also carries out an annual review of its Medium Term Financial Strategy (MTFS). This estimates the funding that we expect to have in future years and sets the strategy for meeting any shortfall. This strategy is inherently linked to the Council Plan. The current MTFS can be found on our website alongside the Council Plan (<https://www.north-herts.gov.uk/council-plan>).

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

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

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

Budgeting for Risk

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

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

For 2021/22, this resulted in a recommended minimum General Fund level of £3.85 million. The budgeted balance was £7.4 million at the start of the year and £7.4 million at the end of the year (unchanged due to the release of other reserve balances). The actual balance at 31st March 2022 was £10.6 million.

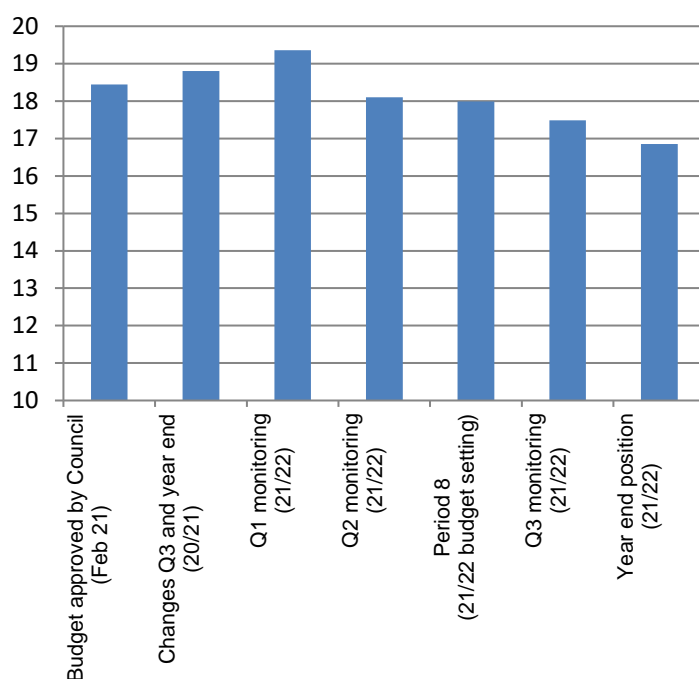
Narrative Report

Monitoring expenditure

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

Due to the continuing Covid-19 impacts and to enable regular reporting to Government, monthly forecasting has continued to be carried out during the year. If necessary additional reports would have been provided to Cabinet or Full Council

Reported spend forecasts in 2021/22 (£m)



Success at achieving savings

Budgeted revenue savings achieved by year since 2011/12 (efficiencies, income generation and service change).

Year	Savings Achieved (£m)
2011/12	1.9
2012/13	0.6
2013/14	0.7
2014/15	1.6
2015/16	0.4
2016/17	0.4
2017/18	1.2
2018/19	2.9
2019/20	0.6
2020/21	0.5
2021/22	0.3
Total	11.1

Corporate Financial Health Indicators (Income)

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

Income category	Budgeted Income (£'000)	Q1 Status	Q2 Status	Q3 Status	Q4 Status	Actual Income (£'000)
Planning Application Fees	953	Green	Red	Red	Red	915
Land Charges	164	Green	Green	Red	Red	154
Car Parking Fees	1,975	Red	Red	Red	Red	1,607
Penalty Charge Notices	573	Green	Green	Green	Green	618

Narrative Report

Capital funding

The Council funds capital expenditure from these main sources:

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

The Council can also borrow money to fund capital expenditure, subject to meeting certain conditions. The Council has historic borrowing of £387k which is not worth repaying early (as at 31st March 2022).

During 2021/22 the Council's capital expenditure was funded from the following sources:

	£'000
Government Grants	0
S106 Developer Contributions	133
Other Contributions	76
Capital Receipts	578
Set-aside receipts	647
Total	1,434

As at the end of the year, the Council had a balance of £7.7m of Capital Receipts and Set-aside receipts remaining. This had been increased (before use of receipts detailed above) by £2.7m from the sale of surplus land.

Significant Capital Projects in 2021/22

Property improvements following condition surveys
 Hitchin Town Hall Sprung Floor replacement
 IT Infrastructure and Hardware
 Playground renovations, including Howard Park in Letchworth
 Conversion of Harkness Court to flats
 Refurbishment and improvements to Community Facilities
 Lift Replacement at Lairage car park in Hitchin

All projects with spend greater than £50,000 in 2021/22

The Council's capital assets

The total value of the Authority's capital (long-term) assets is £126.0 million.

The main components of this are:

- Property, Plant and Equipment (£98.3 million) used to deliver services
- Heritage assets (£0.9 million), the museum collections and public artwork
- Investment properties (£26.4 million) that generate an annual income from being leased out (£1.2 million in 2021/22)

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

Narrative Report

The Council's liabilities

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

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

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

As at the 31st March 2022, the value of the liability was £30.2 million (compared with £46.0 million at 31st March 2021). During the year, the Council made contributions of £2.8 million (of which £1.1 million was a lump sum relating to past shortfalls) and its employees contributed £0.7 million.

Key partners and contractors

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

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

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

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

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

Governance

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

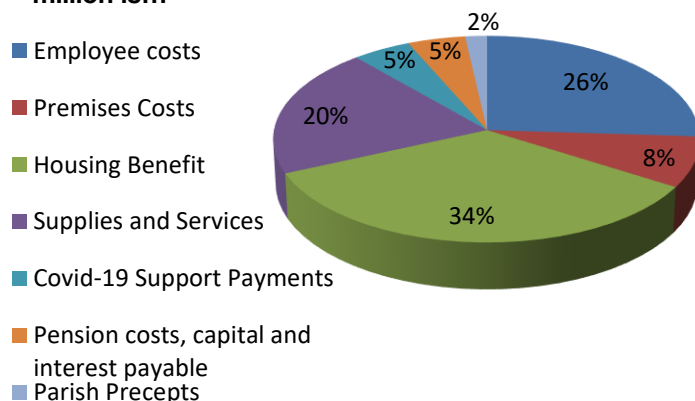
The Finance, Audit and Risk (FAR) Committee approves the AGS and monitors the actions identified.

The Action Plan from 2020/21 was last considered by the Committee at their meeting on 16th March 2022.

Narrative Report

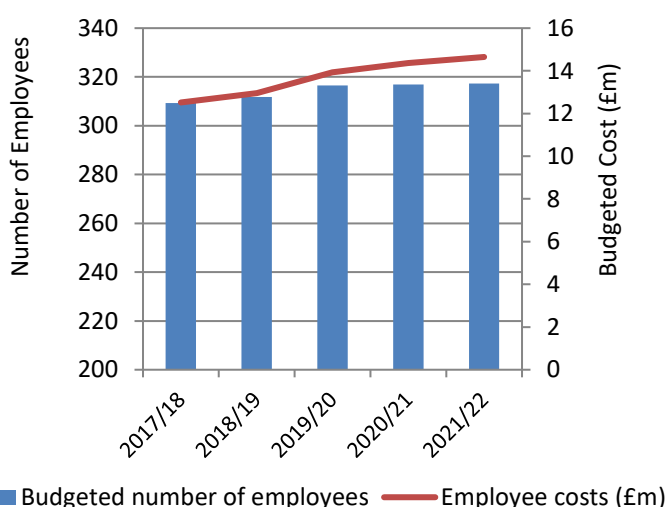
Spend by type, including employee spend

The breakdown of the Council's gross spend of £68.4 million is...



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

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



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

Alternatives Models of Service Delivery

CCTV

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

Building Control

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

Home Improvement Agency

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

Joint Waste Contract and Client Team





The Council and East Herts Council procured a joint waste contract, which commenced in May 2018. We also share a client team to manage the contract. Each Council pays for half of the cost of the client team, and account for their share of the costs of the waste services in accordance with the contract.

Narrative Report

Monitoring Projects

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












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

Status	Q1	Q2	Q3	Q4
 Halted/ Funding not available	1	1	0	0
 Behind original due date or forecast not to meet due date	3	3	4	7
 Not due for completion in year or has not reached due date	10	10	7	1
 Project Completed	0	0	2	3
	14	14	13	11

After being reported as completed the project is taken off for the next quarter. At Q3, 2 projects were reported as completed (renovate play area at Howard Park, Letchworth and the lift replacement at Lairage Car Park, Hitchin).

At Q2 the crematorium project was removed as the appeal against the refused planning permission had been unsuccessful.

The end of year position on the projects was:

Project	Progress
Introduce a Community Lottery.	Complete. Lottery was launched and the first draw took place in March 2022. 
Acquisition of Property Investments	Continue to explore opportunities. Finalising the options appraisal for Harkness Court, Hitchin. 
Set up a community tree planting programme	Complete. All trees have been distributed. 
Roll out of separated recycling across the district, including bins in Parks and Green Spaces	Installation of all planned bins has been completed. To continue work on more opportunities/ options. 
Examination and adoption of a Local Plan for North Herts	Still awaiting the report from the Planning Inspector. 
Trial / experimental Electric Vehicle charging points	Seeking a private sector partner to support the bid for grant funding and fund the costs that are not covered by a grant. There has been a delay in procuring due to identifying the right framework and the level of interest meaning that a mini competition process will be required. 
Providing Housing at market rents (Harkness Court conversion)	Final works being completed. Expected to be ready to be let by August 2022. 
Disposal of surplus assets	Delay on the disposal of two sites, which are both expected to progress over the summer (2022). 
Develop and implement a cohesive empty homes strategy	Delay due to need to identify someone to develop the strategy and funding. Now expect to have a draft strategy by Autumn/ Winter 2022. 
Preparation of a cycling and walking strategy	Dependent on work being undertaken by Hertfordshire County Council (HCC), which has been delayed. That work is making progress and the timelines for the North Herts work will be reviewed in line with HCC progress. 
Develop a long-term museum storage solution	The use of a framework did not seem to offer good value for money. Now following a traditional procurement process, which will take more time. 

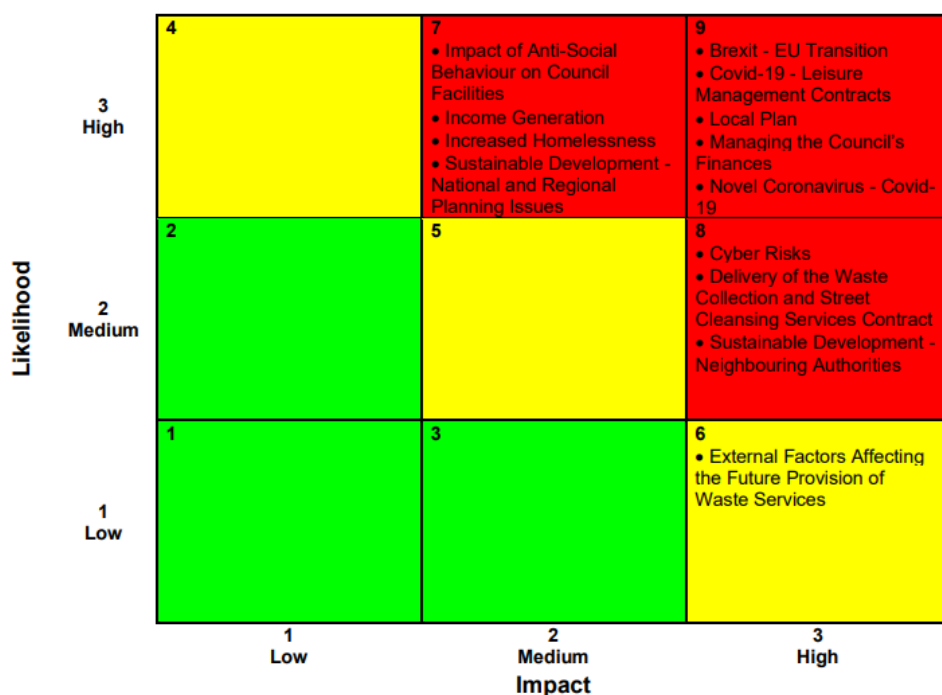
Narrative Report

Monitoring Risk and Opportunities

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

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

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



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

- Impact of Anti-Social Behaviour on Council Facilities - moved to a service risk.
- Brexit (EU Transition) – risk score reduced to 5.

Monitoring Performance

The Overview and Scrutiny Committee also receive quarterly reports on Performance Indicators. During 2021/22 there were 20 indicators that were monitored, with some having targets and others for information only. A summary of the position on these throughout the year is:

Status	Q1	Q2	Q3	Q4
Met or exceeded target	6	4	5	7
Target not achieved but within agreed tolerance	1	2	3	1
Not achieved and outside tolerance	2	3	1	1
For information only and traffic light status is not applicable	11	11	11	11

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

Indicator	Target	Actual Value	Comments
Working days lost due to short-term sickness absence per FTE employee	3.5	4.2 	Believed to be due to the lifting of Covid-19 restriction and the impact on common infections from increased social interactions
Kg of residual waste per household	335kg	356kg 	Continuing changes in consumer behaviour (e.g., increased working from home) is leading to increased packaging material in residual waste bins. Food waste is also still high, and communications will focus on trying to reduce that.

Narrative Report

Performance and Risk in 2022/23

The Council is adopting a new approach to performance and risk monitoring in 2022-23. The key themes of the change are:

- Ensuring that Council projects are linked to the delivery of the Council Plan and refreshed each year.
- Having specific and achievable targets for the year, ensuring that resources are available to deliver them.
- Linking performance indicators to projects, to measure progress with delivering the project and achievement of intended outcomes.
- Linking Corporate Risks to projects, so that risks reflect any threats to the achievement of key projects.
- Simplifying Corporate Risks so they are focused on communicating the potential impact, and required mitigations are clearly explained.

The above will be achieved through the creation (and monitoring of) a Council Delivery Plan. The Council Delivery Plan for 2022-23 can be found here (<https://www.north-herts.gov.uk/council-delivery-plan>). The Plan will be monitored by Overview and Scrutiny and Cabinet on a quarterly basis. Finance, Audit and Risk Committee will no longer receive detailed reports on specific risks but will maintain an oversight of effective risk management.

The projects for 2022/23 are:

Covid Recovery

- Museum / Hitchin Town Hall recovery
- Tourism Strategy
- Business Recovery Grants
- Town Centre Recovery
- Health Inequalities
- Economic Development Strategy

Climate Change

- Resident/ Public EV charging in our car parks
- Cycling network
- EV charging for Council Vehicles
- Royston Leisure Centre Solar Thermal

Town Centres

- Town Centre strategies
- Finalise pay on exit parking review
- Replacement of Royston Town Hall Annexe

Improving how customers access our services

- Empty Homes strategy
- New ways of delivering housing on Council land
- Work with stakeholders to increase accommodation for single homeless people
- Local Plan implementation
- Master planning

Financial Sustainability and review of Council Tax Reduction Scheme

Government Resources and Waste Strategy

Green Space Management Strategy

Charnwood House, Hitchin

Museum Storage

Local Government Boundary Review

Narrative Report

Understanding the Accounts

The accounts are made up of 4 core financial statements:

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

These are supported by a series of notes that provide further details of the numbers that they contain, with the Expenditure and Funding analysis being particularly useful in understanding the overall picture. Much of the information is of a technical nature and has been completed to be compliant with the 2021/22 Local Authority Accounting Code of Practice and Service Reporting Code of Practice, which are based on the International Financial Reporting Standards. On the next page there is a summary of the key information from each of these statements.

Expenditure and Funding Analysis

This note is the most relevant to Council Taxpayers as it shows the Council's spend by Directorate (net total of £17.1 million). It then goes on to show how this is funded from taxation and grants. The final section shows the impact on the General Fund balance.

Comprehensive Income and Expenditure Statement

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

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

The deficit on provision of services is **£3.7m**, which includes actual income and expenditure incurred as well as adjustments for the cost of using capital assets (e.g. depreciation) and pension costs.

The total comprehensive income and expenditure (which is a surplus of £18.2 million) also includes the estimated gains on the revaluation of non-current (e.g. land and buildings) and pension assets. These gains would only be realised if the assets were actually sold.

Movement in Reserves Statements

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

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

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

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

The overall result is that the movement on the General Fund is £1.7 million, which means that the balance at the start of the year of £8.9 million is now £10.6 million.

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

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

Narrative Report

Balance Sheet

The Balance Sheet shows the value as at the 31 March of the assets and liabilities recognised by the Council. The net assets of the Authority (assets less liabilities) are matched by the reserves held. The total value of net assets of the Authority at 31 March 2022 is £127.6 million. Key assets and liabilities include:

- Property, Plant and Equipment used to deliver services: £98.4 million
- Investment properties used to generate income: £26.4 million
- Short Term Treasury investments: £36.5 million
- Pension liabilities: -£30.2 million

Cashflow Statement

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

Statement of Accounting Policies

1. GENERAL

- 1.1. The Statement of Accounts summarises the Authority's transactions for the 2021/22 financial year and the position at the year-end of 31 March 2022. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. Those Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Local Government Act.
- 1.2. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. All disclosures are subject to materiality as the intention of the statement of accounts is to present a 'true and fair' view of financial position, financial performance and cashflows.

2. ACCRUALS OF INCOME AND EXPENDITURE

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

Statement of Accounting Policies

3. COUNCIL TAX AND NON-DOMESTIC RATES

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

4. BUSINESS IMPROVEMENT DISTRICTS

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

5. CASH AND CASH EQUIVALENTS

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

6. EMPLOYEE BENEFITS

Benefits Payable During Employment

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

Statement of Accounting Policies

Termination Benefits

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

Post Employment Benefits

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

The Local Government Pension Scheme

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

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

Statement of Accounting Policies

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

Service cost comprising:

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

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

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

Re-measurements comprising:

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

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

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

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

Discretionary Benefits

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

Statement of Accounting Policies

7. EVENTS AFTER THE REPORTING PERIOD

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

8. EXCEPTIONAL ITEMS

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

9. FINANCIAL INSTRUMENTS

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

Financial Liabilities

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

Statement of Accounting Policies

Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

FINANCIAL ASSETS

9.5. Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

9.6. The Authority does not have any available for sale assets.

Loans and Receivables

9.7. Assets of this type will arise where the Council provides money, goods or services to another party and contracts to defer the settlement of the debt that arises, but in the meantime will not plan to trade the receivable on the market. Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Authority has made this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

9.8. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

9.9. Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

10. GOVERNMENT GRANTS AND CONTRIBUTIONS

10.1. Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

10.2. Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Statement of Accounting Policies

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

11. HERITAGE ASSETS

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

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

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museum's collection and decisions to dispose of items will not be made with the principal aim of generating funds. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment.

12. INTANGIBLE ASSETS

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

13. INVENTORIES AND LONG TERM CONTRACTS

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

14. INVESTMENT PROPERTY

- 14.1. Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.
- 14.2. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged in an orderly transaction between

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participants at the measurement date, and assuming that highest and best use is made of that asset. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

15. JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS

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

16. LEASES

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

The Authority as Lessee

Finance Leases

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

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- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

Operating Leases

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

The Authority as Lessor

Finance leases

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

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used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

- 16.11. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

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

17. OVERHEADS AND SUPPORT SERVICES

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

18. PROPERTY, PLANT AND EQUIPMENT

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

Recognition

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

Measurement

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

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

- 18.5. The cost of assets acquired other than by purchase is deemed to be its current value. Where an acquisition does not have commercial substance (i.e. it will not lead to a variation

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in the cash flows of the Authority) and is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

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

Impairment

- 18.13. Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.
- 18.14. Where impairment losses are identified, they are accounted for by:
- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

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- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.
- 18.15. Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

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

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

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

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Disposals and Non-current Assets Held for Sale

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

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

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

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otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

- 19.3. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

20. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

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

Contingent Liabilities

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

Contingent Assets

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

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21. RESERVES

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

22. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

23. TRUST FUNDS AND THIRD PARTY ASSETS

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

24. VAT

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

Expenditure and Funding Analysis

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

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

2020/21			2021/22		
Net Expenditure chargeable to the General Fund £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement Directorate £'000	Net Expenditure chargeable to the General Fund £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
1,891	(504)	1,387	1,916	(936)	980
1,097	686	1,783	1,059	2,119	3,178
4,013	801	4,814	3,898	1,539	5,437
2,121	819	2,940	2,156	771	2,927
5,968	2,776	8,744	4,655	2,959	7,614
2,049	409	2,458	1,154	813	1,967
2,637	267	2,904	2,261	454	2,715
19,776	5,254	25,030	17,099	7,719	24,818
		Net Cost of Services			
1,200	147	1,347	1,231	(270)	961
		Other Operating Expenditure			
(867)	(4,398)	(5,265)	(709)	(1,736)	(2,445)
		Financing and Investment Income and Expenditure			
(31,010)	10,930	(20,080)	(14,540)	(5,087)	(19,627)
		Taxation and Non-Specific Grant Income and Expenditure			
(10,901)	11,933	1,032	3,081	626	3,707
		(Surplus) or Deficit on Provision of Services			
(9,378)		Opening General Fund Balance	(8,865)		
		(Surplus) or Deficit on General Fund Balance in year	3,081		
11,414		Transfers to / (from) Earmarked Reserves	(4,823)		
(8,865)		Closing General Fund Balance at 31st March	(10,607)		

Comprehensive Income and Expenditure Statement

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

2020/21			Note	2021/22		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
1,445	(58)	1,387	Managing Director	1,077	(97)	980
1,895	(112)	1,783	Commercialisation	3,432	(254)	3,178
39,544	(34,730)	4,814	Customers	38,085	(32,648)	5,437
3,419	(479)	2,940	Legal & Community	3,915	(988)	2,927
13,460	(4,716)	8,744	Place	12,099	(4,485)	7,614
6,748	(4,290)	2,458	Regulatory	8,068	(6,101)	1,967
2,975	(71)	2,904	Resources	2,820	(105)	2,715
69,486	(44,456)	25,030	Cost of Services	69,496	(44,678)	24,818
	1,347	Other Operating Expenditure	13			961
	(5,265)	Financing and Investment Income & Expenditure	14			(2,445)
	(20,080)	Taxation and Non-Specific Grant Income & Expenditure	15			(19,627)
	1,032	(Surplus) or Deficit on Provision of Services				3,707
	(10,143)	(Surplus) or Deficit on revaluation of non-current assets				(3,270)
	111	(Surplus) or Deficit on revaluation of available for sale assets				0
	14,207	Re-measurements of the net defined benefit liability	39			(18,656)
	4,175	Other Comprehensive Income and Expenditure				(21,926)
	5,207	Total Comprehensive Income and Expenditure				(18,219)

Service Reporting Code of Practice:

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

Movement in Reserves Statement

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

	General Fund Balance £'000	Earmarked Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
Balance at 31 March 2020	9,378	9,344	1,941	938	21,601	92,982	114,583
Movement in Reserve during 2020/21							
Surplus or (deficit) on provision of services	(1,032)	0	0	0	(1,032)	0	(1,032)
Other Comprehensive Expenditure and Income	0	0	0	0	0	(4,175)	(4,175)
Total Comprehensive Expenditure and Income	(1,032)	0	0	0	(1,032)	(4,175)	(5,207)
Adjustments between accounting basis & funding basis under regulations (Note 12)	11,933	0	(808)	(39)	11,086	(11,086)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	10,901	0	(808)	(39)	10,054	(15,261)	(5,207)
Transfers to/from Earmarked Reserves (Note 27)	(11,414)	11,414	0	0	0	0	0
Increase / (Decrease) in Year	(513)	11,414	(808)	(39)	10,054	(15,261)	(5,207)
Balance at 31 March 2021	8,865	20,758	1,133	899	31,655	77,721	109,376
Movement in Reserve during 2021/22							
Surplus or (deficit) on provision of services	(3,707)	0	0	0	(3,707)	0	(3,707)
Other Comprehensive Expenditure and Income	0	0	0	0	0	21,926	21,926
Total Comprehensive Expenditure and Income	(3,707)	0	0	0	(3,707)	21,926	18,219
Adjustments between accounting basis & funding basis under regulations (Note 12)	626	0	2,061	0	2,687	(2,687)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	(3,081)	0	2,061	0	(1,020)	19,239	18,219
Transfers to/from Earmarked Reserves (Note 27)	4,823	(4,823)	0	0	0	0	0
Increase / (Decrease) in Year	1,742	(4,823)	2,061	0	(1,020)	19,239	18,219
Balance at 31 March 2022	10,607	15,935	3,194	899	30,635	96,960	127,595

Balance Sheet as at 31 March 2021

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

31 March 2021 £'000		Note	31 March 2022 £'000
98,709	Property, Plant and Equipment	16	98,320
928	Heritage Assets	17	932
23,776	Investment Property	18	26,379
224	Intangible Assets	19	151
320	Other Long Term Debtors		265
123,957	Long Term Assets		126,047
416	Inventories	21	515
23,349	Short Term Debtors	22	10,560
24,539	Short Term Non Property Investments	20	36,529
6,296	Assets Held for Sale	24	3,227
20,850	Cash & Cash Equivalents	23	23,025
75,450	Current Assets		73,856
(26)	Short Term Borrowing	20	(26)
(19,240)	Short Term Creditors	25	(20,914)
(19,700)	Receipts in Advance	25	(16,843)
0	Provisions (< 1 year)	26	(46)
(38,966)	Current Liabilities		(37,829)
(386)	Long Term Borrowing	20	(367)
(1,957)	Long Term Creditors	38	(1,444)
(2,783)	Provisions (> 1 year)	26	(2,493)
(45,976)	Liability related to Pension Scheme	39	(30,210)
37	Deferred Credits		35
(51,065)	Long Term Liabilities		(34,479)
109,376	Net Assets		127,595
31,655	Usable Reserves	27	30,635
77,721	Unusable Reserves	28	96,960
109,376	Total Reserves		127,595

The un-audited accounts were authorised for issue on 28th July 2022.

Cash Flow Statement

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

Restated 2020/21 £'000	2021/22 £'000
(1,032) Net surplus or (deficit) on the provision of services	(2,768)
24,601 Adjustments for non-cash movements (Note 29)	12,041
(684) Adjustments for items that are investing and financing activities (Note 29)	(2,777)
22,885 Net cash flows from operating activities	6,496
2,280 Investing Activities (Note 29)	(10,400)
(13,163) Financing Activities (Note 29)	6,079
12,002 Net Increase or (decrease) in cash and cash equivalents	2,175
8,848 Cash and Cash Equivalents at the beginning of the year	20,850
20,850 Cash and Cash Equivalents at the end of the year	23,025

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Notes to the Core Financial Statements

INTRODUCTION

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) and the accounting policies set out prior to the financial statements. The notes that follow (1 to 42) set out supplementary information to assist readers of the accounts.

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

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2022/23 Code:

- IFRS 16 Leases (but only for those Local Authorities that have decided to adopt IFRS16 in the 2022/23 year) North Herts are not adopting IFRS16 in 2022/23.
- IFRS 1 (First time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS.
- IAS 37 (onerous contracts) – clarifies the intention of the standard
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the code material
- IAS 41 (Agriculture) – one of a small number of IFRS's that are not expected to apply to Local Authorities in limited circumstances.
- Property Plant and Equipment: proceeds before intended use (Amendments to IAS 16)

The Code will require implementation from 1 April 2022 and there is therefore no impact on the 2021/22 Statement of Accounts. It is also considered that these standards and amendments will not have a material impact on the Council's Statement of Accounts when they become applicable.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication of the degree to which the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Authority has determined that the ownership of the freehold of the Churchgate Shopping Centre in Hitchin is an investment property (carrying value of £1.8million) as there is no alternative policy for ownership other than for rental income or capital appreciation.
- The Authority considers the vehicles used in the delivery of the refuse and recycling service as held under a finance lease, with the underlying assets included on the balance sheet (carrying value of £1.4million). This reflects long-term leases economic benefits of ownership, through the performance of the contract. The seven-year contract commenced in May 2018, with the vehicle assets recognised at an initial value of £3.2 million.
- The Authority considers that the financial statements accurately reflect the financial consequence of the COVID-19 pandemic for the financial year 2021-2022. Many of the service impacts noted in the narrative report were more prevalent at the start of the financial year, with Covid-19 restrictions in place throughout the first quarter. With the recovery currently ongoing, it is expected that the aggregate financial impact will continue to reduce in the next financial year.

Notes to the Core Financial Statements

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

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

The items in the Authority's Balance Sheet at 31 March 2022 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	<p>Assets are depreciated over estimated useful lives. If, for any reason, an individual asset should deteriorate at a quicker rate than expected, then this could bring into doubt the useful lives assigned to individual assets. This could happen, for example, if the current period of austerity meant the necessary programme of repairs and maintenance was delayed.</p> <p>The underlying property valuations also continue to be affected by the economic uncertainty created as a result of COVID-19, Ukraine war and other inflationary impacts.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £427,800 for every year that useful lives had to be reduced.</p> <p>If market conditions are impacted by issues highlighted, every 1% change in the value of the Council's operational properties would equate to a change in the value of these assets of £983K.</p>
Investment Properties	Investment Properties are not depreciated but are revalued annually according to market conditions. In the current economic climate it is uncertain if there will be a significant change in property prices over the next 12 months. However, the majority of the Authority's investment properties are ground leases which are considered to be relatively secure investments and less liable to large swings in value.	An average yield of 7.0% has been used in the calculation of the value of investment properties. A 0.5% reduction in the yield would reduce the carrying value of investment property by approximately £2.0million (this is a simple estimation for illustration only and does not consider the complexities and circumstances of individual assets).
Debtors	At 31 March 2021 the Authority had a balance of short term debtors of £12.9million. A review of the trend in collection rates and the age profile of the outstanding debt suggested an impairment of £2.4million was appropriate. However, in the current economic climate it is not certain if such an allowance is sufficient.	If collection rates were to deteriorate, a doubling of the amount of impairment of the doubtful debt would require an additional £2.4million to be set aside.
National Non Domestic Rates – Provision for Appeals	<p>The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The arrangements came into effect on 1 April 2013.</p> <p>The Authority, acting as an agent on behalf of the major preceptors, central government and itself (as principal) is required to make provisions in accordance with the requirements of the Code and legislation for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This includes amounts relating to non-domestic rates charged to businesses in 2012-13 and earlier financial years.</p>	A provision of £2.4m has been made, as at 31 March 2022, for the Authority's share of refunding outstanding appeals that are ultimately successful. This amount is based on the net rates payable from the NNDR1 multiplied by the national average of appeals of 4.7%. An increase of the national average of appeals from 4.7% to 5.7% will result in an increase of £874k on the appeals provision.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements. A firm of actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The assumptions interact in complex ways. Actuarial valuations are carried out every three years, with the latest undertaken in 2019/20. The Authority's actuaries advised that the net pensions liability in 2021/22 had reduced by £15.8million. This is due to a higher than expected discount rate when working out the financial assumptions.

Notes to the Core Financial Statements

4. GOING CONCERN

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

This assumption primarily relates to the requirements of the CIPFA Code of Practice on Local Authority accounting in the United Kingdom. That reflects the economic and statutory environment in which Local Authorities operate. Therefore, as Local Authorities can not be created or dissolved without statutory prescription, accounts must be prepared on a Going Concern basis.

In addition to the above, the Council fully adheres to the requirements of legislation in relation to its financial management. This includes considering the medium term impact of its financial decisions through the preparation of a Medium Term Financial Strategy and considering the medium term when setting its budget each year.

5. MATERIAL ITEMS OF INCOME AND EXPENSE

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

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

Directorate	Description of Material Item	Comment
Customers	Careline Service – Contribution from Hertfordshire County Council	Total income receivable under the terms of the contractual agreement with Hertfordshire County Council was £2.7million in 2021/22 (£1.3m in 2020/21).
Customers	Covid-19 Additional Restrictions Grant	£3.7m of payments to businesses in the District were made under the Additional Restrictions Grant scheme in 2021/22 (£1.4m in 2020/21). The Council developed the details of the grant scheme internally, while ensuring compliance with criteria laid down by the Department for Business, Energy and Industrial Strategy (BEIS). The grant expenditure was fully funded by an income contribution of £3.7m for the cost of the grants from BEIS.
Customers	Housing and Council Tax Benefits	The Authority paid a total of £23.5million of Housing Benefit payments in 2021/22 (£27.8million in 2020/21). This was funded by a grant subsidy from the Department for Work and Pensions of £22.8million (£27.2million in 2020/21).
Place	Grounds Maintenance Contract	Contract payments for the core service maintenance of amenity areas, burial grounds and rivers totalled £1.3million in 2021/22 (£1.3million in 2020/21).
Place	Waste and Recycling Contract	Waste and Recycling Contract expenditure totalled £3.7million in 2021/22 (£3.6million in 2020/21).
Place	Garden Waste Service Income	Total income of £1.2m received from residents subscribed to the Council's Garden Waste Collection Service in 2021/22 (£965k in 2020/21).
Regulatory	Off-Street Car Parking Income	Off-Street Car Parking income received by the authority totalled £1.6million in 2021/22 (£826k in 2020/21).

6. EVENTS AFTER THE REPORTING PERIOD

There were no events that occurred after the reporting period that need disclosing in 2021/22.

Notes to the Core Financial Statements

7. PRIOR PERIOD ADJUSTMENTS

There is one prior year adjustment that has been identified in respect of an error relating to the Cash Flow Statement presented for 2020/21. Totals disclosed in respect of investing activities included amounts relating to investments with a duration of less than 90 days. These investments fall within the authority's definition of cash equivalents and should therefore not have been treated as cash flows for the purposes of the cash flow statement. The amount of the correction for each line affected in the cash flow statement and note 29 is shown below. The prior period error does not impact the cash and cash equivalents total reported at the end of financial year 2020/21 nor does it have any impact on the other core financial statements.

Restated lines in Cash Flow Statement

	Original 2020/21 £'000	Restated 2020/21 £'000	Amount of Restatement £'000
Adjustments for items that are investing and financing activities (Note 29)	2,443	(684)	(3,127)
Net cash flows from operating activities	26,012	22,885	(3,127)
Investing Activities (Note 29)	(847)	2,280	3,127

Restated Note 29: Notes relating to the Cash Flow Statement

Operating Activities	Original 2020/21 £'000	Restated 2020/21 £'000	Amount of Restatement £'000
Adjustments for items that are investing or financing activities:			
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	3,127	0	(3,127)
Grants applied to the financing of capital expenditure	(229)	(229)	0
Proceeds from the sale of non-current assets and investments	(455)	(455)	0
Net Adjustment for investing or financing activities	2,443	(684)	(3,127)

Investing Activities	Original 2020/21 £'000	Restated 2020/21 £'000	Amount of Restatement £'000
Purchase of property, plant and equipment, investment property and intangible assets	(1,530)	(1,530)	0
Purchase of short-term and long-term investments	(602,373)	(56,873)	545,500
Other payments for investing activities	0	0	0
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	455	455	0
Proceeds from short-term and long-term Investments	602,373	60,000	(542,373)
Other receipts from investing activities	228	228	0
Net cash flows from investing activities	(847)	2,280	3,127

Notes to the Core Financial Statements

8. ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired or discontinued operations during 2021/22 or 2020/21. These would normally arise following boundary changes or from legislation, neither of which affected North Hertfordshire District Council during 2021/22. All operations are therefore classified as '*continuing operations*'.

9. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

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

2020/21				2021/22				
Adjustments for Capital Purposes (Note 1)	Net Change for the Pension Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments	Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1)	Net Change for the Pension Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
0	(932)	428	(504)	Managing Director	0	(969)	33	(936)
604	83	0	687	Commercialisation	1,905	214	0	2,119
330	471	0	801	Customers	365	1,174	0	1,539
661	157	0	818	Legal & Community	474	297	0	771
2,661	115	0	2,776	Place	2,728	231	0	2,959
95	314	0	409	Regulatory	104	709	0	813
106	161	0	267	Resources	158	296	0	454
4,457	369	428	5,254	Net Cost of Services	5,734	1,952	33	7,719
147	0	0	147	Other Operating Expenditure	(270)	0	0	(270)
(5,107)	709	0	(4,398)	Financing and Investment Income and Expenditure	(2,674)	938	0	(1,736)
(54)	0	10,984	10,930	Taxation and Non-Specific Grant Income and Expenditure	(13)	0	(5,074)	(5,087)
(5,014)	709	10,984	6,679	Other Income and Expenditure from the Expenditure and Funding Analysis	(2,957)	938	(5,074)	(7,093)
(557)	1,078	11,412	11,933	Difference between the General Fund Surplus or Deficit and the CIES surplus or deficit on the provision of services	2,777	2,890	(5,041)	626

Notes to the Core Financial Statements

1) Adjustments for Capital Purposes

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

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

2) Net Change for the Pensions Adjustments

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

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

3) Other Differences

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

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

Notes to the Core Financial Statements

10. SEGMENTAL INCOME

Income received on a segmental basis is analysed below.

	2020/21	2021/22
Directorate	£'000	£'000
Managing Director	(307)	(190)
Commercialisation	(1,351)	(1,475)
Customers	(34,730)	(32,648)
Legal & Community	(479)	(988)
Place	(4,716)	(4,485)
Regulatory	(4,290)	(6,101)
Resources	(71)	(105)
Total Directorate Income	(45,944)	(45,992)
Other Income Received		
Non-Ringfenced Government Grants	(16,277)	(7,017)
Income from Council Tax and Business Rates	(3,749)	(12,597)
Total Income within Surplus or Deficit on the Provision of Services	(65,970)	(65,606)

11. EXPENDITURE AND INCOME ANALYSED BY NATURE

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

	2020/21	2021/22
	£000	£000
Employee costs	15,643	17,759
Other Service Expenditure	21,948	22,608
Housing Benefit Payments	27,768	23,531
Interest Payments	555	482
Net Pension Costs	709	938
Capital Charges:		
- Depreciation of Property, Plant & Equipment	3,775	4,025
- Amortisation of Intangible Assets	166	148
- Impairment / Downward Revaluation of Assets	194	1,456
(Increase) / Decrease in Fair Value of Investment Properties	(5,103)	(2,595)
(Gain) / Loss on the Disposal of Assets	147	(270)
Parish Council Precepts	1,200	1,231
Total Expenditure	67,002	69,313
Fees and Charges	(7,383)	(9,622)
Interest and Rental Income	(1,559)	(1,406)
Housing Benefit Subsidy	(27,188)	(22,772)
Grants and Contributions	(26,091)	(19,209)
Income from Council Tax and Business Rates	(3,749)	(12,597)
Total Income	(65,970)	(65,606)
(Surplus) or Deficit on the Provision of Services	1,032	3,707

Notes to the Core Financial Statements

12. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

The first table shows the adjustments made in the comparative year 2020/21:

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

Notes to the Core Financial Statements

The following table shows the adjustments made in 2021/22:

2021/22	Usable Reserves			Movement in Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments Primarily involving the Capital Adjustment Account: Reversal of items debited or credited to the comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(5,481)	0	0	(5,481)
Movements in the market value of Investment Properties	2,595	0	0	(2,595)
Amortisation of Intangible Assets	(148)	0	0	148
Capital Grants and contributions applied	133	0	0	(133)
Revenue Expenditure funded from capital under statute	(225)	0	0	225
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account	(2,369)	0	0	2,369
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory Provision for the financing of capital investment	4	0	0	(4)
Capital expenditure charged against the General Fund	75	0	0	(75)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account	2,644	(2,644)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	578	0	(578)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(5)	5	0	0
Adjustments primarily involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(5,760)	0	0	5,760
Employers pensions contributions and direct payments to pensioners payable in year	2,870	0	0	(2,870)
Adjustments primarily involving the Collection Fund Account:				
Movement in the Authority's share of the Collection Fund surplus / deficit	5,074	0	0	(5,074)
Adjustments primarily involving the Accumulated Absences Account:				
Accrued employee absence adjustment	(33)	0	0	33
Total Adjustments	(626)	(2,061)	0	2,687

Notes to the Core Financial Statements

13. OTHER OPERATING EXPENDITURE

2020/21 £000		2021/22 £000
1,200	Parish council precepts	1,231
147	(Gains) / losses on disposal of non-current assets	(270)
1,347	Total	961

14. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2020/21 £000		2021/22 £000
555	Interest payable and similar charges	483
709	Pensions interest cost and expected return on pensions assets	938
(195)	Interest receivable and similar income	(80)
(5,103)	Change in Fair Value of Investment Properties	(2,595)
(1,231)	Income and expenditure in relation to investment properties	(1,191)
(5,265)	Total	(2,445)

15. TAXATION & NON-SPECIFIC GRANT INCOME AND EXPENDITURE

2020/21 £000		2021/22 £000	2021/22 £000
(11,983)	Council Tax Income		(13,266)
(679)	Council Tax Covid-19 Hardship Fund Grant		0
0	Section 31 Council Tax Discount for Family Annexes grant		(19)
0	Covid-19 Council Tax Support Grant		(230)
(1,602)	Covid-19 Emergency Grant Funding		(558)
(1,899)	Covid-19 Sales, Fees and Charges Compensation		(308)
(1,347)	Covid-19 Local Tax Income Guarantee		0
(10,037)	Section 31 Business Rates Reliefs Grant		(5,394)
(713)	New Homes Bonus		(392)
0	Lower Tier Services Grant		(116)
	National Non-Domestic Business Rates (NNDR)		
(15,153)	Share of total collectible income	(18,177)	
12,998	NNDR Tariff and Levy	13,271	
10,389	NNDR Collection Fund (Surplus) / Deficit	5,575	
8,234	Net Recognised NNDR		669
(54)	Capital Grants and Contributions (see below)		(13)
(20,080)			(19,627)

2020/21 £000	Capital Grants and Contributions	2021/22 £000
28	S106 Developer Contributions	13
13	Arts Council England	0
11	Art Fund	0
2	Hertfordshire Heritage Fund	0
54	Total	13

16. PROPERTY, PLANT AND EQUIPMENT

Notes to the Core Financial Statements

The movement on property, plant and equipment balances during the year and in the 2020/21 comparable year is detailed in the following tables.

Within each classification heading are the following types of assets:

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

REVALUATIONS

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

Revaluations have been undertaken in 2021/22 in line with the 5 year rolling programme. These have resulted in a net increase to the carrying value of property, plant and equipment of just under £2.974million.

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

2018/19	2019/20	2020/21	2021/22
Industrial Properties	Industrial Properties	Investment Properties	Investment Properties
Investment Properties	Investment Properties	Assets Held for Sale	Assets Held for Sale
Agricultural	Assets Held for Sale	Surplus Assets	Surplus Assets
Allotments	Surplus Assets		
Amenity Land		Operational Assets:	Operational Assets:
Recreation Grounds		Amenity Land *	Amenity Land *
		Burial Ground *	Burial Ground *
		Car Park *	Car Park *
		Community Centres	Community Centres
		Industrial	Industrial
		Leisure Centres	Leisure Centres
		Market *	Market *
		Museums	Museums
		Offices *	Offices *
		Pavilions *	Pavilions *
		Play Areas *	Play Areas *
		Public Conveniences	Public Conveniences
		Public Halls	Public Halls
		Public Open Space *	Public Open Space *
		Recreation Ground *	Recreation Ground *
		Storage *	Storage *
		Swimming Pools	Swimming Pools
		Trust Properties *	Trust Properties *

* Selected assets were valued in this category.

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

Notes to the Core Financial Statements

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

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

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

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

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

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

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

Level 3 Unobservable

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

An impairment review was completed as at 31 March 2022 to ascertain if the carrying value of the assets had decreased materially since the last revaluation. No impairments were identified.

SURPLUS ASSETS

The authority has non-operational land and buildings with a total carrying value of £7.157m at 31 March 2022. The four sites of material value included within the total are:

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

DISPOSALS

The Authority sold two sites during 2021/22:

- Windmill Close, Barkway
- Land at The Green, Newnham, Baldock

The combined carrying value of these assets at the time of disposal was £2.369million. The combined total of receipts received was £2.644million.

Notes to the Core Financial Statements

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

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

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

Notes to the Core Financial Statements

MOVEMENT ON BALANCES OF PROPERTY, PLANT AND EQUIPMENT IN 2021/22

	Land & Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost of Valuation							
At 1 April 2021	89,212	15,158	93	5,797	10,158	318	120,736
Additions	627	389	0	0	0	116	1,132
Disposals	0	0	0	0	0	0	0
Reclassifications	(1,570)	0	0	1,227	(117)	(12)	(472)
Write Off to Revenue	0	0	0	0	0	0	0
Upward and Downward Revaluations taken to Revaluation Reserve	2,807	0	0	(34)	(2,395)	0	378
Upward Revaluations recognized in the Surplus/Deficit on Provision of Services	0	0	0	0	0	0	0
Impairments / Downward Revaluations recognized in the Surplus/Deficit on the Provision of Services	178	0	0	0	(470)	0	(292)
At 31 March 2022	91,254	15,547	93	6,990	7,176	422	121,482
Depreciation & Impairments							
At 1 April 2021	(8,633)	(11,676)	(44)	(1,654)	(20)	0	(22,027)
Depreciation Charge for 2021/22	(2,758)	(1,074)	(2)	(188)	(1)	0	(4,023)
Disposals	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0
Depreciation written out to the Revaluation Reserve	2,853	0	0	35	0	0	2,888
At 31 March 2022	(8,538)	(12,750)	(46)	(1,807)	(21)	0	(23,162)
Balance Sheet amount at 31 March 2022	82,716	2,797	47	5,183	7,155	422	98,320
Balance Sheet amount at 1 April 2021	80,579	3,482	49	4,143	10,138	318	98,709

Included in the Land and Buildings total is a donated asset with a carrying value of £1.6 million.

Notes to the Core Financial Statements

17. HERITAGE ASSETS

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

	Museum Collections	Public Sculpture / Artwork	Total Heritage Assets
	£'000	£'000	£'000
1 April 2020	807	46	853
Additions	75	0	75
31 March 2021	882	46	928
1 April 2021	882	46	928
Revaluations	1	3	4
31 March 2022	883	49	932

Museum Collections

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

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

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

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

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

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

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

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

Notes to the Core Financial Statements

Public Sculpture / Artwork

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

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

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

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

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

Heritage Asset Transactions

In the financial year from April 2021 to March 2022 the museum accessioned 49 items or groups of items. The vast majority were donated, with a few purchases.

Purchases included a concert ticket for The Damned in Hitchin (£25), a sheet of Hitchin Woolworths notepaper (£1), a matchbox advertising the Raven Pub in Hexton (£1.70), and other local receipts and invoices, all costing under £5. The museum also purchased an oil painting of a young girl, Ivy, by Letchworth-born artist Brynhild Parker (1907-1987) for a total of £4,644 including premium and charges. This amount was covered in full with grant-aid from the Art Fund, the Arts Council/V & A Purchase Fund, and the Hertfordshire Heritage Fund. The painting is currently being glazed in readiness for display.

Donations included items from the Offley Morris men, including hat and bells; Merryweather fire pump, c. 1890, used locally; examples of uniform and some archives from Princess Helena College, Preston; the Hitchin Probus chain of office; 4 x Abdo Nagi ceramics; a Samuel Lucas watercolour of the Portmill; a sketch book by Alice Lucas; watercolours by Matthew and Margaret Hagg; 2 x late Bronze Age 'ring money' rings and an awl found near Royston; letters and photographs relating to Hitchin Town Football Club; a crinoid lobolith fossil from Radwell; an early 'brick' mobile phone from Letchworth; Knebworth Book of Recipes, 1927; and a photograph of Letchworth athlete Joylyn Saunders-Mullins, who was born in Grenada, and won gold for Great Britain at the European Masters' Championships in 2008 in her age group (55+).

Many other items were offered but refused because they did not have local links, or because they duplicated items already in the collection.

Notes to the Core Financial Statements

18. INVESTMENT PROPERTIES

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

	2020/21 £'000	2021/22 £'000
Rental Income from Investment Property	(1,239)	(1,222)
Direct Operating Expenses arising from Investment Property	8	31
Net Gain / (Loss)	(1,231)	(1,191)

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

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

	2020/21 £'000	2021/22 £'000
Balance at Start of the Year	18,429	23,776
Net Gains / (Losses) from Fair Value adjustments	5,103	2,595
Transfers (to) / from Assets Held for Sale	0	0
Transfers (to) / from Property, Plant and Equipment	244	8
Balance at End of Year	23,776	26,379

19. INTANGIBLE ASSETS

	Purchased Software Licences £'000
Original Cost	2,475
Amortisations to 1 April 2021	(2,252)
Balance at 1 April 2021	223
Expenditure in Year	76
Written off to Revenue in Year	(148)
Balance at 1 April 2022	151

Notes to the Core Financial Statements

20. FINANCIAL INSTRUMENTS

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

	Long-term		Current	
	31 March	31 March	31 March	31 March
	2021	2022	2021	2022
	£'000	£'000	£'000	£'000
Financial Liabilities at amortised cost:				
Creditors payable within one year	0	0	4,955	6,305
Borrowing	386	367	26	26
Total Financial Liabilities:	386	367	4,981	6,331
Financial Assets:				
Debtors (loans and receivables)	320	265	7,852	5,651
Investments	0	0	24,539	36,529
Cash & Cash Equivalents	0	0	20,850	23,025
Total Financial Assets:	320	265	53,241	65,205

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

	Financial Liabilities		Financial Assets		Total	
	At amortised cost		Loans & Receivables			
	£'000		£'000		£'000	
	2021	2022	2021	2022	2021	2022
Interest Expense	(552)	(482)	0	0	(552)	(482)
Interest Payable & Similar Charges	(552)	(482)	0	0	(552)	(482)
Interest Income	0	0	184	75	184	75
Interest & investment income	0	0	184	75	184	75
Net gain/(loss) for year	(552)	(482)	184	75	(368)	(407)

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

- A 'premature repayment' set of rates, supplied by the Council's financial advisors, in force on the 31 March 2022 has been used to supply the fair value for loans
- Transaction costs on all financial liabilities and financial assets are immaterial (transaction costs do not include internal administrative costs)
- Interest payable and receivable reflects market rates
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

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

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

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

Level 3 Unobservable

Notes to the Core Financial Statements

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

The fair values are calculated as follows:

	31 March 2021		31 March 2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Financial Liabilities	5,367	5,808	6,399	6,772

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

	31 March 2021		31 March 2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans & Receivables	53,454	53,507	65,520	65,472

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

Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit Risk

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

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, the Investment Strategy (Integrated Capital and Treasury Strategy) ensured that its counterparty lists and limits reflected a prudent attitude towards organisations with whom funds were deposited, and limited its investment activities to the instruments, methods and techniques referred to in the Treasury Management Practices adopted by the Authority. It also maintains a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements. There were no defaults on investments in 2021/22 or 2020/21. The table below details the investment limits for 2021/22.

Notes to the Core Financial Statements

Investment Category	Maximum amount of investment allowable in category	Investment Type	Maximum Amount of Investment Allowable in any one Institution	Amount Invested as at 31 March 2022* £'000
Banks	£21M	UK Clearing Banks	£3M	6,000
		UK Clearing Banks (Wholly owned Subsidiaries)	£3M	0
		Non-UK Clearing Banks	£3M	0
UK Building Societies and UK Property Market Funds	£17M	Building Societies (Assets £4.5bn and above)	£3M	4,000
		Building Societies (Assets £2.5bn - £4.5bn)	£3M	0
		Building Societies (Assets £1bn to £2.5bn)	£3M	0
		Building Societies (Assets £0.3bn to £1bn)	£2M	1,500
		Property Market Funds	£3M	0
Money Market Funds	£7M	Money Market Funds	£3M	0
UK Local Authorities	No limit	Other Local Authorities	£5M	25,000
UK Government	No limit	Debt Management Office	No limit	21,000
Total Invested				57,500

* This column shows the total invested in all counterparties in the group (for example, there was £4.0million invested in two separate building societies, assets £4.5bn+ as at 31 March 2022).

The analysis of the £57.5million of investments by credit rating at year end is as follows:

AAA or equivalent	AA / AA- or equivalent	A+ / A- or equivalent	BBB+ / BBB or equivalent	AAA money market fund	Other Local Authorities	Not rated*	Total Investments
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
0	21,000	10,000	0	0	25,000	1,500	57,500

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

The Authority does not allow credit facilities for customers with relation to payments for the provision of services. £0.589M of the total £1.153M sundry debtor balance at 31 March 2022 has passed its due date for payment. The risk of default is accounted for through the corresponding bad debt provision, which is determined primarily by the age of the sundry debtor outstanding. The sundry debtor balance and corresponding provision is presented in the table below.

Age of Debt	Sundry Debtors £'000	Provision Percentage	Provision Required £'000	Net Sundry Debtors £'000
Within payment terms	564	0%	0	564
1-3 months over term	115	0%	0	115
3-12 months overdue	253	25%	(63)	190
12-24 months overdue	123	75%	(92)	31
More than 24 months overdue	98	100%	(98)	0
Total at 31 March 2022	1,153		(253)	900

The equivalent position at the end of 2020/21 is shown in the table below:

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

Notes to the Core Financial Statements

Liquidity Risk

As the Authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority reviews its borrowing requirements as part of its annual Investment Strategy (Integrated Capital and Treasury Strategy) and the standard policy has been to limit the amount of borrowing and reduce the exposure to liquidity risk. The strategy for 2021/22 was to utilise capital receipts and set aside reserves and no new borrowing was taken out.

The total financial liability is made up as follows:

	31 March 2021 £'000	31 March 2022 £'000
Public Works Loan Board	405	386
Banks and Other Monetary Sectors	0	0
Total Borrowing	405	386
Less: Debt Maturing in 12 Months	19	19
Total Long Term Borrowing	386	367

At 31 March 2022 the average rates of interest on the different varieties of loans were as follows:

	%
Public Works Loan Board	10.11

The consolidated rate of interest, the rate used for internal transactions, was 14.04%.

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

	£'000
Maturing in more than 1 and less than 2 years	20
Maturing in more than 2 and less than 5 years	57
Maturing in more than 5 and less than 10 years	40
Maturing in more than 10 years	250
Total	367

Market Risk

Interest rate risk

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

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

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

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

Notes to the Core Financial Statements

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

According to this assessment strategy, at 31 March 2022 if interest rates had been 1% higher with all other variables held constant, the effects seen in the Income and Expenditure Statement would have been an increase of £35k in interest receivable from cash investments. The fair value of the loans outstanding would have been £8k higher (cost of repayment would have increased). This is shown below:

	£'000
Increase in interest receivable on variable rate investments	(35)
Impact on Income and Expenditure Account	(35)
Increase in fair value of fixed rate loans	<u>8</u>

Price risk

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

Foreign exchange risk

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

21. INVENTORIES

	31 March 2021 £'000	31 March 2022 £'000
Inventory:		
Paper and Stationery	0	1
Postage	3	3
Waste & Recycling equipment	45	48
Museum merchandise	5	7
Careline Telecare equipment	360	453
Hitchin Town Hall Bar/Café Supplies	2	3
Electrical Equipment	1	0
Total	416	515

22. DEBTORS

	31 March 2021 £'000	31 March 2022 £'000
Central Government Bodies	14,880	4,143
Impairment	0	0
Net Total Central Government Bodies	14,880	4,143
Other Local Authorities	5,549	3,153
Impairment	0	0
Net Total Other Local Authorities	5,549	3,153
Ratepayers / Council Tax Payers	2,164	2,132
Impairment	(1,547)	(1,366)
Net Total Ratepayers / Council Tax Payers	617	766
Housing Benefit Overpayments	1,403	1,330
Impairment	(894)	(731)
Net Total Housing Benefit Overpayments	509	599
Other Entities and Individuals	2,045	2,220
Impairment	(251)	(321)
Net Total Other Entities and Individuals	1,794	1,899
Total Net Debtors	23,349	10,560

Notes to the Core Financial Statements

23. CASH AND CASH EQUIVALENTS

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

31 March 2021 £000		31 March 2022 £000
16	Cash held by the Authority	97
2,834	Bank current accounts	1,928
6,000	Short-term Deposits with Banks/Building Societies	0
12,000	Short-term Deposits with Central Government	21,000
20,850	Total	23,025

24. ASSETS HELD FOR SALE (Non-Current)

	2020/21 £'000	2021/22 £'000
Balance Outstanding at Start of Year	2,909	6,296
Assets newly classified as held for sale:		
Property Plant & Equipment	4,060	464
Investment Properties	0	0
Impairment losses	(111)	(1,164)
Revaluation gains	0	0
Assets Sold	(562)	(2,369)
Balance Outstanding at End of Year	6,296	3,227

25. SHORT TERM CREDITORS AND RECEIPTS IN ADVANCE

Short Term Creditors	31 March 2021 £000	31 March 2022 £000
Central government bodies	14,285	14,609
Other local authorities	536	1,499
Other entities and individuals*	4,419	4,806
Total	19,240	20,914

* As at 31 March 2022 there was £43k of prepayments received in the last few days of the year (£10k as at 31 March 2021).

Receipts in Advance	31 March 2021 £000	31 March 2022 £000
Central government bodies	11,470	9,491
Other local authorities	642	187
Other entities and individuals	7,588	7,165
Total	19,700	16,843

Notes to the Core Financial Statements

26. PROVISIONS

	Provisions <1yr	Provisions > 1 year		Total
	Restructure Costs	Insurance Fund	NNDR Appeals	
	£'000	£'000	£'000	£'000
Balance at 1 April 2021	0	(43)	(2,740)	(2,783)
Additional provisions made in 2021/22	(46)	(15)	(680)	(741)
Amounts used in 2021/22	0	28	957	985
Unused amounts reversed in 2021/22	0	0	0	0
Balance at 31 March 2022	(46)	(30)	(2,463)	(2,539)

Restructure Costs

This provision is for costs associated with a staffing restructure within the Customers Directorate. The consultation on a plan to revise staffing arrangements in the IT service commenced in March 2022. At the date of signing the accounts, the restructure was complete.

Insurance Provision

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

NNDR Appeals Provision

The Authority is required to recognise a provision for NNDR appeals liabilities. The balance includes provision for both lodged appeals against the 2010 and 2017 published ratings, and appeals not yet lodged against the 2017 ratings. The calculation is based on both information from the Valuation Office (VOA) and an underlying assumption, in line with the expectation of MHCLG (now DLUHC), that the annual cost of appeals against the 2017 ratings will ultimately be equivalent to 4.7% of net rates payable. The total at the end of 2021/22 was £6.2million (£6.9million in 2020/21) and, as this is shared between North Herts, Herts County Council and Central Government, the North Herts proportion reflected in the balance sheet was £2.5million (£2.7million in 2020/21). The reduction in the overall provision primarily relates to lodged appeals outstanding against the 2010 published ratings, which have significantly reduced with only 7 appeals now outstanding (37 at 31 March 2021).

27. USABLE RESERVES

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

	Balance at 1 April 2021 £'000	Net Movement in Year £'000	Balance at 31 March 2022 £'000
Usable Capital Receipts	1,133	2,061	3,194
Earmarked Reserves	20,758	(4,823)	15,935
Capital Grants Unapplied	899	0	899
General Fund Reserve	8,865	1,742	10,607
Total Usable Reserves	31,655	(1,020)	30,635

Usable Capital Receipts

	2020/21 £'000	2021/22 £'000
Amounts receivable	455	2,644
Amounts applied to finance new capital investment	(1,223)	(578)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(40)	(5)
Total increase / (decrease) in realised capital resources	(808)	2,061
Balance brought forward at 1 April	1,941	1,133
Balance carried forward at 31 March	1,133	3,194

Notes to the Core Financial Statements

Earmarked Reserves

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

Earmarked Reserve	Balance as at 31st March 2020	Transfers out 2020/21	Transfers in 2020/21	Balance at 31st March 2021	Transfers out 2021/22	Transfers in 2021/22	Balance at 31st March 2022
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cemetery Mausoleum Reserve	167	(2)	10	175	0	0	175
Childrens Services Reserve	57	(9)	43	91	(45)	0	46
Climate Change Grant Reserve	26	(1)	0	25	(4)	0	21
Funding Equalisation Reserve	68	0	329	397	(397)	0	0
Growth Area Fund Reserve	53	0	0	53	(21)	0	32
Hitchin Museum Donations	0	0	0	0	0	0	0
Homelessness Grants Reserve	413	(208)	276	481	(413)	434	502
Housing & Planning Delivery Reserve	1,069	(101)	54	1,022	(96)	90	1,016
Information Technology Reserve	78	(20)	0	58	(35)	0	23
Insurance Reserve	34	0	0	34	0	0	34
Land Charges Reserve	94	(28)	0	66	(30)	0	36
Leisure Management Maintenance Reserve	77	(51)	0	26	0	42	68
MHCLG (now DLUHC) Grants Reserve	3,741	(685)	11,242	14,298	(10,225)	5,294	9,367
Museum Exhibits Reserve	13	0	1	14	0	0	14
Neighbourhood Plan Reserve	78	0	20	98	(23)	45	120
Paintings Conservation Reserve	11	0	0	11	0	0	11
S106 Monitoring Reserve	19	(19)	0	0	0	0	0
Special Reserve	1,175	(432)	0	743	(103)	0	640
Street Name Plates	16	0	0	16	0	0	16
Syrian Refugee Project	272	(16)	194	450	(15)	131	566
Taxi Licences Reserve	15	(8)	0	7	0	0	7
Town Centre Maintenance	53	0	8	61	0	8	69
Traffic Regulation Orders	346	0	40	386	(5)	0	381
Waste Reserve	730	0	19	749	0	87	836
Waste Vehicles Reserve	554	0	359	913	0	428	1,341
Welfare Reform Grants Reserve	185	(122)	521	584	(213)	243	614
Total Earmarked Reserves	9,344	(1,702)	13,116	20,758	(11,625)	6,802	15,935

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

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

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

Notes to the Core Financial Statements

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

Community Development Reserve – various grants for Community Development.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Core Financial Statements

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

Waste Reserve – is a reserve where unspent AFM monies are transferred to help with potential risks and opportunities to the waste service, for example project management costs in relation to the construction of a new waste depot and next waste contract renewal.

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

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

28. UNUSABLE RESERVES

	Balance at 1 April 2021	Net Movement in Year	Balance at 31 March 2022
	£'000	£'000	£'000
Revaluation Reserve (note 28A)	62,029	(411)	61,618
Capital Adjustment Account (note 28B)	72,993	(1,157)	71,836
Pensions Reserve (note 28C)	(45,976)	15,766	(30,210)
Collection Fund Adjustment Account (note 28D)	(10,701)	5,074	(5,627)
Short Term Accumulating Compensated Absences Account (note 28E)	(624)	(33)	(657)
Total Unusable Reserves	77,721	19,239	96,960

Note 28A – Revaluation Reserve

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

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

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

2020/21 £'000		2021/22 £'000
53,504	Balance at 1 April	62,029
10,584	Upward revaluation of assets	7,166
(552)	Downward revaluation of assets and Impairment losses not charged to the surplus/deficit on the Provision of Services.	(3,896)
10,032	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	3,270
(1,387)	Difference between fair value depreciation and historical cost depreciation.	(1,612)
(120)	Accumulated gains on assets sold or scrapped.	(2,069)
(1,507)	Amount written off to the capital adjustment account	(3,681)
62,029	Balance at 31 March	61,618

Notes to the Core Financial Statements

Note 28B – Capital Adjustment Account

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

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

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

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

2020/21 £'000	2021/22 £'000
70,082	72,993
Balance at 1 April	
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(3,969) Depreciation and impairment of non-current assets	(5,481)
(166) Amortisation of Intangible assets	(148)
(496) Revenue expenditure funded from capital under statute	(225)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(300)
(442)	(6,154)
(5,073)	
1,387 Adjusting amounts written out of the Revaluation Reserve.	1,612
(3,686)	(4,542)
Net written out amount of the cost of non-current assets consumed in the year	
Capital financing applied in the year:	
1,223 Use of the Capital Receipts Reserve to finance new capital expenditure	578
228 Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	133
39 Application of grants to capital financing from the Capital Grants Unapplied Account	0
4 Statutory provision for the financing of capital investment charged against the General Fund	4
0 Capital expenditure charged against the General Fund	75
1,494	790
5,103 Movements in the market value of investment properties	2,595
72,993	71,836
Balance carried forward at 31 March	

Notes to the Core Financial Statements

Note 28C – Pension Reserve

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

2020/21 £'000	2021/22 £'000
(30,691) Balance at 1st April	(45,976)
(14,207) Actuarial gains or losses on pension assets and liabilities	18,656
(3,855) Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(5,760)
2,777 Employer's pensions contributions and direct payments to pensioners payable in the year.	2,870
(45,976) Balance at 31st March	(30,210)

Note 28D – Collection Fund Adjustment Account

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

2020/21 £'000	2021/22 £'000
283 Balance at 1 April	(10,701)
(10,984) Movement in the Authority's share of the Collection Fund surplus / deficit	5,074
(10,701) Balance at 31 March	(5,627)

Note 28E Accumulated Absences Account

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

2020/21 £'000	2021/22 £'000
(196) Balance at 1 April	(624)
(428) Amounts accrued at the end of the current year	(33)
(624) Balance at 31 March	(657)

Notes to the Core Financial Statements

29. NOTES RELATING TO THE CASH FLOW STATEMENT

Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2020/21		2021/22
£'000		£'000
283	Interest Received	90
(555)	Interest Paid	(484)
(272)	Net cash flows from operating activities	(394)

The adjustments for non-cash movements are as follows:

2020/21		2021/22
£'000		£'000
3,775	Depreciation	4,025
194	Impairments and downward revaluations	517
167	Amortisation of intangible assets	148
29,222	Movement in Creditors	(7,264)
(7,078)	Movement in Debtors	12,294
(117)	Movement in Inventories	(99)
1,078	Pension Liability	2,890
562	Carrying amount of non-current assets sold	2,369
(3,202)	Movement in other provisions	(2,839)
24,601	Net Adjustment for non-cash movements	12,041

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

Restated 2020/21		2021/22
£'000		£'000
(229)	Grants applied to the financing of capital expenditure	(133)
(455)	Proceeds from the sale of non-current assets and investments	(2,644)
(684)	Net Adjustment for investing or financing activities	(2,777)

Cash Flow Statement - Investing Activities

Restated 2020/21		2021/22
£'000		£'000
(1,530)	Purchase of property, plant and equipment, investment property and intangible assets	(1,216)
(56,873)	Purchase of short-term and long-term investments	(83,961)
0	Other payments for investing activities	0
455	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,644
60,000	Proceeds from short-term and long-term Investments	72,000
228	Other receipts from investing activities	133
2,280	Net cash flows from investing activities	(10,400)

Cash Flow Statement - Financing Activities

2020/21		2021/22
£'000		£'000
0	Cash receipts of short and long-term borrowing	0
(12,783)	Council Tax and NNDR adjustments	6,528
(362)	Cash payments for the reduction of finance leases liabilities	(431)
(18)	Repayments of short and long-term borrowing	(18)
(13,163)	Net Cash flows from financing activities	6,079

Notes to the Core Financial Statements

30. TRADING OPERATIONS

The Council has no trading operations.

31. MEMBERS' ALLOWANCES

The following table shows the amount of Members' allowances paid in 2021/22 compared to the previous financial year:

	2020/21	2021/22
	£'000	£'000
Allowances	331	337
Expenses	1	0
Total	332	337

Notes to the Core Financial Statements

32. EMPLOYEES REMUNERATION

Senior Employee Remuneration in 2021/22

The Authority is required to disclose individual remuneration details for senior employees. The first table that follows details the individual remuneration for senior employees in 2021/22. The second table details the equivalent information for the comparative year, 2020/21. The Authority is voluntarily opting to disclose the name of the Executive, Managing Director. For senior employees, compensation for loss of office comprises the employer pension contribution amount calculated as part of the redundancy or termination package, as well as any other payments receivable on termination of employment (e.g. redundancy payments and payment in lieu of notice).

Post Title	Note	Salary (including fees & allowances) £	Expense Allowances £	Compensation for loss of office £	Total Remuneration (excluding pension contributions) £	Pension Contributions £	Total Remuneration (including pension contributions 2021/22) £
Anthony Roche Managing Director		128,747	0	0	128,747	23,203	151,950
Service Director - Regulatory	1	89,641	0	0	89,641	16,022	105,663
Service Director - Resources		81,764	0	0	81,764	14,557	96,321
Service Director - Customers		72,438	0	0	72,438	12,822	85,260
Service Director - Place	2	50,595	0	0	50,595	6,915	57,510
Service Director - Place	3	29,183	0	0	29,183	7,849	37,032
Service Director - Legal and Community		82,167	0	0	82,167	14,632	96,799
Service Director - Commercialisation		77,200	0	0	77,200	13,708	90,908
Service Director - Transformation	4	32,706	0	0	32,706	0	32,706

1. The Service Director Regulatory also undertakes the role of Deputy to the Managing Director and received additional payments of £7,826 equivalent to 10% of the Service Director salary as compensation for the additional responsibility.
2. The Service Director Place left the post on 21st September 2021. The annualised salary excluding fees and allowances was £78,264.
3. The Service Director Place was appointed to the post on 27th September 2021 at 0.81 FTE. The annualised salary excluding fees and allowances is £53,951.
4. The Service Director Transformation is a fixed term 0.4 FTE post.

Notes to the Core Financial Statements

Senior Employee Remuneration in 2020/21

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

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

Notes to the Core Financial Statements

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

Remuneration Band	2020/21	2021/22
	Employees	Employees
£50,000-£54,999	10	13
£55,000-£59,999	13	14
£60,000-£64,999	1	2
£65,000-£69,999	1	1
Total	25	30

33. TERMINATION BENEFITS AND EXIT PACKAGES

The Authority terminated the contracts of 3 employees in 2021/22, incurring liabilities of £37,746 (£181,446 in 2020/21) that have been charged to the Comprehensive Income and Expenditure Statement in the current year.

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

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other agreed departures		(d) Total number of exit packages by cost band		(e) Total cost of exit packages in each band	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
							£	£
£0 - £19,999	1	2	0	0	1	2	1,515	4,254
£20,000 - £39,999	0	0	0	1	0	1	0	33,492
£40,000 - £59,999	0	0	0	0	0	0	0	0
£60,000 - £79,999	0	0	0	0	0	0	0	0
£80,000 - £99,999	0	0	0	0	0	0	0	0
£100,000 - £149,999	0	0	0	0	0	0	0	0
£150,000 - £199,999	0	0	1	0	1	0	179,931	0
Total Cost included in bandings and in CIES							181,446	37,746

Notes to the Core Financial Statements

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

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

	2020/21 £'000	2021/22 £'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	70	57
Fees payable for non-audit services: reporting accountant for the Housing Benefit subsidy claim	10	12
Total	80	69

The costs incurred for each year, as noted above, are prepared prior to the agreement of any additional fees for variation in services provided by the external auditor. Where anticipated, additional amounts are included in the total for the year, but these amounts may differ to the final fees agreed. The total for 2021/22 includes the audit scale fee of £40,068 and anticipated additional fees of £12,962 to reflect the increased level of audit work required. In addition, the fee for 2021/22 is inclusive of an amount of £7,900 received from Public Sector Appointments Ltd (PSAA). This refund relates to retained earnings transferred from the Audit Commission when it closed in March 2015 and the PSAA continuing to generate surplus funds and make further efficiencies since its establishment in April 2015

35. GRANT INCOME RECOGNISED IN THE COST OF SERVICES

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

	2020/21 £'000	2021/22 £'000
Disabled Facilities Grant	82	0
Developer Contribution	93	120
Total	175	120

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

	2020/21 £'000	2021/22 £'000
Benefits Administration and Fraud Initiative Grants	792	685
Housing and Council Tax Benefit Subsidy	27,188	22,772
Waste minimisation – Herts County Council contribution	572	34
Waste Service Transport Subsidy	5	0
National Non-Domestic Rates Administration Grant	186	177
Refugees Syrian Project	194	131
Employee Resilience and Wellbeing Funding HCC	0	4
Homelessness Prevention Grant	549	769
Afghanistan Refugee Project	0	18
Individual Electronic Registration Grant	11	0
Planning Control Grants – DLUHC	12	34
DLUHC Neighbourhood Plans	20	45
Public Health Grant	7	13
Get Active Grant	1	0
Spring In Your Step Grant	4	0
DWP Kickstarter Fund	0	13
Hertfordshire Museums – Lottery Fund	8	7
DLUHC Covid Outbreak Management Funding	0	93
Flu Pandemic – MHCLG (now DLUHC)	0	1
Healthy Hub	42	53
Council Tax Hardship New Burdens	14	0
Business Support Grant New Burdens	337	0

Notes to the Core Financial Statements

	2020/21 £'000	2021/22 £'000
Discretionary Fund DLUHC	1,449	-6
Self Isolation Fund DLUHC	133	371
Self Isolation Fund HCC	23	0
Additional Restrictions Grant BEIS	1,391	3,842
Tier 2 Open Business DLUHC	384	-12
Corona Virus Community Support HCC	10	56
Reopening High Streets Safely DLUHC	20	129
Winter Support Grant HCC	2	0
Leisure Centre Support Grant	236	11
Environmental Health Covid Support HCC	50	482
Covid Community Grant Funding - HCC	0	152
Household Support Funding – HCC	0	77
Audit Fees Support Grant – DLUHC	0	21
Temporary Pavement Licensing – DLUHC	0	6
Mobile Homes Fit and Proper Test – DLUHC	0	1
Winter Grants Schemes – HCC	0	1
Food Information Amendment – DLUHC	0	2
Covid Marshalls Funding – DLUHC	0	34
HCC Covid Contractors Funding	0	52
Transparency Grant – DLUHC	0	16
Total	33,640	30,084

36. RELATED PARTY TRANSACTIONS

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

Central Government

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

Members

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

During 2021/22, the Authority made grants payments totalling £264k under Memorandum of Understanding (MOU) agreements to organisations in which 10 members are Trustees, board members or otherwise involved. The support provided by these grants helps maintain the wellbeing and resilience of the District's communities. The most significant MOU grant payments were £227k to Citizens Advice North Herts, £21k to North Herts CVS and £11k to North Herts Minority Ethnic Forum.

Other grants totalling £97k were paid to organisations in which 8 members declared an involvement. This includes payments of £32k to 3 organisations from grant funding received from the Health Protection Board, to provide assistance to residents through the pandemic, in areas such as mental health support and also £37k Community Facilities Refurbishment grant paid to one organisation.

Works and services to the value of £52k were commissioned from organisations in which 4 members had an interest.

Two members are also elected members of Royston Town Council. Payments recorded under a Service Level Agreement between the Authority and Royston Town Council totalled £43k (2020/21: £32k). Royston Town Council also received payments of £61k in respect of Section 106 project funding.

Six members are also members of Hertfordshire County Council.

Notes to the Core Financial Statements

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

Officers

Officers are obliged under the code of conduct in the Council's constitution to declare any personal interest, financial and/or otherwise, in any business of the Council. They are also required to record any gifts and/or hospitality received in a format prescribed and held by the Monitoring Officer. In addition, senior officers are required to complete an annual return disclosing the details of any interest of themselves or close family members which may have an impact on their activities on behalf of the Council. For 2021/22 two Officers have disclosed an interest.

One of these relates to the individual owning and receiving dividends from a company that has provided training to the Council. The value of the transactions to the Council (£6k in 2021-22) is not material, but it is a small company and therefore the value may be considered material to the company. Specific processes are in place to ensure that the Officer is not involved in decisions to use that company.

The other declaration relates to an Officer who has a relation who is in an apprentice position with our leisure contractor (Stevenage Leisure Limited- SLL). The Officer is involved in the management of the leisure contract, which has involved significant financial support and other payments being provided by the Council (around £966k in 2021-22). This support is very likely to have been material in ensuring the ongoing viability of the contractor. The decisions on providing support to SLL were made as part of the budget-setting process and therefore have been made by a meeting of Full Council, with reviews by Finance, Audit and Risk Committee. In-year monitoring has been reported to Cabinet and Finance, Audit and Risk Committee.

Hertfordshire Building Control Limited

The Council partnered with six local authorities across Hertfordshire to create a new fully integrated building control service, which was launched in August 2016. An additional local authority joined in 2019, so eight local authorities have equal control. The Council holds 13% of the share capital (£8) and is represented on the board. The company aims to provide a more flexible and efficient response to building control issues across the county. NHDC's share of the profit (or loss) generated for the year ended 31 March 2022 is £TBC (2021/22: £5.6k loss). In August 2016 the council made a loan to the company of £107k, which is held in Long Term Debtors (other loans) on the balance sheet.

Hertfordshire CCTV Partnership

The Authority is engaged in a jointly controlled operation for the provision and management of CCTV in the Hertfordshire area. This arrangement is with Stevenage Borough Council, North Hertfordshire Council, East Hertfordshire Council and Hertsmeres Borough Council. Each member of the partnership arrangement accounts for their share of the assets, liabilities and cash flows of the CCTV in their accounts. In 2021/22 total payments to the Partnership of £124k (£104k 2020/21) were charged to the Council's Comprehensive Income and Expenditure Statement. In 2021/22 the Partnership reported a surplus of which NHDC share is £4k.

Hertfordshire CCTV Partnership Limited

In 2013/14 all partner authorities within the Hertfordshire CCTV Partnership agreed to incorporate a new company to conduct the commercial trading affairs of the CCTV partnership. The new limited company, Hertfordshire CCTV Partnership Ltd, started trading on the 1 April 2015. The Council holds 27% of the share capital (£27) and is represented on the board. NHDC's share of the surplus generated for the year ended 31 March 2022 is £0.3k (2020/21: £7.5k loss). No payments were made by the Council for services provided by Hertfordshire CCTV Partnership Limited in 2021/22 (£16k 2020/21)

Notes to the Core Financial Statements

37. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Of the total expenditure of £1.434million, only £0.787million has been financed immediately, resulting in an increase of £0.647million in the Capital Financing Requirement (CFR). This is a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR remains negative (£4.4million at 31 March 2022) because the Authority has set aside capital receipts that exceed the amount of outstanding loans and borrowings.

	2020/21 £'000	2021/22 £'000
Capital Investment:		
Operational Assets		
Land & Buildings	484	628
Vehicles, Plant & Equipment	537	389
Community Assets	2	0
Non-Operational Assets		
Assets Under Construction	263	116
Intangible Assets – Software	101	76
Revenue Expenditure Funded from Capital under Statute	496	225
Total Capital Investment	1,883	1,434
Sources of Finance:		
Capital Receipts	1,224	579
Government Grants and Other Contributions	242	133
Sums set aside from Revenue	0	75
Total Finance Sources	1,466	787
Increase / (Decrease) in CFR	417	647

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

38. ASSETS HELD UNDER LEASE AND FOR LEASE

Assets held under lease

Operating Leases

Vehicles, Plant and Equipment

The Authority uses service vans and I.T. equipment financed under terms of an operating lease. The amount paid under these arrangements in 2021/22 was £43,566 (2020/21 £33,614).

Property

The Authority paid £53,283 in rent / leasing charges for properties in 2021/22. The most significant amount of £29,000 was paid for the King James Way Car Park, this agreement is due to expire in January 2024.

Commitments under operating leases

The Authority was committed at 31 March 2022 to making payments of £1.185 million under operating leases over the following periods:

	31 March 2021 £'000	31 March 2022 £'000
Not later than one year	90	97
Later than one year and not later than five years	127	143
Later than five years	957	945
	1,174	1,185

Notes to the Core Financial Statements

Finance leases

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

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

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

	31 March 2021 £'000	31 March 2022 £'000
Land and Buildings	13	11
Vehicles, Plant & Equipment	1,816	1,362
	1,829	1,373

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

	31 March 2021 £'000	31 March 2022 £'000
Finance Lease Liabilities	2,388	1,957
Finance costs in future years	1,281	838
Minimum Lease Payments	3,669	2,795

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2021 £'000	31 March 2022 £'000	31 March 2021 £'000	31 March 2022 £'000
Not later than one year	874	874	431	513
Later than one year and not later than five years	2,636	1,777	1,856	1,349
Later than five years	158	144	100	95
	3,668	2,795	2,387	1,957

Assets held for lease

Operating Leases

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

	2020/21 £'000	2021/22 £'000
Not later than one year	(1,287)	(1,262)
Later than one year and not later than five years	(4,772)	(4,694)
Later than five years	(61,978)	(60,104)

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2021/22 no material contingent rents were receivable by the Council.

Notes to the Core Financial Statements

39. PENSION SCHEMES

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

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

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

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

Local Government Pension Scheme	2020/21	2021/22
Comprehensive Income and Expenditure Account:	£'000	£'000
Cost of Services:		
Service cost comprising:		
Current Service Cost *	3,094	4,822
Past Service Costs	52	0
Financing and Investment Income and Expenditure:		
Net Interest Expense	709	938
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	3,855	5,760
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
Re-measurement of the net defined liability comprising:		
Return on Plan Assets	(24,126)	(3,191)
Actuarial (gains) and losses arising on changes in demographic assumptions	2,317	(3,508)
Actuarial (gains) and losses arising on changes in financial assumptions	37,745	(12,374)
Other	(1,729)	384
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	18,062	(12,929)

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

Movement in Reserves Statement:	2020/21	2021/22
	£'000	£'000
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(3,855)	(5,760)
Actual Amount charged against the General Fund balance for pensions in the year:		
• Employers' contributions payable to the scheme **	2,777	2,837
Net chargeable amount against the General Fund balance	2,777	2,837

** The figure of £2.837million for employer's contributions are the actual contributions paid for 2021/22.

Notes to the Core Financial Statements

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

Local Government Pension Scheme	2020/21	2021/22
	£'000	£'000
Present value of the defined benefit obligation	(197,431)	(186,244)
Fair Value of plan assets	151,455	156,034
Sub-total	(45,976)	(30,210)
Other movements in the liability (asset)	0	0
Net liability arising from defined benefit obligation	(45,976)	(30,210)

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

Local Government Pension Scheme	2020/21	2021/22
	£'000	£'000
Opening fair value of scheme assets	125,684	151,455
Interest Income	2,875	3,011
Re-measurement gain / (loss):		
The return on plan assets, excluding the amount included in the net interest expense	24,126	3,191
Other		
The effect of changes in foreign exchange rates		
Contributions from employer	2,777	2,837
Contributions from employees into the scheme	643	652
Benefits paid	(4,650)	(5,112)
Closing fair value of scheme assets	151,455	156,034

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

Local Government Pension Scheme	2020/21	2021/22
	£'000	£'000
Opening balance at 1 April	156,375	197,431
Current service cost	3,094	4,822
Interest cost	3,584	3,949
Contributions from scheme participants	643	652
Re-measurement (gains) and losses:		
Actuarial (gains) / losses arising from changes in demographic assumptions	2,317	(3,508)
Actuarial (gains) / losses arising from changes in financial assumptions	37,745	(12,374)
Other	(1,729)	384
Past Service Cost	52	0
Benefits paid	(4,650)	(5,112)
Closing balance at 31 March	197,431	186,244

Notes to the Core Financial Statements

Local Government Pension Scheme assets comprised:

	Fair Value of scheme assets (Quoted Prices)					
	31 March 2021			31 March 2022		
	Active Markets £'000	Not in Active Markets £000	% of total assets	Active Markets £'000	Not in Active Markets £000	% of total assets
Cash and cash equivalents	4,263.9	0	3%	9,129.9	0	6%
Equity instruments:						
Consumer	1,345.7	0	1%	2,224.8	0	1%
Manufacturing	1,187.1	0	1%	738.5	0	0%
Energy and utilities	0	0	0%	0	0	0%
Financial Institutions	970.5	0	1%	856.9	0	1%
Health and care	599.5	0	0%	1,348.1	0	1%
Information technology	3,453.4	0	2%	2,838.5	0	2%
Other	134.9	0	0%	0	0	0%
Sub-total equity	7,691.1	0	5%	8,006.8	0	5%
Bonds:	7,760.0	3,455.7	7%	11,448.2	4,088	10%
Private equity:						
All	0	9,104	6%	0	11,402	7%
Real Estate:						
UK Property	0	8,381	6%	0	12,113.1	8%
Overseas Property	0	6,979.5	5%	0	8,735.4	6%
Sub-total real estate	0	15,360.5	11%	0	20,848.5	14%
Investment funds and Unit Trusts:						
Equities	69,674.9	0	46%	57,353.1	0	37%
Bonds	24,491.7	0	16%	23,146.8	0	15%
Commodities	0	0	0%	0	0	0%
Infrastructure	0	63.1	0%	0	95.4	0%
Other	1,401.7	8,248.2	6%	1,317.5	9,278.9	7%
Sub-total other investment funds	95,568.3	8,311.3	68%	81,817.4	9,374.3	59%
Derivatives:						
Forward foreign exchange contracts	0	(59.8)	0%	0	(81.1)	0%
Total assets	115,283.3	36,171.7		110,402.3	45,631.7	

Notes to the Core Financial Statements

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

The scheme history is as follows:

	31 March 2018 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2021 £'000	31 March 2022 £'000
Present Value of Liabilities	(165,274)	(178,029)	(156,375)	(197,431)	(186,244)
Fair Value of Assets	120,245	126,580	125,684	151,455	156,034
Deficit in the scheme	(45,029)	(51,449)	(30,691)	(45,976)	(30,210)

The liabilities show the underlying commitments that the Authority has in the long run to pay for post employment (retirement) benefits. The total liability of £186.244million has a substantial impact on the net worth of the Authority, as recorded in the Balance Sheet, resulting in a negative overall balance of £30,210million. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

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

The total contributions expected to be made to the Local Government Pension scheme by the Authority in the year to 31 March 2023 is £2,866,000.

Basis for Estimating Assets and Liabilities

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

	31 March 2021 %	31 March 2022 %
Mortality Assumptions:		
Longevity at 65 for current pensioners*:		
Men	22.1	21.9
Women	24.5	24.4
Longevity at 65 for future pensioners**		
Men	23.2	22.9
Women	26.2	26.0
Rate of increase in salaries	3.25	3.60
Rate of increase in pensions	2.85	3.20
Rate for discounting scheme liabilities	2.0	2.7
Proportion of Employees opting to take a commuted sum		
- pre April 2008 service	50.0	50.0
- post April 2008 service	75.0	75.0

* Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2021 model with a 0% weighting of 2021 (2020) data, standard smoothing (sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% pa for both males and females.. Based on these assumptions the average future life expectancies at age 65 are as shown.

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

Notes to the Core Financial Statements

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

	Impact on the Defined Benefit Obligation in the scheme	
	% Increase to Liability	Monetary amount
	£'000	£'000
Real Discount Rate (decrease by 0.1%)	2%	3,344
Member Life Expectancy (increase by 1yr)	4%	7,450
Rate of increase in salaries (increase by 0.1%)	0%	293
Rate of increase in pensions (increase by 0.1%)	2%	3,026

40. CONTINGENT ASSETS

There are no contingent assets for 2021/22.

41. CONTINGENT LIABILITIES

Contractor Pension Fund Contributions

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

Municipal Mutual Insurance Ltd Scheme of Arrangement

The Council has paid a 25% levy for the claw-back of claims under the MMI Scheme of Arrangement. The Council will still be liable to pay a levy on any future claims and could also be required to pay an increased levy on the claims settled so far. As at 31st March 2022 the council have no outstanding liability claims with MMI.

Notes to the Core Financial Statements

42. TRUST FUNDS AND THIRD PARTY FUNDS

Trust Funds

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

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

Without the annual contribution from the Council, the Trusts would not have had adequate resources to manage the facilities during the year. The Trust's accounts reflect the fixed assets and the in-year expenditure and income incurred in running the facilities. The net balance of these transactions, as at the 31 March 2022, is included in the Authority's accounts. A summary of the value of assets held by the trusts and the amounts administered by the authority is provided in the table below;

	Fixed Assets Closing Net Book Value £'000	Directly Attributable Expenditure £'000	Externally Generated Income £'000
Hitchin Town Hall Gymnasium and Workman's Hall Trust	2,811	136	7
King George V Playing Fields Trust	95	36	-
Smithson Recreation Ground Trust	20	3	-

Third Party Funds

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

The total value of all S106 contributions, as at the 31 March 2022, available to fund capital and revenue activities is £4,170,813 (2020/21 £4,241,948).

Collection Fund Accounts

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

The accounts have been prepared on an accruals basis.

INCOME AND EXPENDITURE ACCOUNT

2020/21			Note	2021/22		
Council Tax £'000	Business Rates £'000	Total £'000		Council Tax £'000	Business Rates £'000	Total £'000
Income						
(92,109)		(92,109)	Council Tax Receivable	2	(97,892)	(97,892)
(679)		(679)	Council Tax Hardship Scheme		(0)	(0)
	(18,727)	(18,727)	Business Rates Receivable	1		(30,511)
			Transitional Protection Payments Receivable		(114)	(114)
Contribution towards previous year deficit:						
(320)	152	(168)	Hertfordshire County Council	3	(419)	(1,390)
(43)		(43)	Hertfordshire Police Authority	3	(58)	(58)
	(503)	(503)	DLUHC	3		(10,242)
(59)	(294)	(353)	North Hertfordshire District Council	3	(77)	(7,988)
(93,210)	(19,372)	(112,582)	Total Income		(98,446)	(50,168)
						(148,614)
Expenditure						
Precepts, Demands and Shares						
				4		
70,681	3,944	74,625	Hertfordshire County Council		72,645	3,914
9,896		9,896	Hertfordshire Police Authority		10,522	
11,752	15,778	27,530	North Hertfordshire District Council		11,862	15,656
1,200		1,200	Parishes, Town & Community Councils		1,231	
	19,722	19,722	Central Government			19,569
Distribution of previous years Surplus						
0		0	Hertfordshire County Council		0	0
0		0	Hertfordshire Police Authority		0	0
0		0	North Hertfordshire District Council		0	0
Charges to Collection Fund						
0	175	175	Cost of Collection Allowance	1	0	177
	(27)	(27)	Transitional relief Payable			(0)
	35	35	Energy Payments			44
460	176	636	Write off uncollectible amounts	1/2	203	164
	4,443	4,443	Increase / (decrease) in provision for appeals	1		(693)
890	2,102	2,992	Increase / (decrease) in bad debt provision	1/2	170	(463)
94,879	46,348	141,227	Total Expenditure		96,633	38,368
						135,001
1,669	26,976	28,645	Movement on Fund Balance		(1,813)	(11,800)
587	(1,238)	(651)	Balance at beginning of year		2,256	25,738
2,256	25,738	27,994	Balance at end of year		443	13,938
						14,381
Share of Balance:						
1,705	2,009	3,714	Hertfordshire County Council		335	1,394
238		238	Hertfordshire Police Authority		46	
313	10,389	10,702	North Hertfordshire District Council		62	5,575
	13,340	13,340	Central Government			6,969
2,256	25,738	27,994			443	13,938
						14,381

Collection Fund Accounts

1. INCOME FROM BUSINESS RATES

The Council collects non-domestic rates (NNDR) from business across the District based on local rateable values provided by the Valuation Office Agency (VOA) and multiplied by a uniform rate set nationally by Central Government. The total non-domestic rateable value for North Hertfordshire District Council is £102.1 million, (£102.7 million 2020/2021). The NNDR multiplier is 51.2p in the pound (51.2p in the pound in 2020/2021). The small business non-domestic rating multiplier is 49.9p in the pound (49.9p in the pound in 2020/2021).

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

The business rates retention scheme allows the Council to retain a proportion of the total NNDR collected. In 2021/22, North Herts share was 40% with the remainder paid over to Hertfordshire County Council (10%) and Central Government (50%).

The business rate shares payable for 2021/22 were estimated before the start of the financial year as £19.569 million to Central Government, £3.914 million to Hertfordshire County Council and £15.656 million to North Hertfordshire District Council. These sums have been paid in 2021/22 and charged to the Collection Fund.

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

North Hertfordshire paid a tariff of £12.974 million to Central Government from the General Fund in 2021/22. In 2021/22 the authority was part of the Hertfordshire Business Rates Pool, which has reduced the levy amount payable. If North Herts was not in the business rates pool, the levy due to DLUHC would have been around £1m. The Council's contribution required to the Business Rates Pool to meet the cost of the levy in 21/22, as calculated by the pool lead authority Hertfordshire County Council, is anticipated to be £300k. The financial benefit to the Authority from membership of the Pool, known as the 'pooling gain', is therefore £700k.

The total net amount of NNDR income collectable in 2021/22, after all reliefs and deductions, was £30.511 million. This is less than the estimated income of £39.139 million declared to Government in January 2021, which has resulted in a deficit of £13.938 million. To continue to help businesses during the Coronavirus pandemic, the government announced retail, hospitality and leisure businesses were entitled to 100% business rates relief for the first 3 months of the year and 66% relief for the remaining 9 months. This reduced the income to the Council. Central Government has paid Local Authorities Section 31 grants to compensate for the lost income. The additional amount of Section 31 grant North Herts received in the year for the additional reliefs introduced due to the pandemic was £3.600million. The grants have been transferred to an earmarked reserve and will finance the repayment of the deficit for 2021/22 amount payable in 2022/23. The government in 2020/21 also legislated for Local Authorities to spread the proportion of the deficit for 2020/21 that does not relate to reliefs (£1.247 million for North Herts), as estimated in January 2021, over the next three financial years to 2023/24, rather than total repayment in the following financial year, as had been required under existing legislation.

Collection Fund Accounts

Total provision for outstanding amounts that are not subsequently paid (bad debts) was £2.115 million at 31 March 2022 (£2.579 million at 31 March 2021). A total of £164k of outstanding business rates were written off during 2021/22.

The business rates retention scheme has also meant responsibility for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list has transferred to the Authority, as the agent. As such it is necessary for the Authority to make provision for future successful appeals on behalf of itself, the major preceptor Hertfordshire County Council, and Central Government. Based on the number of outstanding appeals and check/challenges with the Valuation Office Agency as at 31 March 2022, the provision for lodged appeals has increased by £258k to a total of £2.9 million. In addition a reduction of £952k was made to the provision for appeals not yet lodged against the 2017 ratings list, the total movement in provision for appeals (both lodged and not yet lodged) is a reduction of £693k for 2021/22.

2. COUNCIL TAX

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

	2020/21		2021/22	
	£'000	£'000	£'000	£'000
Original Debt	110,139		115,611	
Additional Debt	9,623		12,527	
		119,762		128,138
Less:				
Council Tax Reductions		8,566		7,887
Discounts		8,502		8,925
Amounts Written-off, Exemptions & Allowances		10,585		13,434
		92,109		97,892

Council tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Hertfordshire County Council, The Police and Crime Commissioner and the Council for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts). This basic amount of council tax for a Band D property, £1,923.76, (£1,847.33 2020/2021) is multiplied by the proportion specified for a particular band to give an individual amount due.

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

Proportion of Band D charge

Band	Property Numbers	Proportion	Basic Amount £
A	3,397	0.67	1,282.51
B	9,150	0.78	1,496.26
C	20,099	0.89	1,710.00
D	10,300	1.00	1,923.76
E	7,288	1.22	2,351.26
F	4,679	1.44	2,778.76
G	3,476	1.67	3,206.27
H	351	2.00	3,847.52
Total	58,740		

Collection Fund Accounts

An increase of £374k has been made for the provision of outstanding amounts that are not subsequently paid (bad debts) bringing the total provision to £2.60million as at 31 March 2022. A total of £204k of outstanding council tax was written off during 2021/22. Due to the pandemic a review of the bad debt provision was carried out, and a more prudent approach has been taken, resulting in the increase to the provision.

3. PAYMENT OF SURPLUS/ DEFICITS FROM THE COLLECTION FUND

The element of the surplus/ deficit on the Collection Fund at 31 March 2022 will be distributed in subsequent financial years to Hertfordshire County Council, The Police and Crime Commissioner and the Council. The apportioned (surplus)/deficit is shown at the bottom of the Income and Expenditure Statement. The total deficit reported in 2021/22 is £443k, North Herts share is £62k. Central Government have allowed an element of the estimated deficit as at 15th January 2021 to be spread over three years to 2023/24 rather than just one year. North Herts remaining 2020/21 deficit to be spread is £54k.

4. PRECEPTS

	2020/21	2021/22
	£'000	£'000
Hertfordshire County Council	70,681	72,645
Hertfordshire Police	9,896	10,522
North Hertfordshire District Council and Local Town and Parish Councils	12,952	13,093
	93,529	96,260

Following the introduction of Council Tax on 1 April 1993, parish precepts are payable from the Council's General Fund and not the Collection Fund.

Glossary of Financial Terms

Term	Definition
Accruals	The concept that Income & Expenditure are recognised as they are earned or incurred, not as money is received or paid.
Actuarial Gains and Losses	For a defined benefit pension scheme the changes in actuarial deficits or surpluses that arise because: <ul style="list-style-type: none"> • Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses). • The actuarial assumptions have changed.
Accumulated Absences	Holiday entitlements (or any form of leave such as time off in lieu) earned by employees but not taken before the year end which can be carried forward into the following year.
Agency Arrangements	Services which are performed by or for another Council or public body, where the agent is reimbursed for the cost of the work done.
Asset	Anything which somebody owns which can be given a monetary value, for example buildings, land, vehicles, machinery, cash, investments etc. It is always considered in comparison with liabilities in an organisation's accounts.
Balances	The capital or revenue reserves of the Council made up of the accumulated surplus of income over expenditure on the General Fund, Earmarked Reserves etc.
Capital Expenditure	Expenditure on the acquisition of a fixed asset, or expenditure, that adds to the life, or value, of an existing fixed asset.
Capital Financing Requirement	A measure of the capital expenditure incurred historically by an authority that has yet to be financed by capital receipts, capital grants or revenue financing. The Prudential Code requires that the Council monitors and controls its CFR through its Investment Strategy (Integrated Capital and Treasury Strategy) and Medium Term Financial Strategies.
Capital Receipts	Monies received from the sale of assets, which may be used to finance capital expenditure or to repay outstanding loan debt as prescribed by Central Government, but they cannot be used to finance day-to-day spending.

Glossary of Financial Terms

Term	Definition
Cash Equivalents	Cash investments which are held on deposit and are repayable on demand without financial penalty.
CIPFA	Chartered Institute of Public Finance and Accountancy. The principal accountancy body dealing with local government finance
Collection Fund	A fund administered by charging authorities into which Council Tax income and Business Rates collected locally are paid. Precepts are paid from the fund as is a charge in respect of the Council's own requirements.
Collection Fund Adjustment Account	This account holds the difference between the income (including accruals) held in the Comprehensive Income and Expenditure Statement and the amount required by statutory regulation to be credited to the Collection Fund.
Community Assets	Assets that a local Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.
Consistency	The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.
Contingent Assets	A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the local authority's control.
Contingent Liability	A contingent liability is a possible liability arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the local authority's control.
Council Tax	This is a local tax set by local Councils to help pay for local services.
Creditor	An amount owed by the Council for work done, goods received, or services rendered to the Council within the accounting period and for which payment has not been made at the Balance Sheet date.

Glossary of Financial Terms

Term	Definition
Current Assets	Assets which can be classified as cash or cash equivalents, assets held primarily for the purposes of trading (e.g. inventories), or any asset which is expected to be realised within the next financial year.
Current Service Cost (Pensions)	The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.
Curtailment	<p>For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:</p> <ul style="list-style-type: none"> • Termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business. • Termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees no longer qualifies or only qualifies for a reduced benefit.
Deficit	An excess of expenditure over income (or liabilities over assets)
Debtors	Amounts due to the Council before the end of the accounting period but for which payments have not yet been received by the end of that accounting period.
Defined Benefits Scheme	A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
Depreciation	The measure of the cost or revalued amount of the benefit of the non-current assets that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Glossary of Financial Terms

Term	Definition
Department for Levelling Up, Housing and Communities (DLUHC)	Department for Levelling Up, Housing and Communities is the successor to the Ministry for Housing, Communities and Local Government, (MHCLG).
Earmarked Reserves	These are reserves set aside for a specific purpose or a particular service or type of expenditure.
Employee Benefits	Entitlements accrued by employees as part of their employment rights, e.g. annual leave (holiday), sick pay and payments as a result of their employment being terminated before normal retirement age.
Exceptional Items	Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.
Expected Rate of Return on Pension Assets	For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.
Extraordinary Items	Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur. They do not include exceptional items, nor do they include prior period items merely because they relate to a prior period.
Finance and Operating Lease	A finance lease transfers all of the risks and rewards of ownership of a fixed asset to the lessee and such assets have been valued and included within Non-current assets in the Balance Sheet. With an operating lease the ownership of the asset remains with the Leasing Company and the annual rent is charged to the relevant service account.
Financial Instruments	Any document with monetary value. For example, securities such as bonds and stocks which have value and may be traded in exchange for money.
General Fund	The main revenue account of the Council. It contains the excess to date of income over expenditure in the Income and Expenditure Account.

Glossary of Financial Terms

Term	Definition
Government Grants	Assistance by Central Government and inter-government agencies and similar bodies, whether local, national or international, towards either revenue or capital expenditure incurred in providing local Council services.
Heritage Asset	An asset which is held solely for its cultural, environmental or historic associations. This encompasses such things as civic regalia, historical buildings and monuments, museum collections and works of art. Any asset which is used for operational purposes would not be classified as a Heritage Asset.
Housing Benefits	A system of financial assistance to individuals towards certain housing costs, which is administered by Local Authorities. Assistance takes the form of rent rebates, rent allowances, and council tax rebates toward which central government pays a subsidy.
Impairment	A reduction in the value of a non current asset below its carrying amount on the balance sheet.
Infrastructure Assets	Expenditure on works of drainage, construction or improvement to highways, cycle ways, footpaths or other land owned by the Council.
Intangible Assets	An asset that brings benefit for more than one financial year, that does not have physical substance but is identifiable and controlled by the owner (e.g. software licences).
Interest Cost (Pensions)	For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.
Inventories	<p>The amount of unused or unconsumed inventories (stock) held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Stocks comprise the following categories:</p> <ul style="list-style-type: none"> • Goods or other assets purchased for resale; • Consumable stores; • Raw materials and components purchased for incorporation into products for sale; • Products and services in intermediate stages of completion • Long term contract balances; and Finished goods.

Glossary of Financial Terms

Term	Definition
Investments (Non-Pension Fund)	<p>A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.</p> <p>Investments, other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.</p>
Investments (Pension Fund)	<p>The investments of the Pensions Fund will be accounted for in the statements of that fund. However, authorities (other than Town Parish and Community Councils) are required to disclose, as part of the transitional disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.</p>
Investment Property	<p>Property which is held solely to earn rentals and/or for capital appreciation but not used for the purpose of service delivery.</p>
Levy	<p>The Council's Comprehensive Income and Expenditure Statement include a share of any surplus or deficit arising for the year on the collection of business rates. Where, after taking into account any surpluses on collection, the Council's income exceeds a threshold set by Central Government, a levy is payable to Central Government, but the Council may retain a proportion of the surplus.</p>
Liabilities	<p>Money owed to somebody else.</p>
Minimum Revenue Provision	<p>A charge made to the General Fund to repay borrowing taken out for capital expenditure, effectively replacing depreciation (which is reversed out in the MiRS). Authorities determine their own prudent MRP charge.</p>
Net Book Value	<p>The amount at which non-current assets are included in the Balance Sheet, i.e. their historical or current value less the cumulative amounts provided for depreciation.</p>
Net current replacement cost	<p>The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or the nearest equivalent, adjusted to reflect the current condition of the existing asset.</p>

Glossary of Financial Terms

Term	Definition
Net Realisable Value	The open market value of the asset in its existing use (or open market value in the case of non operational assets), less the expenses to be incurred in realising the asset.
NNDR (National Non Domestic Rates)	These are rates charged on properties other than domestic property. The business rate poundage is set annually by Central Government and is a flat rate throughout the country.
Non-current assets	Tangible assets that yield benefits to the Council for a period of more than one year.
Non-operational assets	Non-current assets held by a local Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are commercial and industrial properties.
Obligating Event	An event which creates a legal or constructive obligation that results in the Council having no realistic alternative to settling that obligation.
Operational assets	Non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.
Past service cost	For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.
Post balance sheet events	Those events, both favourable and unfavourable, which occur between Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible officer.
Precepts	The levy made by one Council on another. Hertfordshire County Council and Police and Crime Commissioner, who do not administer the council tax system, each levy an amount on North Herts, which collects the required income from local taxpayers on their behalf.
Prior year adjustments	Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.
Projected unit method	An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

Glossary of Financial Terms

Term	Definition
Provisions	An amount set aside to provide for a liability that is likely to be incurred but the exact amount and the date on which it will arise is uncertain.
Prudence	The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty. The overall objective of this principle is not to overstate the net worth shown in the Statement of Accounts.
Related Parties	<p>Two or more parties are related parties when at any time during the financial period:</p> <ul style="list-style-type: none"> • One party has direct or indirect control of the other party. • The parties are subject to common control from the same source. • One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests. • The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.
Related Party Transaction	<p>A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for a related party irrespective of whether a charge is made. Examples of related party transactions include:</p> <ul style="list-style-type: none"> • The purchase, sale lease, rental or hire of assets or loans, irrespective of any direct economic benefit to the pension fund. • The provision of a guarantee to a third party in relation to a liability or obligation of a related party. • The provision of services to a related party, including the provision of pension fund administration services. • Transactions with individuals who are related parties of the Council or a pension fund, except those applicable to other members of the community or pension fund, such as council tax, rents and payments of benefits. • The materiality of related party transactions is judged not only in terms of their significance to the

Glossary of Financial Terms

Term	Definition
	Council, but also in relation to its related party.
Rent Allowances	Subsidies payable by local authorities to tenants in private rented accommodation (either furnished or unfurnished) whose incomes fall below prescribed amounts.
Rent Rebates	Subsidies payable by local authorities to their own housing tenants whose incomes fall below prescribed amounts.
Reserves	A reserve is an amount set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years.
Retirement Benefits	All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.
Revaluation Reserve	An account containing any unrecognised gains or losses arising from the revaluation of non current assets held by the Council. When assets are sold, the gain or loss on sale will be recognised in the Comprehensive Income and Expenditure Statement once all previous entries relating to unrecognised gains or losses have been removed from the accounts.
Revenue Expenditure	Day to day expenses, mainly salaries and wages, general running costs and debt charges.
Revenue Expenditure Funded from Capital Under Statute	Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non current asset.
Revenue Support Grant	Central Government Grant towards the cost of Local Council Services.
Scheme Liabilities	The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.
Surplus	An excess of income over expenditure (or assets over liabilities)

Glossary of Financial Terms

Term	Definition
Usable Capital Receipts	This is generally the balance of any capital receipt after deducting the reserved part and any repayment to the Central Government of grants made to the Council on disposal of the asset.
Useful Life	The period over which the authority will derive benefits from the use of a non current asset.



North Hertfordshire District Council

Anti-Fraud Plan 2023/24

Purpose

- 1 This report provides members with details of the Councils Anti-Fraud Plan for 2023/24.

Recommendations

- 2 The Committee is **RECOMMENDED** to:

- I. Review and approve the Anti-Fraud Plan 2023/24.

Background

- 3 Recent reports have been provided to officers and are being used by SAFS to ensure that the Council is aware of its fraud risks and finds ways to mitigate or manage these effectively wherever possible.

These reports include:

Fighting Fraud and Corruption Locally a Strategy for the 2020's. The 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 several 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.

The Public Sector Fraud Authority 2022/23: Building for Success. The government has created the Public Sector Fraud Authority to transform the way that the government manages fraud. The PSFA works with departments and public bodies to better understand and reduce the impact of public sector fraud.

- 4 According to reports from the Chartered Institute for Public Finance and Accountancy (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 above this.
- 5 The Cabinet Office, Department for Levelling Up Housing and Communities (DLUHC), NAO, and CIPFA have issued advice, and best practice guidance, to support local councils in the fight to reduce the risk of fraud and prevent loss to the public purse. This advice includes the need for vigilance in recognising fraud risks and the investment of sufficient resources in counter fraud activities.
- 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 a founding partner of the Shared Anti-Fraud Service (SAFS). Members of this committee have received reports about how this service works closely with the Shared Internal Audit Service (SIAS) dealing with all aspects of fraud from prevention and deterrence to investigation and prosecution, working with services and Council staff at all levels.

Report

Anti-Fraud Plan 2023/24

- 8 The reports and papers mentioned at section 3 above and guidance from the NAO, DLUHC and the Local Government Association (LGA) recommend that organisations have effective and robust counter fraud and corruption measures. These measures require the acknowledgement of fraud as a tangible risk, policies and procedures to deter and prevent fraud and the provision of sufficient resources to investigate fraud and recover losses caused by fraud. Above all an organisation should have a plan to protect itself against fraud.
- 9 Council officers and SAFS management develop and agree an **Anti-Fraud Plan** each year and the proposed plan for 2023/24 is presented at **Appendix A**.

The Plan and Fighting Fraud and Corruption Locally

- 10 The Anti-Fraud Plan for 2023/24 has been designed to meet the recommendations of the Fighting Fraud and Corruption Locally Strategy (FFCL) by adopting the 'pillars' of Protect, Govern, Acknowledge, Prevent and Pursue.
- 11 The Plan identifies officers/members who will have a role in delivering it and SAFS will work with all concerned to ensure they understand their role both in delivering the Plan and supporting the FFCL strategy.
- 12 Members will note that this Committee has a role in ensuring key elements in the Plan are implemented and in monitoring the Councils anti-fraud work.
- 13 We have also included new areas of work for SAFS working with senior managers including Fraud Risk Assessments, and a review of the Councils procurement/contact management processes.

Counter Fraud Funding and Resources 2023/24

- 14 At pages 4 – 6 of the main body of the Plan (**Appendix A**) details are provided of funding on counter fraud in 2023/24.
- 15 Page 7 of the Plan includes reference to the SAFS KPIs for 2023/24 and the SAFS Standards of Service agreed.
- 16 SAFS has changed the way it will deliver its services to all of its Partners in 2023/24 with a measurable number of service/work-days which will include staff training, investigation capacity, access to SAFS management, intelligence & fraud alerts and data-analytics. The days, allocation across service areas, and programmes of work, have all been agreed with senior officers across the Council.

- 17 SAFS will maintain its relationship with third party specialist providers and national networks to keep the Council informed of new and emerging fraud threats or changes to best practice that assist in deterring/preventing fraud and corruption.
- 18 SAFS will continue to work closely with Council officers working in those services mentioned in the Plan.
- 19 Regular reports will be provided to senior manager and this Committee on progress delivering the Plan for 2023/24.

Appendices

- 20 The following appendices are attached to this report:

Appendix A – North Herts Council Anti-Fraud Plan 2023/24.

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

- 21
 - (a) International Public Sector Fraud Forum guidance 2022
 - (b) Fighting Fraud and Corruption Locally a Strategy for the 2020s.
 - (c) Fraud and Corruption Tracker 2019.
 - (d) UK Annual Fraud Indicator 2017.
 - (e) A Councillors Workbook on Bribery and Fraud Prevention.
 - (f) Local Government Transparency Code (February 2015).
 - (g) The National Fraud Strategy: Fighting Fraud Together.
 - (h) CIPFA Red Book 2 – Managing the Risk of Fraud – Actions to Counter Fraud and Corruption.

**North Herts Council
Anti-Fraud Plan 2023-2024**

In partnership with

The Hertfordshire Shared Anti-Fraud Service



**North
Herts
Council**



SAFS

Shared Anti-Fraud Service
Fighting Fraud in Partnership

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Introduction

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

The **Fraud Prevention Policy** applies to all staff, elected members, agency staff, temporary staff, volunteers, consultants, contractors and partners and states;

That staff and others must:

- **Be aware of the definitions in relation to fraudulent and related activity, including the various criminal offences they include**
- **Not commit any of the offences detailed**
- **Report any suspicions of these offences being committed**
- **Develop (where applicable to role) and fully comply with policies and processes to reduce the risk of these offences being committed**
- **Disclose any gifts and hospitality that you receive, in line with other policies**

This plan includes objectives and key performance indicators that support the Council's Policy and follows the latest best practice/guidance/directives from the Department for Levelling Up Housing and Communities (DLUHC), 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 DLUHC (formerly MHCLG) indicating that the threat of fraud against local government is both real, causes substantial loss (including reputational, service and financial) and should be prevented where possible and pursued where it occurs.

In 2022 the Public Sector Fraud Authority (Cabinet Office) published a report stating that in 2021/22 the public sector had experienced more than 5 million acts of fraud, that more than £33bn in public money was lost to fraud each year and that fraud against the Covid-19 Financial Support packages alone had cost £19bn.

The *Fighting Fraud and Corruption Locally, A Strategy for the 2020's*, published in March 2020 and supported by CIPFA, the LGA, SOLCACE and External Auditors provides a framework for the Council to adopt in developing its counter fraud activity and this Anti-Fraud Plan follows the guidance and recommendations of the *Strategy*. Full details of the *Strategy* can be found at <https://www.cipfa.org/services/cipfa-solutions/fraud-and-corruption/fighting-fraud-and-corruption-locally>

The *Strategy* compliments work undertaken in 2019 by the LGA, NAO and the Cabinet Office as well as the *Code of practice on managing the risk of fraud and corruption* CIPFA 2015 including the four ‘Pillars’ of **Govern Acknowledge, Prevent, Pursue** with an overarching aim of **Protect**:

For the Council this includes protecting public funds it administers and protecting the Council against fraud and cybercrime.



Anti-Fraud Plan 2023-2024

The Councils Anti-Fraud Plan will be managed by the Hertfordshire 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. The Council also has a duty to protect the public and it does this through its work across all services and in particular by sharing information and knowledge through communications either directly or via its website or social media outlets. 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 for 2023-2024 follows the guidelines and checklists contained in the *Fighting Fraud and Corruption Locally Strategy* and progress against this will be reported to senior management and the Councils Finance Audit and Risk Committee. A break-down of work included in the Plan can be found at **Appendix A** along with the officers with responsibility for ensuring the plan is delivered.

SAFS Resources 2023-2024

Anti-Fraud Arrangements

North Herts Council is a founding member of the Hertfordshire Shared Anti-Fraud Service (SAFS) and this service has provided the majority of the Councils anti-fraud arrangements since April 2015. The SAFS Partnership, as well as North Herts Council, includes Stevenage Borough Council, Hertsmere Borough Council, Hertfordshire County Council, Luton Borough Council, Broxbourne Borough Council, East Herts Council and from April 2023 Welwyn and Hatfield Council. The SAFS also provides services to other public sector bodies across Hertfordshire.

The SAFS Team is made up of 21.5 full time equivalent staff in 2023/24. All staff are fully trained and accredited (or working towards this) specialising in fraud prevention, fraud investigation, fraud awareness, fraud risk assessment as well as proceeds of crime, anti-bribery and anti-money laundering.

Since 2019 the SAFS Team has been nominated for and/or won awards for the services it provides including the **Tackling Economic Crime Awards** (TECAS), the **Institute of Revenue Rating and Valuation Awards** (IRRV), the **Public Finance Awards** (PFA), and most recently in February 2023 the **Public Sector Counter Fraud Awards**.

SAFS is a Partnership with each organisation paying an annual fee to Hertfordshire County Council for a contracted service to all Partners. 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 Herts Council the Service Director: Resources is the Board representative.

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

Budget

In December 2022 the SAFS Board agreed fees for all Partners from April 2023. The Board also received assurance from financial modelling that the service would be sustainable, in its current form, for at least the next three years.

Fees for North Herts Council in 2023-2024 have been set at £89,180+ VAT.

Staffing

The full complement for SAFS in 2023-2024 is planned to be 21.5 FTE.

The Council will have access to 285 days of counter fraud work, 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 reports per annum to the Audit and Standards Committee. An Accredited Financial Investigator is 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 Councils 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), Fraud Advisory Panel (FAP) and the National Anti-Fraud Network (NAFN).

Workplans & Projects 2023-2024

As well as an agreed programme of work (see **Appendix A**) SAFS will work in the following areas delivering specific activity agreed with service managers. Progress with this work will be reported to the relevant head of service/managers on a quarterly basis.

Service Area	Agreed Projects
Cross Cutting Corporate Initiatives	<p>General Support. Three Reports to Finance Audit and Risk Committee. SAFS attendance at Corporate Governance Groups and management meetings. Assisting with any review of the Councils existing anti-fraud policies. Money Laundering Reporting Officer (MLRO) role. Assist with NFI Output and Herts FraudHub- across all service areas. Assisting with Payroll fraud matters including disciplinary investigations. Identify new fraud risks and fraud alerts across all Council services- providing a resource to support any investigation, reporting or risk assessment required from any emerging fraud or corruption.</p> <p>Training. Five fraud training/awareness events for staff/members in year delivered face to face/virtually/hybrid. Review and re-release of SAFS I-Learn training package on fraud/bribery/money laundering – accessible via the Councils intranet. Roll out of NAFN training and registration for appropriate services/officers.</p> <p>Procurement. Work with internal procurement service developing a bespoke risk assessment for fraud in procurement/contracts.</p>
Revenues and Benefits	<p>This work will be arranged with the in-house Revenues and Benefits Service. Proactive training and awareness for management and front-line staff. Reactive investigations for housing benefit, council tax support/discount and business rate fraud. Support for single person discount review utilising 3rd party framework managed by SAFS Identify systems/processes/new developments to assist in recovery of debt created by fraud. Use of data-analytics to identify fraud/evasion of business rate liability and collection. Joint working with DWP where council tax support and other ‘national’ benefits are in payment.</p>
Housing Services	<p>This work will be arranged with the Councils housing services and in partnership with Settle Group, Catalyst Group Housing (Now part of Peabody), Clarion Housing Group and B3Living as well as other housing providers with stock within the Councils area. Proactive training and awareness for management and front-line staff. Reactive investigations for Housing Application, tenancy fraud- including sub-letting or right to buy fraud, and misuse of temporary accommodation. Provide a focus on fraud risks affecting temporary accommodation costs. Review housing register to identify fraud risks and, where appropriate, investigate these.</p>

SAFS KPIs & Standards of Service.

SAFS will work to a set of KPIs agreed with senior officers and these targets will assist in delivering the Councils Anti-Fraud Plan. The KPI's can be found at **Appendix B** and will be reported to senior officers and 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 via email/phone/weblinks.
3. Training in: Fraud Awareness (management/staff/members), Fraud Prevention, Identity Fraud and Money Laundering.
4. A Money Laundering Reporting Officer service as laid out in the relevant Council policies.
5. Assistance in the design/review of Council policies, processes and documents to deter/prevent fraud.
6. SAFS will design shared/common anti-fraud strategies and policies or templates to be adopted by the Council.
7. 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.
8. All SAFS Staff will be qualified, trained and/or accredited to undertake their duties lawfully.
9. All SAFS investigations will comply with legislation including DPA, GDPR, PACE, CPIA, HRA, RIPA* and relevant Council policies.
10. 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.
11. Where sanctions, penalties or prosecutions are sought SAFS will work with the Council to determine the appropriate disposal in line with the Council's policies.
12. SAFS will provide Alerts to the Council, of suspected fraud trends or reports/guidance from government and public organisations that are relevant to fraud.
13. SAFS will provide reports to senior management on the progress with delivery of this Plan and any other relevant activity planned or otherwise.
14. SAFS will provide reports through the SAFS Board and to the Council's Audit Committee as agreed in the SAFS Partnership Contract.

**Data Protection Act , 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.*

Appendix A

NHC / SAFS Action Plan 2023/2024			
FFCL Pillars	Objectives	Activities	Responsible Officer
Governance	Having robust arrangements and executive support to ensure anti fraud, bribery and corruption measures are embedded throughout the organisation.	Ensure the Councils Anti-Fraud and Corruption Strategy & Fraud Response Plan and associated policies to deter, prevent, investigate and punish acts of fraud or corruption are reviewed against latest best practice. Review and update the Councils Money Laundering/ Bribery/ Cyber-Crime Policies	Managing Director / Monitoring Officer / Service Director-Resources
		The Councils Finance Audit and Risk Committee will receive reports during the year about the arrangements in place to protect the Council against fraud and the effectiveness of these.	Head of SIAS /Head of SAFS
		The Chair of Finance Audit and Risk Committee, along with the Leadership Team, will ensure compliance with the latest best practice in the Councils anti-fraud arrangements including that published by CIPFA, NAO and LGA.	AC Chair/ Service Director-Resources / Monitoring Officer
		System/process weaknesses or risks revealed by instances of actual fraud will be fed back to departments/services with recommendations to manage/mitigate these risks. Reports will be shared with senior managers or SIAS to review outcomes and management response to recommendation.	Head of SIAS / Head of SAFS
		SAFS will assist the Council in providing its Fraud Data for the Transparency Code each year	Head of SAFS
		The Council will make it clear through its policies and codes of conduct for staff and Members that fraud and corruption will not be tolerated.	Service Director-Resources / HR Services Manager/ Monitoring Officer
ACKNOWLEDGE	Accessing and understanding fraud risks. Committing the right support and tackling fraud and corruption. Demonstrating that it has a robust anti-fraud response. Communicating the risks to those	Inclusion of Fraud Risks and actions to manage/mitigate/reduce this in its Annual Governance Statement.	Head of SIAS /Service Director-Resources/ Monitoring Officer
		The Councils Communication Team will publicise anti-fraud campaigns and provide internal communications to staff on fraud awareness	Head of SAFS/ Communications Mgr
		The Council and SAFS will provide fraud awareness & specific anti-fraud training across all Council services and implement E-Learning modules available for staff that is mandatory.	Service Director- Resources / Head of SAFS
		The Council is a member of the Hertfordshire Shared Anti-Fraud Service (SAFS). Officers will ensure that the services provided by SAFS are appropriate and provide an effective ROI in both savings delivered and added value.	Service Director-Resources
		Audits conducted by SIAS will take account of known or emerging fraud risks when audit activity is being planned. SIAS will report any suspected fraud to senior management and SAFS to review.	Head of SIAS
		All SAFS staff will be fully trained and accredited. SAFS will continue to work with the Cabinet Office to support the Counter-Fraud Profession.	Head of SAFS
PREVENT	Making the best use of information and technology. Enhancing fraud controls and processes. Developing a more effective anti-fraud culture. Communicating its' activity and successes.	SAFS will provide fraud alerts and new and emerging fraud threats to be disseminated to appropriate officers/staff/services.	Head of SAFS
		SAFS will work with all Council services to make best use of 3rd party providers such as NAFN, PNLD, CIPFA, CIFAS.	Head of SAFS
		Develop the Councils use of the Herts FraudHub and support Council officers with the output from NFI 2022/2023 Exercise	Head of SAFS/ Service Director-Customers
		The Council, and SAFS, will seek to work with other organisations, including private sector, to improve access to data and data-services that will assist in the detection or prevention of fraud.	Head of SAFS/ Service Director-Resources
		The SAFS Mgt will provide reports to the SAFS Board quarterly on anti-fraud activity across the Partnership and any learning to be shared with all Partners	Head of SAFS
		The Council will review data sharing agreements/protocols to ensure compliance with DEA & GDPR/DEA to maximise the use of sharing data with others to help prevent/identify fraud.	Monitoring Officer
PURSUE	Prioritising fraud recovery and use of civil sanctions. Developing capability and capacity to punish offenders. Collaborating across geographical and sectoral boundaries.	SAFS will provide fraud alerts and new and emerging fraud threats to be disseminated to appropriate officers/staff/services.	Head of SAFS
		SAFS will work with all Council services to make best use of 3rd party providers such as NAFN, PNLD, CIPFA, CIFAS.	Head of SAFS
		Develop the Councils use of the Herts FraudHub and support Council officers with the output from NFI 2022/2023 Exercise	Head of SAFS/ Service Director-Customers
		The Council, and SAFS, will seek to work with other organisations, including private sector, to improve access to data and data-services that will assist in the detection or prevention of fraud.	Head of SAFS/ Service Director-Resources
		The SAFS Mgt will provide reports to the SAFS Board quarterly on anti-fraud activity across the Partnership and any learning to be shared with all Partners	Head of SAFS
		The Council will review data sharing agreements/protocols to ensure compliance with DEA & GDPR/DEA to maximise the use of sharing data with others to help prevent/identify fraud.	Monitoring Officer
PROTECT	Recognising the harm that fraud can cause in the community. Protecting itself and its' residents from fraud.	All fraud reported to the Council will be captured via SAFS fraud reporting tools (web/phone/email) for staff, public and elected Members. SAFS will work with officers to promote the reporting of suspected fraud by officers and the public.	Head of SAFS
		All investigations will comply with relevant legislation and Council Policies. Investigations will include civil, criminal and disciplinary disposals	Head of SAFS
		SAFS will use its case management system to record and report on all fraud referred, investigated and identified.	Head of SAFS
		Legal Services and debt recovery teams will seek to 'prosecute' offenders, apply sanctions and recover financial losses- supported by relevant policies.	Monitoring Officer/ Service Director- Customers
		SAFS and the Councils R&B Service will work with DWP to deliver joint investigations where fraud affects both HB and CTRS	Head of SAFS/ Service Director-Customers
		SAFS will use its in-house expertise as well as external partners when considering the use of POCA, Surveillance or IT Forensics.	Head of SAFS

Appendix B

SAFS KPIs - 2023/ 2024- NHC

KPI	Measure	Objectives	Reason for KPI
1	Return on investment from SAFS Partnership.	Demonstrate that the Council is receiving a financial return on investment from membership of SAFS and that this equates to its financial contribution. A. Meetings to take place with the Councils Service Director-Resources and Service Director-Customers. B. Service Director-Resources will sit on the SAFS Board that meets quarterly. C. Regular meetings to take place with Service Leads to agree and update local work plans. D. Reports on progress with any area of work covered by the SAFS Partnership Agreement will be provided on request.	Transparent evidence to Senior Management that the Council is receiving a service matching its contribution.
2	Provide an investigation service.	A. 285 Days of counter fraud activity including proactive and reactive investigation work, data-analytics, training and fraud risk management (Supported by SAFS Intel/Management). B. 3 Reports to Finance Audit and Risk Committee. C. SAFS attendance at corporate governance, 'service champion' meetings, local management team meetings.	Ensure ongoing effectiveness and resilience of the Councils anti-fraud arrangements.
3	Action on reported fraud.	A. All urgent/ high risk cases will be responded to within 24 hours. B. All other cases 2 Days, on Average.	Ensure that all cases of reported fraud are triaged within agreed timescales.
4	Added value of SAFS membership.	A. Membership of NAFN & PNLD B. Membership of CIPFA Counter Fraud Centre and access to CIFAS/NCSC/AF/FFCL alerts, trends, best practice C. NAFN Access/Training for relevant Council Staff D. 5 Training events for staff/Members in year. (To be agreed with Service leads and HR)	Deliver additional services that will assist in the Council in preventing fraud across all services and in the recovery of fraud losses.
5	Allegations of fraud received. & Success rates for cases investigated.	A. All reported fraud (referrals) will be logged and reported to officers by type & source. B. All cases investigated will be recorded and the financial value, including loss/recovery/ savings of each will be reported to officers. C. SAFS will work with social housing providers across the District.	This target will measure the effectiveness of the service in promoting the reporting of fraud & measure the effectiveness in identifying cases worthy of investigation.
6	Making better use of data to prevent/identify fraud.	A. Support the output from NFI 2022/23 Council services. B. Membership and VFM from the Herts FraudHub in 2023/24.	Build a data hub that will allow the Council to access and share data to assist in the prevention/detection of fraud.

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INTERNAL AUDIT PLAN 2023/24

NORTH HERTS COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE
MARCH 2023

RECOMMENDATION

Members are recommended to approve the proposed North Herts Council
Internal Audit Plan for 2023/24

Contents

1. Introduction and Background

2. Audit Planning Process

- 2.1 Planning Principles
- 2.2 Approach to Planning
- 2.11 Planning Context
- 2.14 Internal Audit Plan 2023/24

3. Performance Management

- 3.1 Update Reporting
- 3.3 Performance Indicators

Appendices

A Proposed North Herts Council Audit Plan 2023/24

B Audit Start Dates Agreed with Management

1. Introduction and Background

1.1 The mission of Internal Audit is “to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”. The Public Sector Internal Audit Standards (PSIAS) encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). These Standards note that a professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. The SIAS Board has approved the SIAS Internal Audit Strategy in December 2021 and this strategy outlines how SIAS will achieve the mission of Internal Audit and ensure ongoing compliance with the PSIAS. The following report follows the key principles within the Strategy related to Audit Planning and Resourcing, with the Strategy document itself being available to Members upon request.

1.2 The PSIAS set out how we must approach audit planning. The specific standards that we must adhere to are as follows:

Standard	Description
2010	A risk-based plan, setting out audit priorities consistent with the goals of the organisation.
2010	Linked to annual opinion need and internal audit Charter
2010.A1	Based on documented risk assessment, updated at least yearly and consulting Senior Management and Members
2010.A2	Reflect expectations of Senior Management, Members and other stakeholders
2020	Communicated to Senior Management for review and to Members for approval
2030	Ensure internal audit’s resources are fit and effectively used
2030	Must explain how resource adequacy assessed, and set out results of any limits

1.3 The Council’s Internal Audit Plan sets out the programme of internal audit work for the year ahead, and forms part of the Council’s wider assurance framework. It supports the requirement to produce an audit opinion on the overall internal control environment of the Council, as well as a judgement on the robustness of risk management and governance arrangements, contained in the Chief Audit Executive’s Annual Opinion Report.

1.4 The Shared Internal Audit Service’s (SIAS) Audit Charter which was presented to the June 2022 meeting of this Committee shows how the Council and SIAS work together to provide a modern and effective internal audit service. This approach complies with the requirements of the United Kingdom Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013 and revised on 1 April 2017. An updated version of the SIAS Audit Charter will be brought to the June 2023 FAR Committee meeting for Member approval.

1.5 Section 2 of this report details how SIAS complies with these requirements.

2. Audit Planning Process

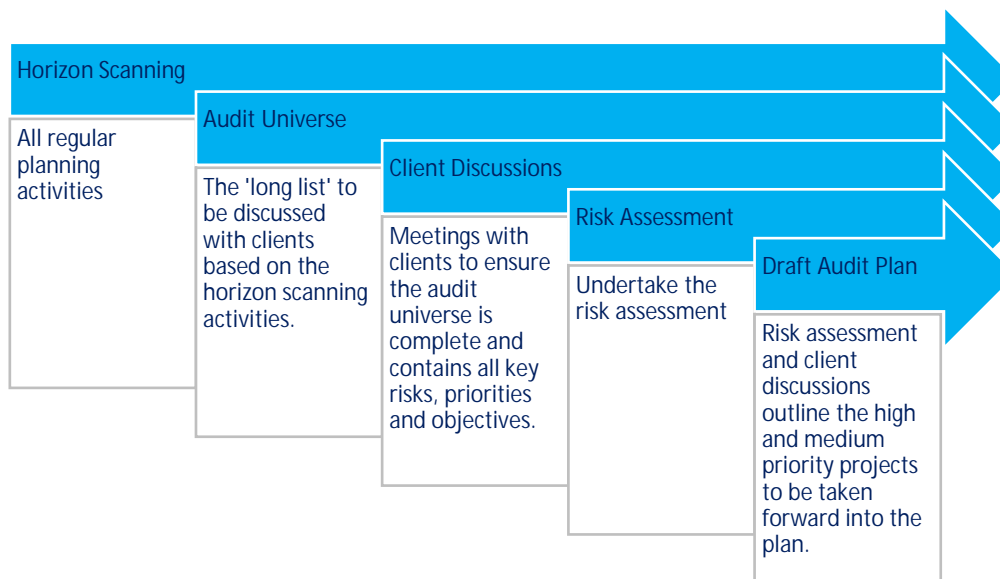
Planning Principles

2.1 SIAS audit planning is underpinned by the following principles:

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

Approach to Planning

- 2.2 SIAS has developed an approach to annual planning that ensures ongoing compliance with the requirements of the PSIAS, SIAS applies the following methodology at its partners:



Horizon Scanning and Audit Universe

- 2.3 SIAS conducts horizon scanning to ensure that it is aware of the key issues and risks locally and nationally as well as the corporate and service objectives of the Council. To do this, SIAS undertakes the following activities:



- 2.4 Following the horizon scanning work, SIAS creates an Audit Universe based on all auditable areas and entities. The Audit Universe forms the basis of discussions with Senior Managers.

Client Discussions

- 2.5 SIAS undertook detailed discussions with senior managers and other key officers within the Council to confirm auditable areas and elicit high level detail of the scope of audits. This process incorporates the following steps to assist in the prioritisation of proposed internal audit projects:

Risk Assessment

Senior Managers and SIAS agree the level of risk associated with an identified auditable area and prioritise this accordingly.

Other sources of Assurance

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

Significance

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

Timings

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

Risk Assessment

- 2.6 The overarching risk that SIAS bases planning against is the risk that audit work completed does not provide sufficient coverage and significance for SIAS to provide a robust annual assurance opinion. Therefore, SIAS risk assesses each auditable area to ensure that their resources are directed appropriately.
- 2.7 The risk assessment behind the development of the 2023/24 Internal Audit Plan was strongly correlated to the Council's Delivery Plan and associated Council monitoring through risk assessments, KPI's and project progress. The four audits identified as high priority are those linked directly to the Delivery Plan.
- 2.8 SIAS also include considerations of financial materiality, corporate significance, vulnerability and change and management concerns, as part of the risk assessment, including alternative sources of assurance through the Three Lines (of Defence) model.

Draft Audit Plan

- 2.9 The results of the risk assessment and discussions with Senior Managers provides a draft Internal Audit Plan. SIAS has presented this draft plan to the Senior Leadership Team to seek their views on the assessments completed and to provide any further updates or comments. The outcome is now

presented to Members as part of this report for their approval of the Draft Internal Audit Plan 2023/24.

The Planning Context

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

- The longer-term impacts of the pandemic are beginning to emerge and there are ongoing challenges and risks relating to economic growth, public health and equality for local authorities.
- The result of the changes to trading with EU based companies will have an impact on Council services with additional risks needing to be considered that include compliance with customs rules, continuity of supply / services and workforce pressures related to the right to work in the UK.
- Latest forecasts show a cloudy outlook for the UK economy, reflecting increasing national and international uncertainties. Local authorities will need to be attuned to the impact, including rising interest rates and inflation, increased salary levels, rising material and construction costs, the potential reduction in business rates and recruitment and retention challenges, on their local economies and services and any direct investments of their own.
- Demand continues to rise, driven by complex needs, an ageing population and challenges in the healthcare system. With reduced financial support, local authorities will have to continue to become more innovative and commercial.
- Cyber security (ransomware and malware) remains a consistent threat to organisations and there are a growing number of local authorities that have been subjected to successful attacks recently. Continued vigilance and awareness remain key to protecting the information assets of local authorities.
- Digital transformation continues to offer opportunities along with significant risks. The innovative use of technology is helping to reduce costs, as well as be more efficient and transparent. However, factors such as security, privacy, ethical and regulatory compliance are a recognised concern.
- Major national programmes in areas like changes to the retention of business rates, public health and housing mean the overall financial environment remains relatively unstable.
- There have been high profile governance issues, conflicts of interest, probity, and procurement, at both national and local levels creating a culture of mistrust in all tiers of government.

- Local authorities are facing significant challenges in relation to talent management, both in terms of recruitment and retaining staff meaning ability to remain resilient and deliver high quality services may become a concern in short term.
 - Many local authorities have declared a Climate & Ecological Emergency in the past couple of years and made commitments to become Net Zero. Whilst the pandemic has distracted some from this priority, it cannot be ignored and is now a greater challenge to maintain focus and deliver the necessary carbon reductions.
- 2.11 The resultant efficiency and transformation programme that councils are in the process of implementing and developing continues to profoundly alter each organisation's nature. Such developments are accompanied by potentially significant governance, risk management and internal control change.
- 2.12 The challenge of giving value in this context, means that Internal Audit needs to:
- Meet its core responsibilities, which are to provide appropriate assurance to Members and senior management on the effectiveness of governance, risk management and control arrangements in delivering the achievement of Council objectives.
 - Identify and focus its effort on areas of significance and risk, assisting the organisation in managing change effectively, and ensuring that core controls remain effective.
 - Give assurance which covers the control environment in relation to new developments, using leading edge audit approaches such as use of technology to achieve 'whole population testing' and new insights over sampling or 'continuous assurance' where appropriate.
 - Retain flexibility in the audit plan and ensure the plan remains current and relevant as the financial year progresses.

Internal Audit Plan 2023/24

- 2.13 The draft plan for 2023/24 is included at Appendix A and contains a high-level proposed outline scope for each audit; Appendix B details the agreed start months. The number of days purchased in 2023/24 is confirmed as 260 days.
- 2.14 The table shows the estimated allocation of the total annual number of purchased audit days for the year.

	2022/23 Days	%
High Priority Audits**	48	
Medium Priority Audits	79	
IT Audits	32	
Consultancy Assignments	30	
Grants or Charity Certification	8	
Strategic Support*	38	
Contingency	5	
Completion of 2022/23 Projects	20	
Total allocated days	260	100%

* This covers supporting the Audit Committee, monitoring delivery of the audit plan, client liaison and planning for 2023/24

** High priority audits are those directly linked to the Council's Delivery Plan and Corporate Risk Register.

- 2.15 Any significant audit plan changes agreed between Management and SIAS will be brought before this committee for noting through the usual plan update reporting cycle. The postponement or cancellation of any high priority audits will require approval from the Chair of the Finance, Audit and Risk Committee. It should be noted that the Internal Audit Plan is intended to be flexible and responsive to changing risks and matters arising during the course of the year.
- 2.16 Members will note the inclusion of a provision for the completion of projects that relate to 2022/23. The structure of Internal Audit's programme of work is such that full completion of every aspect of the work in an annual plan is not always possible; especially given the high dependence on client officers during a period where there are competing demands on their time, e.g. year-end closure procedures.
- 2.17 The nature of assurance work is such that enough activity must have been completed in the financial year, for the Chief Audit Executive to give an overall opinion on the Authority's internal control environment. In general, the tasks associated with the total completion of the plan, which includes the finalisation of all reports and negotiation of the appropriate level of agreed mitigations, is not something that adversely affects delivery of the overall

opinion. The impact of any outstanding work is monitored closely during the final quarter by SIAS in conjunction with the Section 151 Officer.

Resources

- 2.18 The Standard 2030 requires SIAS to consider our resources, how these will be effectively used and any limitations of the adequacy of resources.
- 2.19 Achievement of our role and objectives is predicated on the matching of audit needs to available resources through our work allocation processes. This is accomplished through the delivery of internal audit activities by a range of suitably qualified and experienced team members working flexibly in a matrix structure to maximise the value to all our partners and clients. SIAS resources are calculated based on the chargeability of each member of the team and the structure was designed to ensure sufficient chargeability to deliver all plans.
- 2.20 SIAS will utilise our internal audit delivery partner to provide service resilience and access to specialist skills not currently available within the service, or which are not economically viable to recruit and retain on a permanent basis.
- 2.21 SIAS staff are provided training and development across the year to support service delivery at our partners. In addition, SIAS provides funding for professional qualifications and currently has three team members studying towards their professional qualifications.
- 2.22 The service will be adequately resourced to deliver the number of planned internal audit days commissioned by North Herts Council. There are currently no limitations on the adequacy of resources in place to deliver the North Herts Council Internal Audit Plan 2023/24.
- 2.23 During 2023/24, SIAS is undertaking a number of service development activities designed to drive efficiency in our methodology. More details on this are provided to SIAS Board Members through the SIAS Service Plan updates and through the Annual Report provided to this Committee in September 2023.

3. Performance Management

Update Reporting

- 3.1 SIAS is required to report its work to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. Progress against the agreed plan for 2023/24 and any proposed changes will be reported to this Committee four times in the 2023/24 civic year.
- 3.2 SIAS will report on the implementation of agreed high priority recommendations as part of the update reporting process.

Performance Indicators

- 3.3 Annual performance indicators were approved at the SIAS Board and are reviewed annually by the Board. Details of the targets set for 2022/23 are shown in the table below. Actual performance against target will be included in the update reports to this Committee.

Performance Indicator	Performance Target	Reporting Frequency
1. Public Sector Internal Audit Standards – the service conforms with the standards	Yes	Annually
2. 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	Yes	Annually
3. Annual Internal Audit Plan Delivery – the percentage of the Annual Internal Audit Plan delivered	95%	Quarterly
4. Project Delivery – the number of projects delivered to draft report stage against projects in the approved Annual Internal Audit Plan	95%	Quarterly
5. Client Satisfaction* – percentage of client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	TBC*	TBC*
6. Chief Audit Executive's Annual Assurance Opinion and Report – presented at the first Audit Committee meeting of the financial year	Yes	Annually

*The approach for obtaining client feedback is currently being reviewed, therefore this indicator will be added, if it remains relevant, upon completion of this exercise.

APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2022/23

High Priority Audits (48 days)

<u>Audit Title</u>	<u>Purpose of the Audit</u>	<u>Quarter</u>	<u>Audit Sponsor</u>
Churchgate - Project Governance Framework (Risk Register and Council Delivery Plan)	To provide assurance over the project governance framework for the Churchgate project, including roles and responsibilities, stakeholder engagement and communication, risk and issue management, monitoring, reporting, controlling and assurance mechanisms.	1	Service Director (Commercial)
Churchgate Landlord Compliance (Linked to above project through Council ownership)	To ensure that the Council is operating in compliance with its landlord duties and responsibilities in terms of relevant statute and regulations.	2	Service Director (Commercial)
Churchgate – Ongoing Project Assurance (Risk Register and Council Delivery Plan)	To provide ongoing project assurance or health checks throughout the lifetime of the project, especially at or ahead of key stages of completion or milestones.	4	Service Director (Commercial)
Council Tax Reduction Scheme (Risk Register and Council Delivery Plan)	To provide assurance on the operation of the Council Tax Reduction Scheme from 1 April 2023, following consultation and Cabinet approval. This will include the new banded scheme for working age applicants and the use of the Council Tax Hardship Grant to fund a discretionary scheme to provide additional transitional support.	4	Service Director (Customers)

APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2022/23

IT Audits (32 days)

<u>Audit Title</u>	<u>Purpose of the Audit</u>	<u>Quarter</u>	<u>Audit Sponsor</u>
Software Licensing	To conduct a high-level software license management review to establish whether the Council is adequately licensed, therefore preventing non-compliance and avoiding unexpected fines. In terms of business management, the audit will also seek to determine how software is being used through the Council and whether licenses can be removed or re-allocated, therefore saving money.	2	Service Director (Customers)
Critical Applications	To provide a focused review on how critical applications (sample to be selected) are managed, including security controls, user access reviews, etc.	3	Service Director (Customers)
IT Disaster Recovery and Business Continuity	To provide assurance around key areas such as governance and ownership, identification, mapping and prioritisation of key assets, applications and capabilities, communications plans, distributed backups, cloud services, testing and training, risk management, people and partner management, core dependencies and segmented architecture. This is important given the ever-changing technology risks organisations face. Work will include a follow-up of a high priority recommendation made in the 2022/23 BCP audit.	4	Service Director (Customers)

Medium Priority Audits (79 days)

<u>Audit</u>	<u>Purpose of the Audit</u>	<u>Quarter</u>	<u>Audit Sponsor</u>
Freedom of Information	To provide assurance based on shared learning outcomes from limited assurance and Information Commissioner reports at other local authorities	1	Service Director (Customers)

APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2022/23

	to determine whether the Council adequately manages the identified risks and issues.		
Safer Recruitment	This audit is linked to the 2022/23 Safeguarding audit and seeks to provide assurance that the Council meets legal and regulatory requirements, ensures potential applicants are aware of the Council's commitment to the welfare of vulnerable people, is satisfied that each candidate has demonstrated their suitability for the specific position, as far as possible, at each stage of recruitment and selection, and is satisfied of the candidate's identify, qualifications, registration and right to work status.	2	Service Director (Resources)
Houses in Multiple Occupation (HMO)	To provide assurance that the Council is fulfilling its duties in terms of its HMO policy, including the conduct of periodic inspections of HMOs to ensure that the premises are properly managed and maintained.	2	Service Director (Legal and Communities)
Estates	To provide assurance that rent reviews and lease renewals are conducted in a timely and efficient manner when they fall due, as well as prioritised by significance and value for money to the Council. Work may also cover any historic backlogs and improvement plans where relevant.	3	Service Director (Commercial)
Ombudsman Complaints	To review the level of Ombudsman complaints, and especially those upheld, to identify any emerging patterns and lessons learned. The review will include how the underlying complaints have been managed (completeness and timeliness of the underlying response for example).	3	Service Director (Customers) (with input from other service areas)
Project Management	Following on from the project management framework audit in 2022/23, to provide assurance that a sample of projects are following good practice principles, including ensuring that lessons learned are transferred to future projects.	3	Service Director (Resources) (with input from other service areas)

APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2022/23

MSU Transactions	To provide assurance that internal controls are operating effectively within transactions processing carried out by the MSU, for example, allotments, burials, commercial, licensing, land charges and parking. This audit may involve crossover into other services areas.	3	Service Director (Customers)
Agency Staffing	To provide assurance on the monitoring of agency staff spend levels and off-contract spend, agency staff employment rights and recruitment and selection checks and processes (for Q1) and review of new agency staffing procurement arrangements (for Q4).	4	Service Director (Resources)
Emergency Planning	To provide assurance that the Council has plans, policies and procedures to support incident response and preparedness. Coverage may include areas such as existence of plans, roles and responsibilities, liaison with partners and stakeholders, incident response training, exercises, testing and learning, and oversight.	4	Service Director (Resources)

Consultancy Assignments (30 days)

<u>Assignment Title</u>	<u>Assignment Purpose</u>	<u>Quarter</u>	<u>Assignment Sponsor</u>
Harkness Court	To establish and review lessons learned from this project and ensure that they are disseminated to other project managers to inform future Council projects.	1	Service Director (Commercial)
Digital Strategy	To provide input to the development of the Council's IT Digital Strategy, i.e., the ways in which technology can be leveraged to transform practices, processes, and procedures.	1	Service Director (Customers)

APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2022/23

Strategic Planning (Local Plan)	To critically assess the decision-making process following the outcome of the Local Plan.	4	Service Director (Regulatory Services)
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Grant Claims / Charity Certification (8 days)

<u>Grant / Charity Title</u>	<u>Purpose</u>
King George V Playing Fields	To certify the accounts relating to the King George V Playing Fields.
Workman's Hall	To certify the accounts relating to the Workman's Hall.
Miscellaneous Grants	To certify any grant claims required during the year

Contingency (5 days)

Available time for ad hoc work as required.

Strategic Support (38 days)

<u>Title</u>	<u>Purpose</u>
Chief Audit Executive Annual Opinion Report	To prepare the Chief Audit Executive Opinion 2021/22.
Audit Committee	To provide services linked with the preparation, agreement and presentation of Finance, Audit and Risk Committee reports, as well as any training requirements.
Performance Monitoring	Audit plan monitoring against agree KPIs.
Client Liaison	Meetings with the S151 Officer, preparation and attendance at the Risk Group and other groups or meetings as required.
Audit Planning 2023/24	Provision of services to prepare, agree and report the 2023/24 Annual Audit Plan.
SIAS Development	Included to reflect the Council's contribution to developing the partnership.

APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2022/23

2022/23 Carry Forward (20 days)

Available time for completion of 2022/23 projects.

Reserve List

<u>Title</u>	<u>Purpose</u>
Green Space Strategy	To provide assurance that suitable monitoring arrangements exist to assess the alignment of the principles of the strategy to the actions taken and that contractor works align to the contractual agreement and the current strategy.
Parking Strategy	To provide assurance over the implementation of the Parking Strategy including action monitoring and reporting.
Assurance Mapping and Data Analysis	Opportunities for assurance mapping of key processes and procedures and data analysis to confirm operation of key controls.
Governance	To provide high level assurance on an aspect of the Council's governance, risk management and control arrangements that directly supports requirements of the Annual Assurance Opinion and Annual Governance Statement / Code of Corporate Governance.
Asset Data	To provide assurance that asset data is complete, accurate and reliable and controls exist to ensure consistent recording between asset registers held by service areas, e.g., Accounts, Estates and Property Services.

APPENDIX B – AUDIT START DATES AGREED WITH MANAGEMENT

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
H	Churchgate - Project Governance Framework	Churchgate Landlord Compliance		Churchgate – Ongoing Project Assurance
				Council Tax Reduction Scheme
M	A minimum of 8 medium priority audits from the following (please see paragraph 2.16):			
	Freedom of Information	Safer Recruitment	Estates	Agency Staffing
		Houses in Multiple Occupation (HMO)	Ombudsman Complaints	Emergency Planning
			Project Management	
			MSU Transactions	
IT		Software Licensing	Critical Applications	IT Disaster Recovery and Business Continuity
C	Harkness Court			Strategic Planning (Local Plan)
	IT Digital Strategy			
G/C				King George V Playing Fields
				Workman's Hall
O	2022/23 Carry Forward			

Key:

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

APPENDIX B – AUDIT START DATES AGREED WITH MANAGEMENT

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

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INTERNAL AUDIT PROGRESS REPORT

NORTH HERTS COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE
8 MARCH 2023

RECOMMENDATIONS

- Note the SIAS Progress Report for the period to 17 February 2023
- Approve 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
 - 2.10 Proposed Amendments
 - 2.11 Performance Management
 - 2.15 Service Update and Current Delivery Position

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 17 February 2023.
- b) In-Year Audit Plan review and proposed Plan amendments.
- c) An update on performance indicators as at 17 February 2023.

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 fourth 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

Delivery of Internal Audit Plan and Key Audit Findings

- 2.1 As at 17 February 2023, 73% of the 2022/23 Internal Audit Plan days had been delivered.
- 2.2 There have been six final audit reports issued since the December 2022 Audit Committee. One was a carry forward audit from the 2021/22 Internal Audit Plan and five are 2022/23 internal audits:

Audit Title	Assurance Opinion	Recommendations
Compliance Contract	Reasonable	2 Medium, 1 Low
Revenues Discounts and Exemptions	Reasonable	1 Medium, 2 Low
King George V Playing Fields	Unqualified	None
Workman's Hall	Unqualified	None
Future Ways of Working (2021/22)	Reasonable	4 Medium, 3 Low
Business Continuity Planning	Limited	1 High, 2 Medium

- 2.3 With the exception of the unqualified certificates for the King George V Playing Fields and Workman's Hall accounts, all final audit reports listed above have been circulated to FAR Committee members.
- 2.4 SIAS aim to deliver all audits prioritised as 'High' in the 2022/23 Internal Audit Plan and aim to 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 assurance 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 Members will be aware that three high priority recommendations were made in the 'Resilience in the Revenues and Benefits Systems and Technical Team' internal audit report issued in April 2022. These have implementation dates in March 2023, and an update will be published at the next FAR Committee meeting.
- 2.8 As reported to the previous FAR Committee meeting, a further high priority recommendation was raised in the 'Careline Operations' internal audit report issued in November 2022. This related to not complying with governance arrangements as per contract requirements. This had an implementation date of December 2022. The service has provided an update on Pentana that the action has been completed. Council officers met with Hertfordshire County Council representatives on 15 December 2022 and agreed to instigate the meetings specified in the contract and to maintain trackers for the areas covered.
- 2.9 The Business Continuity Planning final audit report issued in February 2023 contains one new high priority recommendation relating to IT disaster recovery procedures and outdated policies. Related actions have implementation dates in April 2023, and an update will be published at the next FAR Committee meeting.

Proposed Amendments

- 2.10 The following Plan amendments have been agreed with management within this reporting period:

Audit	Previous Billable Days	Revised Billable Days
Strategic Planning (deferred to the 2023/24 Internal Audit Plan)	10	0
Community Lottery (replacement audit for the above)	0	10

Performance Management: Reporting of Audit Plan Delivery Progress

- 2.11 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	Estimated profile to 17 February 2023
Draft / Final Report Issued	16	57%	(19/28)
In Fieldwork / Quality Review	8	29%	(6/28)
Terms of Reference Issued / In Planning	3	11%	(2/28)
Not Yet Started / Allocated	1	3%	(1/28)

- 2.12 Annual performance indicators and associated targets were approved by the SIAS Board in March 2022. As at 17 February 2023, 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 17 February 2023	Actual to 17 February 2023
1. Annual Internal Audit Plan Delivery – the percentage of the Annual Internal Audit Plan delivered (excludes contingency)	95%	80% (210.5 / 263 days)	73% (191 / 263 days)
2. Project Delivery – the number of projects delivered to draft report	95%	68% (19 / 28 projects)	57% (16 / 28 projects)

stage against projects in the approved Annual Internal Audit Plan			
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at ‘satisfactory’ level	100%	100%	75% for those returned (4 returned from 11 issued)

- 2.13 Based on the position reported to the December 2022 FAR Committee meeting, it is important to note that significant progress on delivery of Planned Days and Project Delivery has been made in the intervening period. A number of draft and final reports have been issued, and fieldwork has commenced on another significant portion of internal audit projects.
- 2.14 In respect of delivery of Planned Days, performance is still behind the profiled target as it was anticipated that fieldwork would have been completed on the Safeguarding and Leisure Services audits originally scheduled for quarter one and two respectively, or further advanced on several of the internal audits scheduled for commencement in quarter three.
- 2.12 In terms of delivery of Planned Projects and based on original scheduling at the start of the financial year, it was anticipated that the Safeguarding and Leisure Services audits and at least one further audit would be at draft report stage.
- 2.13 The client satisfaction survey returned since the December FAR Committee, scored satisfactorily and improved the client satisfaction percentage above, albeit based on a small number returned.
- 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.

Service Update and Current Plan Delivery Position

- 2.15 As reported above and at the last FAR Committee meeting, SIAS are currently behind profile for both billable days and projects delivered to draft report status. In respect of the above, 2022/23 has been a significantly challenging year for SIAS in relation to recruitment and retention, with as many as 6 FTE vacancies (36% of the establishment) during earlier periods of the financial year. Whilst this has now reduced to 4.5 FTE (25% of the establishment), the specialist nature of Internal Audit means that SIAS are competing with the private sector to recruit to our higher-level roles, and this has proved

challenging given the pay constraints Local Authorities operate under. In respect of the remaining vacancies, a further recruitment campaign is currently in progress. The internal audit market remains challenging across all sectors, and SIAS's experience has been replicated elsewhere. Our recruitment of trainee auditors has been successful, however our 'grow your own' strategy is a medium to long term solution and does not resolve immediate capacity challenges.

- 2.16 As Committee Members will be aware, SIAS operates as a partnership. The resource gap within the partnership was previously reported to members as being 200 days. Whilst this would normally have been allocated to SIAS's external delivery partner (currently BDO), they reached their delivery and resourcing capacity for the financial year. SIAS therefore undertook a procurement process to commission additional external delivery partners for quarter four to assist in completion of the remaining projects. This led to the appointment of Veritau and Mazars, with three audit projects at North Herts Council being allocated across these providers.
- 2.17 It is also important to reiterate that the delivery profile is not straight line, with the profile often impacted not only by delivery capacity, but also by the required timing of some audits, or where council departments at both North Herts and / or other SIAS partners have requested later start dates for audits. This is outside the control of SIAS. When considering the current delivery position, it is important to note that any projects that have had specific key deadlines, such as grant certifications, advice, or support for projects, have been prioritised and agreed deadlines met.
- 2.18 Based on current resource availability (including our external partners), we can provide assurance to the Committee that all audits within the 2022/23 have been allocated for completion before the end of the financial year. However, should additional vacancies occur, SIAS experience significant staff sickness, or there are client engagement issues in relation to the timing or supporting the delivery of audits, there would be a risk to the overall delivery of the 2022/23 audit plan.
- 2.19 The above position is subject to continual monitoring, and we are currently satisfied that all available mitigating actions have been taken forward to manage the above risks, and that any uncompleted projects could be concluded during April 2023 to support the Annual Assurance Opinion if required. However, regular updates will be provided to both the Committee and the Council's Section 151 Officer as the remainder of the financial year progresses.

APPENDIX A – PROGRESS AGAINST THE 2022/23 INTERNAL AUDIT PLAN AS AT 17 FEBRUARY 2023

2022/23 SIAS Internal Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
High Priority Audits (81 days)									
Climate Emergency						12	BDO	11.5	Draft Report Issued
Waste Contract						6	SIAS	5.5	Draft Report Issued
Careline Operations	Reasonable	0	1	0	0	12	BDO	12	Final Report Issued
Procurement						12	SIAS	7	In Fieldwork
Risk and Performance Management						12	Veritau	5	In Fieldwork
Business Continuity Planning	Limited	0	1	2	0	15	BDO	15	Final Report Issued
Centros Financial System						12	BDO	4	In Fieldwork
Medium Priority Audits (82 days) – 9 audits nominated to date; minimum 8 to be delivered									
Handling Difficult Customers Policy	Substantial	0	0	0	0	10	SIAS	10	Final Report Issued
Compliance Contract	Reasonable	0	0	2	1	11	BDO	11	Final Report Issued
Revenues Discounts and Exemptions	Reasonable	0	0	1	2	8	SIAS	8	Final Report Issued
Leisure Services						11	BDO	2	ToR Issued
Project Management						8	SIAS	4	In Fieldwork
Temporary Accommodation						8	Veritau	3	In Fieldwork
Safeguarding						8	SIAS	2	ToR Issued
Parking Strategy						8	SIAS	0	Allocated
Community Lottery						10	Mazars	2	ToR Issued
IT Audits (35 days)									
Cyber Risk						15	BDO	13	In Fieldwork

APPENDIX A – PROGRESS AGAINST THE 2022/23 INTERNAL AUDIT PLAN AS AT 17 FEBRUARY 2023

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
Phishing						10	BDO	9.5	Draft Report Issued
IT Hardware						10	BDO	5	In Fieldwork
Consultancy and Advisory (5 days)									
Strategic Planning (Local Plan)						0	Mazars	0	Deferred to 2023/24
MSU Impact of Ways of Working						5	BDO	4.5	Draft Report Issued
Shared Learning and Joint Reviews (4 days)									
Shared Learning						2	SIAS	2	Ongoing through year
Joint Reviews						2	BDO	1	In Fieldwork
Grant Claims / Charity Certification (7 days)									
King George V Playing Fields	Unqualified					1	SIAS	1	Final Report Issued
Workman's Hall	Unqualified					1	SIAS	1	Final Report Issued
CCMF 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
Green Homes Grant (Park Homes) – LAD1B	Unqualified	0	0	0	0	2	SIAS	2	Final Report Issued
Contingency (7 days)									
Contingency						7			
Client Management - Strategic Support (38 days)									
CAE Internal Audit Opinion 2021/22						3	SIAS	3	Complete
Audit Committee						6	SIAS	6	Through Year
Client Meetings						8	SIAS	7	Through Year

APPENDIX A – PROGRESS AGAINST THE 2022/23 INTERNAL AUDIT PLAN AS AT 17 FEBRUARY 2023

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
Progress Monitoring						8	SIAS	7	Through Year
SIAS Development						5	SIAS	5	Through Year
2023/24 Audit Planning						8	SIAS	8	Q3/Q4
2021/22 Carry Forward - (11 days)									
Completion of outstanding 2021/22 projects						2		2	Complete
Future Ways of Working	Reasonable	0	0	4	3	9	BDO	9	Final Report Issued
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
HMRC Tax Guidance	N/A - Consultancy	0	0	0	0				Final Report Issued
Non-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	Reasonable	0	0	2	0				Final Report Issued
Total - North Herts D.C.		0	5	14	8	270		191	

APPENDIX A – PROGRESS AGAINST THE 2022/23 INTERNAL AUDIT PLAN AS AT 17 FEBRUARY 2023

Key / Notes

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

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

BDO = SIAS Audit Partner

N/a = Not Applicable

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

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

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
H	Careline Operations (Final Report Issued)	Waste Contract (Draft Report Issued)	Climate Emergency (Draft Report Issued)	Procurement (In Fieldwork)
		Business Continuity Planning (Final Report Issued)	Risk and Performance Management (In Fieldwork)	Centros Financial System (In Fieldwork)
M	A minimum of 8 medium priority audits from the following (please see paragraphs 2.4 and 2.5):			
	Safeguarding* (ToR Issued)	Community Lottery (ToR Issued) (Replacement for Strategic Planning (Local Plan))	Prudential Code Compliance	Apprenticeship Levy
	Annual Governance Statement	Green Space Strategy	Licensing Enforcement	Project Management* (In Fieldwork)
	Compliance Contract (Final Report Issued)	Leisure Services (ToR Issued)	Temporary Accommodation* (In Fieldwork)	Payroll – Contract Management
	Handling Difficult Customers Policy (Final Report Issued)	Revenues Discounts / Exemptions (Final Report Issued)	Covid-19 Recovery	HTH Museum and Operations
			Parking Strategy* (Allocated)	
IT		Phishing (Draft Report Issued)	Cyber Risk (In Fieldwork)	IT Hardware (In Fieldwork)
C		Impact of Ways of Working for MSU (Draft Report Issued)	Strategic Planning (Local Plan) (Audit deferred to 23/24)	
G/C		COMF Response (Final Report Issued)	Green Homes Grant (Park Homes) – LAD1B (Final Report Issued)	King George V Playing Fields (Final Report Issued)
		Test and Trace Payment Support (Final Report Issued)		Workman's Hall (Final Report Issued)

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

O	2021/22 C/F – Future Ways of Working (Final Report Issued)			
O	2021/22 C/F – Health and Safety of Lone Workers - EH and Housing (Final 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
Assurance Opinions	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.
	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.
	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.
	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.
	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.
Grant Certification	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.
	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.
	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.
	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 Levels		
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.

CABINET 14 March 2023
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PART 1 – PUBLIC DOCUMENT

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

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: SUSTAINABILITY

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 third quarter. The forecast variance is a £1.090million decrease in the net working budget of £18.056 million, with an ongoing impact in future years of a £35k increase and a request to carry forward budgets totalling £514k to fund specific projects in 2023/24. The forecast underspend variance in 2022/23 includes £389k of unspent budget that was approved to be carried forward when the 2023/24 revenue budget was approved by Council in February. All the significant component variances 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 8.3, a £1.090million decrease in net expenditure.
- 2.3. That Cabinet approves the changes to the 2023/24 General Fund budget, as identified in table 3 and paragraph 8.3, a total £549k increase in net expenditure.
- 2.4. That Cabinet approves the use of £140k of salary budget carry-forward for additional Service Director capacity for an 18- month period, and that the allocation of the remainder (if needed) will be delegated to the Managing Director (as Head of Paid Service), in consultation with the Leader, Deputy Leader and Executive Member for Finance and IT.

3. REASONS FOR RECOMMENDATIONS

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

4. ALTERNATIVE OPTIONS CONSIDERED

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

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

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

6. FORWARD PLAN

- 6.1. The report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 13th February 2023.

7. BACKGROUND

- 7.1. Council approved the revenue budget for 2022/23 of £18.198million in February 2022. As at the end of Quarter Two, the working budget has decreased to £17.786million. 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 budget changes approved by Cabinet (March 2022)	238
2021/22 Revenue Budget Outturn Report – 2022/23 budget changes approved by Cabinet (June 2022)	179
Quarter 1 2022/23 Revenue Monitoring report - 2022/23 variances approved by Cabinet (September 2022)	(559)
Quarter 2 2022/23 Revenue Monitoring report - 2022/23 variances approved by Cabinet (December 2022)	(270)
Current Working Budget	17,786

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

Table 2 – Service Directorate Budget Allocations

	Working Budget at Quarter Two	Changes approved at Quarter Two	Other Budget Transfers during Q3	Current Net Direct Working Budget
Service Directorate	£k	£k	£k	£k
Managing Director	1,252	(386)	(21)	845
Customers	4,389	(69)	9	4,329
Enterprise	(233)	27	33	(173)
Legal & Community	2,435	51	32	2,518
Place	5,510	(217)	(40)	5,253
Regulatory Services	1,981	302	2	2,285
Resources	2,722	22	(15)	2,729
TOTAL	18,056	(270)	0	17,786

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
Significant Variances Identified at Month 8				An additional budget review was carried out at the end of November 2022 (month 8). The significant current year variances identified were itemised and explained within the monitoring included in the Revenue Budget report 2023/24 presented to Cabinet in January. The ongoing impact and carry forward request values were included in the budget estimates for 2023/24 – 2027/28 recommended to Council for approval in February.		
Social Care Levy Central Contingency Budget	88	0	(88)	All the expenditure budget forecast to be unspent in respect of Electric Vehicle Charging Points, SPDs, Town Centre Strategies, Transport User Group Forum, Local Plan Post Adoption Review and Brexit Grant funded expenditure was requested to be carried forward into 2023/24.		
Electric Vehicle Charging Points	73	10	(63)			
Supplementary Planning Documents (SPDs)	167	0	(167)			
Town Centre Strategies	80	0	(80)			
Transport User Group Forum	47	1	(46)			
Local Plan Post Adoption Review	35	13	(22)			
Brexit Grant Funded Expenditure	12	1	(11)			
TOTAL	502	25	(477)			
Legal & Community Directorate Staffing Costs	1,805	1,775	(30)	<p>A significant forecast underspend variance against staffing in Legal & Community was also highlighted in the November monitoring. This estimate at the end of Quarter Three represents an update to the forecast at Month 8. The underspend is largely due to vacant posts in Democratic Services and Community Safety.</p> <p>See 'Regulatory Directorate Staffing Costs' underspend for carry-forward explanation.</p>	30	0

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2023/24 £k
Investment Interest Income	(1,126)	(1,277)	(151)	Investment interest rates have continued to rise during the quarter, with the Bank of England base rate increasing from 2.25% to 3.5% during the quarter. The average interest rate return on all outstanding investments at the end of Q3 therefore rose to 3.21%, compared to 2.16% at the end of Q2. The estimated ongoing impact was included in the revenue budget estimates presented to Council for approval in February.	0	0
Covid Contingency Budget	110	0	(110)	With no adverse impact evident on the demand for winter indoor events at Hitchin Town Hall, the remaining £110k of the central contingency budget, allocated in respect of Hitchin Town Hall income, is forecast to be unused.	0	0
Corporate Apprenticeship Scheme	347	247	(100)	A proportion of the underspend in the current year relates to several apprentices who moved into permanent roles before the end of their apprenticeships, while one apprentice left the Council mid-way through their apprenticeship. The number of apprenticeship placements has been increased to utilise the underspend accumulated and therefore it is requested that the unspent budget is carried forward to fund the cost of the additional placement contracts in next year.	100	0
Temporary Accommodation – Net Housing Benefit Expenditure	172	120	(52)	Forecast underspend variance mostly offsets the £83k overspend projected in the Quarter One monitoring report. While the forecast at Quarter One assumed some reduction in hotel usage during this year compared to the prior year, as the supply of supported housing options has increased, the actual numbers of homeless people accommodated in hotels this year has been even lower than projected. This has reduced the associated housing benefit subsidy loss, which occurs as Housing Benefit payments for temporary accommodation are not eligible for full reimbursement through Housing Benefit subsidy grant.	0	0
Enterprise Directorate Staffing Costs	1,012	939	(73)	Underspend reflects vacancies held in this year within the Enterprise Team and Estates Service. See 'Regulatory Directorate Staffing Costs' underspend for carry-forward explanation.	60	0

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2023/24 £k
Enterprise Team - Consultants	30	1	(29)	This investment budget was to support the appraisal of new opportunities as well as progressing existing projects. It has not been required to be used this year. As there is no permanent budget for this activity, it is requested that the unspent budget is carried forward to ensure resource is available to support projects in next year.	29	0
Bulky Waste Collection Service Income	(44)	(74)	(30)	The working budget is based on activity levels prior to the pandemic. The forecast variance therefore indicates the higher level of demand for the service experienced since the first lockdown, with forecast income only marginally lower than the actual (£85k) achieved in the prior financial year.	0	0
Income from paper recycling				Forecast income variances reflect the continued decline in the tonnages of paper collected for recycling. This is attributed to the relative decline in consumption of print media with more people consuming content digitally.		
Income from sale of paper	(179)	(163)	+16		0	16
Recycling credits income	(75)	(49)	+26		0	26
Net Total	(254)	(212)	+42		0	42
Commingle Recycling Haulage and Processing costs	40	356	+316	Amounts charged by the contractor for haulage and processing are net of the sale proceeds from the recycled materials collected (which can be a cost or can be income). Material prices fluctuate significantly with global market impacts. Based on prices achieved in the first part of the year, the original budget of £380k was reduced by £341k (a reduction in cost) at Quarter One. The net proceeds have however fallen substantially since then, most notably in respect of mixed card and paper.	0	0
AFM Funded Waste Minimisation Expenditure	123	92	(31)	Work is ongoing in relation to the waste procurement and some elements of legal and consultancy work have taken longer to complete than anticipated, hence impacting on spend. A carry forward is requested to fund the completion of this activity in the next financial year.	31	0
Planning Control Legal Fees	1	28	+27	Following the submission of a Judicial Review in respect of a planning application, the Council has come to an agreement with the relevant parties without the need for Court action. The forecast outturn relates to a payment associated with that agreement.	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
Regulatory Directorate Staffing Costs	1,616	1,376	(240)	<p>Underspend variance reflects the high level of turnover of staff during the year and the difficulty in filling vacancies. There have been several vacancies for more senior roles within the Directorate in the last quarter which has necessitated the use of agency staff. These posts are likely to continue to be vacant into quarters 1 and 2 of 2023/24 and, as such, agency cover will continue to be required at a significantly higher cost than the estimated cost of posts recorded on the establishment. Additional budget of £30k is therefore requested in 2023/24 only to cover the additional costs anticipated.</p> <p>The remaining underspend is requested to be carried forward, along with the Legal & Community staffing underspend of £30k and £60k of the Enterprise staffing underspend, giving a total of £300k. See paragraph 8.2 for further details.</p>	210	30
Parking Season Tickets Sales Income	(135)	(175)	(40)	Revised forecast at Quarter 3 is primarily due to a particularly large order for permits received in December. The recovery in sales activity since the pandemic restrictions were lifted has generally been very gradual, with the forecast income outturn of £175k representing a slower recovery than assumed in the calculation of the corresponding Covid contingency budget provision for 22/23.	0	0
On Street Parking Lines and Signs	53	23	(30)	There has been increased spend on this budget in this financial year in delivering an ongoing maintenance programme for the replacement of lines and signs as required across the district. The remainder of the budget was allocated towards funding the replacement and upgrading of the tariff boards associated with the installation of EV charging points across the council car parks and with the alternative methods of payment project. There has been a delay in both these projects due to the requirement for further feasibility work and having to follow the appropriate procurement process for the EV Charging points. It is therefore requested that the remainder of the budget is carried forward as it is expected to be spent in 2023/24 with the implementation of the two projects.	30	0

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2023/24 £k
Gas and Electricity Costs	316	289	(27)	Underspend reflects a lower level of actual energy consumption during the year than anticipated in the original budget, the calculation of which was made more difficult by the impact in the prior year of Covid-19 on the use of Council premises. The reduced consumption has a higher estimated financial impact in next year, as unit prices are expected to increase (the price increase is already incorporated in to the budget for 2023/24).	0	(43)
Repairs and Maintenance Expenditure	174	127	(47)	Approximately half of the forecast underspend is due to works being completed at lower cost than anticipated. Some of the works completed at lower cost is due to them being delivered in-house rather than through an external contractor. It will however not be possible to complete all planned maintenance works in 2022/23 and a carry forward of £24k is therefore requested to finance the cost of these works in the next financial year.	24	0
Total of explained variances	4,742	3,660	(1,082)		514	29
Other minor balances	13,044	13,036	(8)		0	6
Overall Total	17,786	16,696	(1,090)		514	35

8.2. At the Council budget meeting in February the following resolution was passed: "Council notes the staff resourcing issues that the Council faces, particularly in relation to planning and the strategic implementation of the Local Plan, and notes that Cabinet and the Head of Paid Service will look at options to make use of available resources (such as carry-forward of unspent salary budgets) to support the delivery of key Council functions and priorities." As identified in table 3 above, there are staffing underspends from this year of £300k that Cabinet is asked to approve to be carried forward. The use of this funding will focus on creating capacity to deliver existing Council priorities. That will include creating additional fixed-term capacity (around 18 months) at the Service Director level in Regulatory, to allow the current Service Director to focus on strategic Planning issues. Noting that the effective implementation of the Local Plan and supplementary planning documents, could lead to significant levels of planning income and improved planning obligation contributions. This will also help enable the work on town centre strategies. Including employer on-costs that would be around £140k (for 18 months). The remainder would only be used where it could be shown that additional short-term staffing resource could improve resilience, that contributes towards the achievement of existing Council priorities and projects. A small proportion may be used for an independent review of the Council's future senior management structure. As detailed in recommendation 2.4, the exact use of the budget will be delegated to the Managing Director, in consultation with the Leader, Deputy Leader and Executive Member for Finance and IT.

8.3. Cabinet are asked to approve the differences highlighted in the table above (a £1.090million decrease in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to approve the estimated impact on the 2023/24 budget of a £549k increase in budget, which includes the request to carry forward £514k of budget from 2022/23 to 2023/24 (recommendation 2.3).

8.4. The original approved budget for 2022/23 (and therefore working budget) included efficiencies totalling £606k, which were agreed by Council in February 2022. 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 forecast at Quarter Two was a net overachievement of £881k. The current forecast at the end of Quarter Three is a net overachievement of £1,046k. The increase of £165k since Quarter Two relates to:

- Increase of £151k in the overachievement of forecast interest income from investment of surplus cash balances, as itemised in table three above.
- £4k overachievement of the North Herts Lottery efficiency. In line with the business case, the proposal did not assume any surplus income in the current financial year. Forecast net income of £3k from the lottery was reported at Quarter Two, with a further £1k included in the 'other minor variances' total in table 3 above.
- £10k overachievement of the net income anticipated from the letting of land at Newark Close, Royston. The proposal had assumed some clean-up of the site would be required prior to letting to a new tenant but in the event the lease has been assigned to a new tenant without the Council incurring this additional cost. The saving is included in the 'other minor variances' total in table 3.

8.5. 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 Two, it was forecast that the £20k budget carried forward in respect of the Housing Stock condition survey would not be spent in this financial year. At Quarter Three it is forecast that £363k of the budget carried forward will not be spent. £317k of the increase in the forecast comprises unspent budget carried forward in respect of Electric Vehicle Charging Points (£53k), Supplementary Planning Documents (£167k), Town Centre Strategies (£40k), Transport User Group Forum (£46k) and Brexit Grant Funded Expenditure (£11k), for reasons explained in the month 8 monitoring presented within the Revenue Budget 2023/24 report. The remainder relates to;

- Parking Lines and Signs - £15k of the £38k budget carried forward will not be spent in this year, as explained in table three above, and is requested to be carried forward again to 2023/24.
- Repairs and Maintenance – £11k of the £49k carried forward for planned maintenance works is forecast to be unspent in this year, as highlighted in table 3 above, and is requested to be carried forward again to 2023/24.

All the other budgets carried forward are expected to be spent in this year.

8.6. 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.






8.7. At the end of Quarter Two, two of the indicators were green, one indicator was amber, and three of the indicators were red. At the end of Quarter Three, three of the indicators are green and three are red. The additional green indicator at Quarter 3 relates to income from parking PCNs. The change in status is due to the level of activity and income receipts recorded during quarter 3 exceeding original budget estimates for the quarter and hence indicating that the full year budget will be achieved.

Table 4 - Corporate financial health indicators

Indicator	Status	Original Budget £k	Actual to Date £k	Projected Outturn £k	Variance £k
Leisure Centres Management Fee	Red	(857)	(495)	(671)	186
Garden Waste Collection Service Subscriptions	Green	(1,139)	(1,631)	(1,223)	(84)
Commercial Refuse & Recycling Service Income	Green	(1,113)	(895)	(1,153)	(40)
Planning Application Fees (including fees for pre-application advice)	Red	(1,006)	(905)	(823)	183
Car Parking Fees	Red	(1,999)	(1,317)	(1,785)	214
Parking Penalty Charge Notices (PCNs)	Green	(573)	(432)	(573)	0

- 8.8. 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.

Table 5 - Corporate financial health indicators – activity drivers

Indicator	Activity Measure	Performance to Q3 2022/23	Performance to Q3 2021/22	Percentage Movement	Direction of Trend
Leisure Centres Management Fee	Number of Leisure Centre visits	1,083,908	612,373	+77.0%	
Garden Waste Collection Service	Number of bin subscriptions at end of quarter 3	27,920	26,899	+3.8%	
Commercial Refuse & Recycling Service	Number of customers	1,014	1,045	-3.0%	
Car Parking Fees	Car park tickets sold / average ticket price sold	855,931 / £1.63	817,931 / £1.56	+4.6% / +4.7%	
Parking Penalty Charge Notices	Number of PCNs issued	10,202	10,684	-4.5%	

FUNDING, RISK AND GENERAL FUND BALANCE

- 8.9. 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. In addition, on 6th February 2023 the Government announced the allocations for the distribution of the business rates levy account surplus, with North Herts Council eligible to receive £23k in 2022/23. This amount has been added to the forecast funding total in table 6 below.

- 8.10. Council Tax and Business Rates are accounted for in the Collection Fund rather than directly in our accounts, as we also collect them on behalf of other bodies. Each organisation has a share of the balance on the Collection Fund account. 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 in 2022/23.
- 8.11. The Council's share of the Council Tax Collection Fund is forecast to be a surplus balance of £138k at the end of the year. The surplus amount of £138k will be transferred from the Collection Fund to the General Fund in the next financial year and will therefore increase the amount of funding available in 2023/24, as was shown in Appendix C to the Revenue Budget 2023/24 report. Any difference between this estimate and the actual position recorded at the end of the financial year will affect the calculation of the surplus / deficit position for 2023/24 and therefore impact the level of Council Tax funding available in 2024/25.
- 8.12. At Quarter Two the forecast of the Council's share of the balance for 2022/23 in respect of the Business Rates Collection Fund was a surplus of around £0.5m, primarily due to lower levels of retail relief applied to rates bills this year than anticipated when estimates were prepared in January 2022. This forecast remains unchanged at Quarter Three, with a forecast surplus of £453k declared in the NNDR1 return submitted to Central Government in January 2023. Similar to the Council Tax Collection Fund, the surplus amount will be transferred to the General Fund in the next financial year and any difference with the final outturn will affect the following year's surplus / deficit position. The transfer of the surplus next year will reduce the contribution required from the grant held in earmarked reserve (paragraph 8.13 refers) to ensure the business rates income amount charged to the General Fund in 2023/24 is in line with the amounts declared in the NNDR1 return.
- 8.13. 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. With the value dependent on the actual level of business rates income collected across the Hertfordshire authorities, the contribution to the pool required for 2022/23 will not be known until all the pool authorities have declared their business rates income to government after the end of the financial year. In any case, the contribution will be funded from the grant held in earmarked reserve and therefore will have a net zero impact on the General Fund balance at the end of the year.
- 8.14. 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 6 below. The rest of the grant received will be held in reserve to fund the repayment of business rate collection fund deficits recorded. Some of the amount held in reserve will therefore be used to fund the £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.

- 8.15. The Council is also eligible to retain further section 31 grant funding relating to the impact of the Covid-19 Additional Relief Fund (CARF). The scheme has awarded reliefs against chargeable business rates amounts for 2021/22 totalling £1.16m, of which the Council's share is 40% (£466k). The cost of the reliefs awarded through the fund is included in [has reduced] the estimated surplus position referred to in paragraph 8.12 above. The compensating grant (£466k) will be charged to the General Fund in this financial year. We would usually transfer the grant to a reserve to cover any future shortfalls. However, as a provision was made in the 2021/22 accounts for the non-collection of outstanding arrears, against which the CARF reliefs have been applied, it is unlikely that there will be a future impact. This will be confirmed as part of the year end collection fund calculations, including calculating the provision for bad debt. It is reasonably likely that the impact will be an increase in the year end General Fund balance of around £466k (compared with the current forecast shown in table 6 below).
- 8.16. 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. The budget provision has now been fully allocated, with £1.190m used to mitigate forecast adverse variances reported at Quarter One and a further £550k forecast to be unused.
- 8.17. Table 6 below summarises the impact on the General Fund balance of the position at Quarter Three detailed in this report and includes the planned transfer of the mausoleum earmarked reserve back to the General Fund, as there is no longer the demand to justify building new niches, following the Cabinet discussion of the Revenue Budget 2023/24 report presented to Council in February.

Table 6 – General Fund impact

	Working Budget	Projected Outturn	Difference
	£k	£k	£k
Brought Forward balance (1st April 2022)	(10,607)	(10,607)	-
Net Expenditure	17,786	16,696	(1,090)
Funding (Council Tax, Business Rates, NHB, Lower Tier Services Grant, 2022/23 Services Grant, Business Rates Levy Surplus)	(15,820)	(15,843)	(23)
Release of the balance held in the earmarked Special Reserve	(640)	(640)	0
Release of Cemetery Mausoleum earmarked reserve	0	(175)	(175)
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)	(9,824)	(11,112)	(1,288)

- 8.18. The minimum level of General Fund balance is determined based on known and unknown risks. Known risks are those things that we think could happen and we can forecast both a potential cost if they happen, and percentage likelihood. The notional amount is based on multiplying the cost by the potential likelihood. The notional amount for unknown risks is based on 5% of net expenditure. There is not an actual budget set aside for either of these risk types so, when they occur, they are reflected as budget variances (see table 3). We monitor the level of known risks that actually happen, as it highlights whether there might be further variances. This would be likely if a number of risks come to fruition during the early part of the year. We also use this monitoring to inform the assessment of risks in future years. The notional amount calculated at the

start of the year for known risks was £1,808k, and at the end of the third quarter a total of £429k has come to fruition. The identified risks realised in the third quarter relate to:

- Increase in the net cost of recycling services; £42k paper recycling (as highlighted in table 3 above) and £16k increase in the net cost of commingled recycling due to a reduction in the volume of recyclates collected (included within the 'other minor variances total' in table 3) - £58k
- Costs associated with a challenge to a decision of the Council in respect of a planning application (as highlighted in table 3 above) - £27k.

Table 7 – Known financial risks

	£'000
Original allowance for known financial risks	1,808
Known financial risks realised in Quarter 1	(41)
Known financial risks realised in Quarter 2	(303)
Known financial risks realised in Quarter 3	(85)
Remaining allowance for known financial risks	1,379

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

- 17.1. Antonio Ciampa, Accountancy Manager
antonio.ciampa@north-herts.gov.uk; ext 4566
- 17.2. Jodie Penfold, Group Accountant
jodie.penfold@north-herts.gov.uk; ext 4332
- 17.3. Ian Couper, Service Director – Resources
ian.couper@north-herts.gov.uk; ext 4243
- 17.4. Rebecca Webb, Human Resources Services Manager
rebecca.webb@north-herts.gov.uk; ext 4481
- 17.5. Isabelle Alajooz, Legal Commercial Team Manager
isabelle.alajooz@north-herts.gov.uk; ext 4346
- 17.6. Reuben Ayavoo, Policy and Communities Manager
reuben.ayavoo@north-herts.gov.uk; ext 4212

18. BACKGROUND PAPERS

- 18.1. None.

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CABINET
14 March 2023

***PART 1 – PUBLIC DOCUMENT**

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

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T.

COUNCIL PRIORITY: SUSTAINABILITY

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 December 2022.
- 1.2 To update Cabinet on the impact upon the approved capital programme for 2022/23 – 2032/33. The current estimate is a decrease in spend in 2022/23 of £1.490M and an increase in spend in 2023/24 of £1.554M. The most significant individual changes decreasing the spend in 2022/23 relate to £0.278M Cycle Strategy Implementation, £0.250M Transport Plans Implementation, £0.235M Parking Charging Payments Management and £0.201M Off-street Parking Resurfacing which have been reprofiled into 2023/24.
- 1.3 To inform Cabinet of the Treasury Management activities in the first nine months of 2022/23. The current forecast is that the amount of investment interest expected to be generated during the year is £1.277M. This is an increase of £0.151M on the estimate reported in the 2nd quarter report.

2 RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of £8.370M 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 £1.554M.
- 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 December 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 regular updates and 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 13th February 2023.

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 2032/33 and the funding source for each capital scheme.
- 8.3 Capital expenditure for 2022/23 is estimated to be **£8.370M**. This is a decrease of **£1.490M** on the forecast in the 2nd quarter report (reported to Cabinet on 13th December 2022). The decrease in spend in 2022/23 is largely due to 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 2032/33 £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 Fund Interventions (two separate projects at £50k and £10k each)	0.060	0	0
Changes at Q1	-1.520	2.048	0

	2022/23 £M	2023/24 £M	2024/25 to 2032/33 £M
Full Council approved additional Expenditure – NHLC Soft Play	0.250	-0.100	0
Executive Member – Finance and I.T. approved additional Expenditure - Gum Gun	0.038	0	0
Changes at Q2	-2.725	0.861	2.000
Full Council 23/24 Budget	0.045	0.184	3.740
Executive Member – Finance and I.T. approved additional Expenditure – Bancroft Café Kiosk	0.020	0	0
Executive Member – Finance and I.T. approved additional Expenditure – Careline Laptops	0.030	0	0
Changes at Q3	-1.540	1.554	0
Current Capital Estimates	8.370	10.069	23.051

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

Table 2: Scheme Timetable Revision:

(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
Cycle Strategy Implementation	278	0	-278	Currently working in partnership with HCC in preparing a Local Cycling Walking & Infrastructure Plan (LCWIP) which was due for completion this financial year. However due to the high number of consultation responses, further work is required by HCC in reviewing them. Adoption of the LCWIP will not be until autumn 2023. The LCWIP should identify possible schemes that could be part funded from this budget, but these are not likely to occur until late 2023/24.	278

Scheme	2022/23 Working Budget £'000	2022/23 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2023/24 onwards £'000
Transport Plans Implementation	250	0	-250	Following the prolonged Examination process, adoption of the Local Plan only occurred in Nov 2022, as such, work has only recently commenced on the preparation of Supplementary Planning Documents including sustainable transport measures. These are to be completed in 2023/24 which may identify possible schemes that could be part funded from this budget.	250
Parking Charging Payments Management	235	0	-235	This year a detailed feasibility study on alternative methods of payment options has been undertaken. Officers will now be progressing with a detailed procurement exercise to undertake a trial/phasing exercise for new parking machines/technologies to be installed within various car parks commencing in the next financial year.	235
Off Street Car Parks Resurfacing	209	8	-201	Following a resurvey of the car parks some re-profiling of the required planned works has enabled some works to be carried out later than previously expected.	201
Green Infrastructure Implementation	185	0	-185	Following the prolonged Examination process, adoption of the Local Plan only occurred in Nov 2022, as such, work has only recently commenced on the preparation of a Green Infrastructure Supplementary Planning Documents to be completed in 2023/24 which may identify possible schemes that could be part funded from this budget.	185

Scheme	2022/23 Working Budget £'000	2022/23 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2023/24 onwards £'000
Lairage Multistorey Car Park Structural Repairs	114	0	-114	Due to resourcing issues experienced by a third party engaged to tender and manage the works, it's been necessary to find an alternative supplier. A new Quantity Surveyor has been engaged to manage this project and the works will be completed in 2023/24.	114
Match Funding Electric Vehicle Charging	100	0	-100	The procurement exercise in appointing an EV ChargePoint supplier is near completion as is the submission for Govt grant funding. Subject to a successful bid and grant funding still being available the implementation of EV Charge points across NHC car parks will commence next financial year.	100
Royston Leisure Centre Solar Thermal Installation	70	3	-67	Revised project completion date of June 2023 (original due date was 31 March 2023). This is due to undertaking a second procurement exercise. The actual date will be dependent on lead in time for solar panels and project plan from appointed contractor	67
Install On-Street Charging	50	0	-50	This project has been put on hold while undertaking a detailed feasibility study on alternative methods of payment which links in with the overall Parking Charging Payments Management System.	50

Scheme	2022/23 Working Budget £'000	2022/23 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2023/24 onwards £'000
Museum Services Development	48	0	-48	The remaining budget remains earmarked for the introduction of year round use of one of the external spaces of the museum. The exact design has yet to be settled upon due to complexities with the design of the area and the fabric of the structure surrounding this space, however Officers remain optimistic of finding a suitable solution to this in 2023/24	48
Other minor changes			-35		34
Total Revision to Budget Profile			-1.563		1.563

8.5 There are also changes to the overall costs of schemes in 2022/23. These changes total a net increase of £0.023million and are detailed in Table 3

Table 3: Changes to Capital Schemes Commencing in 2022/23:

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

Scheme	2022/23 Working Budget £'000	2022/23 Forecast Spend £'000	Difference £'000	Comments
S106 Projects	177	220	+43	To date, a total of £220k of S106 funds have been released for community schemes.
North Herts Museum Platform Lift	40	0	-40	Due to various more minor works conducted to address the defects of the existing lifts, these now appear to be running more reliably and therefore the budget identified to fully replace these lifts is deemed to no longer be required
Other minor changes			+20	
Total revision to scheme spend			+23	

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 Set-aside Receipts	7.643	5.578	(7.626)	5.595
S106 receipts			(0.301)	
Other third party grants and contributions			(0.443)	
IT Reserve / Revenue			0	
Planned Borrowing			0	
Total			(8.370)	

- 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 £4.45M. 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 nine months, the Council had an average investment balance of £60.0M 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.
- 8.11 The Council generated £0.743M of interest during the first nine months of 2022/23. The average interest rate on all outstanding investments at the 31st December was 3.21%. (30th September it was 2.16%). 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 £1.277M of interest over the whole of 2022/23.

- 8.12 As at 31st December 2022 the split of investments was as shown in the table below. The high level of balances with the Debt Management Office (DMO) reflects the higher rates they paid during the quarter compared to Building Societies and other Local Authorities.

Banks	25%
Building Societies	18%
Government	49%
Local Authorities	8%

- 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 31st December 2022. The most risky investment has a historic risk of default of 0.017%. 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 31 Dec	Historic Risk of Default %
DMO (Government)	1.0	3.185	AA-	3	0.000
DMO (Government)	3.0	3.04	AA-	13	0.001
DMO (Government)	2.0	2.33	AA-	18	0.001
DMO (Government)	6.0	2.815	AA-	18	0.001
Nat West	2.0	2.8	A+	20	0.003
Yorkshire Bldg Soc	2.0	2.2	A-	34	0.004
Leeds Bldg Soc	3.0	2.98	A-	37	0.005
DMO (Government)	3.0	3.13	AA-	47	0.003
DMO (Government)	6.0	3.025	AA-	47	0.003
Australia & New Zealand Bank	1.0	2.72	A+	48	0.006
Nat West	2.0	3.0	A+	51	0.006
Coventry Bldg Soc	1.0	3.07	A-	65	0.008
DMO (Government)	2.0	3.4	AA-	65	0.004
Leeds Bldg Soc	1.0	3.16	A-	67	0.008
Leeds Bldg Soc	1.0	3.16	A-	74	0.009
Nat West	1.0	3.2	A+	74	0.009
DMO (Government)	7.0	3.19	AA-	76	0.005
Santander UK	1.0	3.53	A	76	0.010
Australia & New Zealand Bank	2.0	3.43	A+	79	0.010
Santander UK	1.0	3.74	A	79	0.010
Santander UK	1.0	3.52	A	79	0.010
Santander UK	1.0	3.59	A	86	0.011
Santander UK	1.0	3.62	A	90	0.011
Yorkshire Bldg Soc	3.0	3.6	A-	107	0.014

Borrower	Principal Invested £M	Interest Rate %	Credit Rating	Days to Maturity at 31 Dec	Historic Risk of Default %
Australia & New Zealand Bank	2.0	4.14	A+	135	0.017
Worcestershire County Council	5.0	3.85	AA-	173	0.011
	61.0	3.21			

DMO credit rating is 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 £4.4M higher than the budgeted £41.5M. 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.
- 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 £40k 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 £4.45M.

- 10.4 The Council also aims to ensure that the level of planned capital spending in any one year matches the capacity of the organisation to deliver the schemes to ensure that the impact on the revenue budget of loss of cash-flow investment income is minimised.

11. RISK IMPLICATIONS

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

12. EQUALITIES IMPLICATIONS

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

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

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

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

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

18. BACKGROUND PAPERS

18.1 Investment Strategy (Integrated Capital and Treasury Strategy)
<https://srvmodgov01.north-herts.gov.uk/documents/s18463/INVESTMENT%20STRATEGY%20INTEGRATED%20CAPITAL%20AND%20TREASURY.pdf>
<https://srvmodgov01.north-herts.gov.uk/documents/s18464/Final2%20Cabinet%20Appendix%20A-%20Integrated%20Capital%20and%20Treasury%20Strategy.docx.pdf>

Project	Service Directorate	Spend / Forecast Spend							Funding				
		2022/23 Funding £	2023/24 Funding £	2024/25 Funding £	2025/26 Funding £	2026/27 Funding £	2027/28 Funding £	2028/29 - 2032/33 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	16,500	12,000	0	14,000	0	0	16,000	0	0	0	0	58,500
Access Burymean Road	Enterprise	500	0	0	0	0	0	0	0	0	0	0	500
Acquisition of Churchgate	Enterprise	4,214,000	0	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	0	19,000	0	0	0	0	31,900
Avenue Park Floodlights	Place	14,000	0	0	0	0	0	0	0	0	0	0	14,000
Avenue Park Splash Park	Place	0	70,000	0	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	0	25,000
Baldock Town Hall project	Legal and Community	1,500	4,100	0	0	0	0	0	0	0	0	0	5,600
Bancroft & Priory Splash Pads	Place	0	0	35,000	0	0	0	0	0	0	0	0	35,000
Bancroft Cafe Kiosk	Enterprise	20,000	0	0	0	0	0	0	0	0	0	0	20,000
Bancroft Lighting	Place	0	45,000	0	0	0	0	0	0	0	0	0	45,000
BEIS Park Homes Insulation	Regulatory	341,100	0	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	0	30,000
Cabinet Switches - 4 Floors	Customers	18,000	0	0	0	0	0	0	0	0	0	0	18,000
Cadcorp Local Knowledge & Notice Board Software	Customers	5,400	0	0	0	0	0	0	0	0	0	200	5,200
Careline Laptops	Customers	30,000	0	0	0	0	0	0	0	0	0	0	30,000
Careline Servers	Customers	3,800	0	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	0	20,000
CCTV Replacement	Customers	0	150,000	0	0	0	0	0	0	0	0	0	150,000
Charwood House	Enterprise	0	50,000	350,000	0	0	0	0	0	0	0	0	400,000
Conference Calling Solutions in Large Meeting Room	Customers	13,000	0	0	0	0	0	0	0	0	0	0	13,000
Council property improvements following condition survey	Resources	300,000	303,700	0	0	0	0	0	0	0	0	0	603,700
Cyber Attacks - Events Monitoring Software Solution	Customers	9,100	0	0	0	0	0	0	0	0	0	0	9,100
Cycle Strategy implementation (GAF)	Regulatory	0	278,000	0	0	0	0	0	0	278,000	0	0	0
Data Switch Upgrade	Customers	15,000	0	0	0	0	0	0	0	0	0	0	15,000
DCO Electric Vehicle Charges	Resources	16,100	0	0	0	0	0	0	0	0	0	0	16,100
DR Hardware Refresh Inc UPS Battery Pk (unit 3)	Customers	0	0	0	55,000	0	0	0	0	0	0	0	55,000
Email Encryption Software Solution	Customers	40,400	0	0	0	0	0	0	0	0	0	0	40,400
Enhancements to Hitchin Swim Centre facility	Place	0	65,000	0	0	0	0	0	0	0	0	0	65,000
Environmental Improvements	Place	187,500	0	0	0	0	0	0	0	0	0	0	187,500
Former Public Convenience Portmill Lane	Enterprise	0	25,000	0	0	0	0	0	0	0	0	0	25,000
Great Ashby District Park safety and security	Place	12,500	0	0	0	0	0	0	0	0	0	0	12,500
Green Infrastructure implementation (GAF)	Regulatory	0	185,000	0	0	0	0	0	0	185,000	0	0	0
Grounds Maintenance Vehicles & Machinery	Resources	0	315,000	0	0	0	0	0	0	0	0	0	315,000
Gum Gun	Place	38,000	0	0	0	0	0	0	0	0	0	0	38,000
Hitchin Lairage car park - cosmetic coating to four stairwells and replacement windows and doors	Resources	0	75,000	0	0	0	0	0	0	0	0	0	75,000
Hitchin Swim Centre Boiler Replacement	Place	0	0	200,000	0	0	0	0	0	0	0	0	200,000
Hitchin Swim Centre Outdoor Pool Boiler Replacement	Place	56,200	0	0	0	0	0	0	0	0	0	0	56,200
Hitchin Swim Centre Outdoor Pool Cover Replacement	Place	0	0	0	0	30,000	0	0	0	0	0	0	30,000

Project	Service Directorate	Spend / Forecast Spend							Funding				
		2022/23 Funding £	2023/24 Funding £	2024/25 Funding £	2025/26 Funding £	2026/27 Funding £	2027/28 Funding £	2028/29 - 2032/33 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
Norton Common Letchworth Tennis Courts	Place	0	25,000	0	0	0	0	0	0	0	0	0	25,000
Off Street Car Parks resurfacing and enhancement	Resources	8,000	209,400	0	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	0	20,000
Oughtonhead Common Hitchin Weir	Place	0	400,000	0	0	0	0	0	0	0	0	0	400,000
Oughtonhead Common Signage and Interpretation	Place	0	10,000	0	0	0	0	0	0	0	0	0	10,000
Parking Charging, Payments & Management	Regulatory	0	235,000	0	0	0	0	0	0	0	0	0	235,000
Parking Machines Replacement	Regulatory	0	150,000	150,000	0	0	0	0	0	0	0	0	300,000
Parking Machines Upgrade - Contactless Payment Facility Installation	Regulatory	56,000	0	0	0	0	0	0	0	42,000	0	0	14,000
PC's - Refresh Programme	Customers	9,300	7,000	13,000	7,000	8,000	5,000	21,000	0	0	0	0	70,300
Playground Renovation District Wide	Place	427,300	180,000	180,000	180,000	180,000	180,000	900,000	0	0	81,000	0	2,146,300
Private Sector Grants	Regulatory	119,600	60,000	60,000	60,000	60,000	60,000	180,000	0	0	0	0	599,600
Provide housing at market rents.	Enterprise	49,200	2,500	0	0	0	0	0	0	0	0	0	51,700
Ransoms Rec Footpaths, Gates and Railing	Place	10,000	20,000	0	0	0	0	0	0	0	0	0	30,000
Refurbishment and improvement of community facilities	Legal and Community	193,800	0	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	0	4,200
Refuse and Recycling Bins	Place	135,000	135,000	90,000	90,000	90,000	90,000	360,000	0	0	0	0	990,000
Remote testing equipment - Emergency Lights and Water Temperature Monitoring	Resources	0	0	13,000	0	0	0	0	0	0	0	0	13,000
Renovate play area Howard Park, Letchworth	Place	6,400	0	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	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	0	60,000
Replace items of play equipment Holroyd Cres, Baldock	Place	300	0	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	0	300
Replacement of Newark Close, Royston	Enterprise	0	65,000	0	0	0	0	0	0	0	0	0	65,000
Replacement of the timber access bridge at Norton Common	Place	0	75,000	0	0	0	0	0	0	0	0	0	75,000
Resurface Lairage Car Park	Resources	3,700	346,300	0	0	0	0	0	0	0	0	0	350,000
Riverside walkway, Biggin Lane	Place	53,000	0	0	0	0	0	0	0	0	0	0	53,000
RLC change village refurbishment – replacement of cubicles, lockers, vanity area and group change.	Place	0	0	150,000	0	0	0	0	0	0	0	0	150,000
RLC swim showers and change village toilet refurbishment	Place	0	75,000	0	0	0	0	0	0	0	0	0	75,000
Royston Leisure Centre Boiler Replacement	Place	0	0	0	0	0	100,000	0	0	0	0	0	100,000
Royston Leisure Centre Changing Village Refurbishment	Place	0	0	0	0	0	0	0	0	0	0	0	0
Royston Leisure Centre Dry Side Toilet Refurbishment	Place	0	0	0	30,000	0	0	0	0	0	0	0	30,000
Royston Leisure Centre extension	Place	0	0	0	1,000,000	0	0	0	0	0	168,000	0	832,000
Royston Leisure Centre Fitness Equipment Replacement	Place	0	0	0	0	150,000	0	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	0	50,000

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Royston Leisure Centre Members Changing Refurbishment	Place	0	0	150,000	0	0	0	0	0	0	0	0	150,000
Royston Leisure Centre Solar Thermal Installation	Place	2,600	67,400	0	0	0	0	0	0	0	0	0	70,000
S106 Projects	Various	220,000	0	0	0	0	0	0	0	0	220,000	0	0
Security - Firewalls	Customers	20,500	0	16,000	0	18,000	0	18,000	0	0	0	0	72,500
Shared Prosperity Fund Community and Place Intervention: Community Engagement Schemes	Enterprise	0	0	163,000	0	0	0	0	0	163,000	0	0	0
Shared Prosperity Fund Community and Place Intervention: Creation of and improvements to local green spaces	Enterprise	0	20,000	100,000	0	0	0	0	0	120,000	0	0	0
Shared Prosperity Fund Community and Place Intervention: Local sports facilities, tournaments, teams and leagues	Resources	0	100,000	100,000	0	0	0	0	0	200,000	0	0	0
Shared Prosperity Fund Community and Place Interventions	Resources	60,000	0	0	0	0	0	0	0	60,000	0	0	0
Solar PV installation at Hitchin Swim Centre	Place	0	142,000	0	0	0	0	0	0	0	0	0	142,000
Solar PV installation at North Herts Leisure Centre	Place	0	338,000	0	0	0	0	0	0	0	0	0	338,000
Solar PV installation at Royston Leisure Centre	Place	0	241,000	0	0	0	0	0	0	0	0	0	241,000
St John's Cemetery Footpath	Place	0	0	40,000	0	0	0	0	0	0	0	0	40,000
Swinburne Recreation Ground Hitchin	Place	0	30,000	0	0	0	0	0	0	0	0	0	30,000
Tablets - Android Devices	Customers	16,700	10,000	10,000	10,000	10,000	4,000	16,000	0	0	0	0	76,700
Telephony system	Customers	6,900	0	0	0	0	0	0	0	0	0	0	6,900
Thomas Bellamy House, Hitchin	Enterprise	65,000	0	0	0	0	0	0	0	0	0	0	65,000
Transport Plans implementation (GAF)	Regulatory	0	250,000	0	0	0	0	0	0	250,000	0	0	0
Walsworth Common Pavilion - contribution to scheme	Place	0	300,000	0	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	0	3,200,000	800,000
Weston Hills Baldock	Place	0	20,000	0	0	0	0	0	0	0	0	0	20,000
Weston Hills LNR Footpath Renovation	Place	0	20,000	0	0	0	0	0	0	0	0	0	20,000
WiFi Upgrade	Customers	0	0	0	40,000	0	0	0	0	0	0	0	40,000
Wilbury Hills Cemetery Footpaths	Place	1,300	15,300	10,000	0	30,000	0	0	0	0	0	0	56,600

8,370,000	10,069,800	7,427,000	9,784,000	1,311,000	622,000	3,907,000	298,300	2,232,100	776,400	3,200,200	34,983,800
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Treasury Management Update

Quarterly report
31st December 2022

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

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Treasury Management Update

Quarter Ended 31st December 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 third quarter of 2022/23 saw:
 - A 0.5% m/m rise in GDP in October, mostly driven by the reversal of bank holiday effects;
 - Signs of economic activity losing momentum as households increased their savings;
 - CPI inflation fall to 10.7% in November after peaking at 11.1% in October;
 - A small loosening in the labour market which pushed the unemployment rate up to 3.7% in October;
 - Interest rates rise by 125bps over Q4 2022, taking Bank Rate to 3.50%;
 - Reduced volatility in UK financial markets but a waning in global risk appetite.
- GDP fell by 0.3% q/q in Q3 2022 (ending 30th September), which probably marked the start of the UK recession. About half of that decline was the effects of the extra bank holiday in September for the Queen's funeral. The unwinding of those bank holiday effects meant that GDP rebounded in October and explained at least 0.3 percentage points (ppts) of the 0.5% m/m rise. Accordingly, if GDP were to avoid falls of more than 0.2% m/m in November and December, then GDP over Q4 as a whole could avoid a contraction, which would prevent a recession in 2022.
- However, at 49.0 in December, the flash composite activity PMI stayed below the "boom-bust" level of 50 and pointed to a small 0.1% q/q contraction in GDP in Q4. Consumer confidence was -42 in December and stayed close to its record low of -49 in September. Strike action could be another small drag and may mean that GDP is 0.0% to 0.5% lower than otherwise in December. GDP is projected to contract marginally in Q4 by around 0.1% q/q.
- Meanwhile, the 0.4% m/m fall in retail sales volumes in November only reversed some of the 0.9% m/m rise in October. That left sales volumes 4.5% below their level at the start of the year. Indeed, the rise in the household saving rate from 6.7% in Q2 to 9.0% in Q3 implied that higher interest rates are encouraging households to save more. And a larger-than-usual £6.2bn rise in cash in household bank accounts in October may imply households have started to increase their precautionary savings.
- There were signs that the labour market was loosening gradually going into the final quarter of 2022. Although employment in the three months to October rose by 27,000, the fall in the composite PMI employment balance in December took it into contractionary territory and suggests that labour demand will cool. Meanwhile, labour supply improved as inactivity fell by 76,000 in the three months to October. That helped drive a rise in the unemployment rate from 3.6% in September to 3.7% in October. The number of job vacancies in November fell for the sixth consecutive month and were 18% below their peak in May.
- Crucially, though, wage growth remained resilient. Average earnings growth, excluding bonuses, grew by 0.7% m/m in October, above the 2022 monthly average of 0.5% m/m. That drove the 3myy rate up to 6.2%, well above the rates of 3-3.5% consistent with inflation at its 2% target. Wage growth is likely to slow gradually in the coming months as the labour market loosens further but if extensive strike action is successful in achieving large pay increases, then wage growth could be a bit stronger for longer.
- CPI inflation peaked in October at a 41-year high of 11.1% and fell to 10.7% in November. Goods price inflation, which is driven largely by global factors, has peaked. The sharp rises in energy prices in 2022 mean that energy price inflation will fall sharply in 2023. Meanwhile, the large fall in agricultural prices since May means that food price inflation should start to decline soon. What's more, upward pressure on goods price inflation from global supply shortages is fading quickly.

- Domestic inflation pressures also eased in Q4. The 0.2% m/m rise in core CPI inflation in November was the smallest monthly gain since August 2020 and drove a fall in core CPI inflation from 6.5% in October to 6.3% in November. Services CPI inflation was stable at 6.3% in November despite the resilience of wage growth. And the easing of price expectations in the Bank of England's Decision Maker Panel survey in November suggests that inflation may become less persistent.
- The Chancellor's Autumn Statement on 17th November succeeded in restoring the government's fiscal credibility in the eyes of the financial markets without deepening the recession. The total fiscal consolidation package of £54.9bn (1.8% of GDP) in 2027/28 made the outlook for fiscal policy much tighter than at the beginning of Q4. The package was heavily backloaded, with net handouts of £3.8bn (0.15% of GDP) in 2023/24 and £0.3bn (0.01% of GDP) in 2024/25, and most of the tightening kicking in after 2024/25. The largest fiscal support was the extension of the Energy Price Guarantee for another 12 months, until April 2024, although at a higher price cap of £3,000 from April 2023 rather than £2,500. At the same time, Chancellor Hunt loosened the fiscal rules by requiring debt as a percentage of GDP to be falling in five years' time, rather than three. The Office of Budget Responsibility (OBR) estimated that the Chancellor will meet this new rule with a slim £9.2bn (0.3% of GDP) to spare.
- With fiscal policy now doing much less to fan domestic inflation pressures, we think Bank Rate will peak at 4.50%, or at least close to that figure. Despite stepping up the pace of policy tightening to a 75-basis point (bps) rate hike in November, taking Bank Rate from 2.25% to 3.00%, the MPC's communication was dovish. The MPC pushed back heavily against market rate expectations, which at the time were for Bank Rate to peak at 5.25%. The Bank's new forecasts predicted a deeper and longer recession than the analyst consensus, of eight quarters and with a peak-to-trough fall in real GDP of 2.9%.
- The Bank sounded dovish again in December when it slowed the pace of tightening with a 50bps rate rise, from 3.00% to 3.50%. Two members, Dhingra and Tenreyro, voted to leave rates unchanged, judging that the current level of Bank Rate was sufficient to bring inflation back to target. That said, the rest of the MPC appeared to suggest that further rate hikes would be necessary. We expect that the majority of the MPC will need to see stronger signs that activity is slowing, the labour market is loosening, and wage growth is slowing before stopping rate rises. As such, we expect that the MPC will deliver three further rate hikes in February, March and May, taking Bank Rate to a peak of 4.50% but with the pace of increase reducing to 25bps in March and May.
- Gilt yields have fallen sharply since their highs following the "mini-budget" on 23rd September as government fiscal credibility has been largely restored with the resignation of Truss-Kwarteng and the fiscal consolidation package announced at the Autumn Statement on 17th November. Indeed, the 10-year yield fell from a peak of 4.55% to about 3.60% now, while the 30-year yield fell from 5.10% to 3.90%. Admittedly, yields rose by around 50bps in December, partially on the back of a global rise in yields. But if we are right in thinking Bank Rate will fall back in 2024 and 2025 then gilt yields will probably fall over the next two years, with the 10-year yield slipping from around 3.60% now to 3.30% by the end of 2023 and to 2.80% by the end of 2024.
- Lower volatility in gilt markets in Q4 meant that the Bank of England was able to stop its purchases of long-term gilts for financial stability reasons as planned on 14th October. It was also able to begin active gilt sales in November, albeit with a focus on shorter dated gilts. So far quantitative tightening has had little influence on short-term money markets. But as it is still an experiment, the risk of a widespread tightening in financial conditions remains.
- The restoration of fiscal credibility boosted the pound and the FTSE 100 early in Q4. While much of the benefit passed in the first half of Q4, sterling continued to rally against a softer dollar. Our colleagues at Capital Economics do not think that the global recession is fully priced into markets, and so expect a further fall in risk appetite to boost safe haven demand for the dollar and weigh on the pound. They are expecting the pound to fall from \$1.19 now to \$1.10 in mid-2023, before climbing to \$1.15 by the end of 2023 as the prospect of lower interest rates and a recovery in global economic growth buoys equity prices.
- Through December, the rally in the FTSE 100 petered out as investors have become increasingly concerned by the prospect of a global recession. However, the relatively dovish tone of the Bank of England, compared to the Federal Reserve and the ECB meant that UK equities held up better than other developed market indices. Indeed, at 7,452 at the December month end, the FTSE 100 is only marginally below its peak of 7,568 on 5th December, while the S&P 500 is around 4% lower over the same period. Nevertheless, there is a great deal of uncertainty as to which direction markets will move in 2023 and at what pace. Continued volatility is anticipated.

MPC meetings 3rd November and 15th December 2022

- On 3rd November, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 75 basis points to 3.00%, and on 15th December moved rates up a further 50 basis points to 3.50%. The later increase reflected a split vote – six members voting for a 50 basis points increase, one for 75 basis points and two for none.
- Nonetheless, the UK government appears more settled now, with Rishi Sunak as Prime Minister, and Jeremy Hunt as Chancellor. Having said that, a multitude of strikes across several public services and the continued cost-of-living squeeze is going to make for a difficult backdrop to maintain fiscal rectitude without pushing the economy into anything worse than a mild recession.
- Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has led with increases of 425 basis points in 2022 and is expected to increase rates further in 2023. Similarly, the ECB has also started to tighten monetary policy, albeit from an ultra-low starting point, as have all the major central banks apart from Japan (although the BoJ has “tightened” its policy by widening the accepted yield levels for 10yr JGBs, from 0.25% to 0.5% on 20th December). Arguably, though, it is US monetary policies that are having the greatest impact on global bond markets.
- What happens in Ukraine will also impact the global economy, but particularly in Europe. The search for alternative providers of energy, other than Russia, will take both time and effort. The weather will also play a large part in how high energy prices stay and for how long.

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, made on 19th December, sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is also providing a limited package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices. PWLB rates reflect a less elevated yield curve than prevailed under the Truss/Kwarteng government, and the 17th of November Autumn Statement made clear the government's priority is the establishment and maintenance of fiscal rectitude. In addition, 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.

Our current and previous PWLB rate forecasts below are based on the Certainty Rate.

Link Group Interest Rate View 19.12.22													
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Link Group Interest Rate View 08.11.22													
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

Link Group Interest Rate View		27.09.22											
		Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE		4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings		4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings		4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings		5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB		5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB		4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB		5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB		4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The Link forecast 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 most recently updated on 19th December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.5%.
- Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.
- Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)
- On the positive side, consumers are still 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 challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.
- 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 elevated inflation outlook.

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 year 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, China/Taiwan/US, Iran, 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 and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.

- **The Government** acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.
- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** rise strongly and pull gilt yields up higher than currently forecast.
- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields consequently.

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, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 24 months.

As shown by the interest rate forecasts in section 2, investment rates have improved dramatically during the first three quarters of 2022/23 and are expected to improve further as Bank Rate continues to increase over the next few months.

Creditworthiness.

There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

Investment counterparty criteria

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

CDS prices

For UK banks, these have retreated from the spikes caused by the Truss / Kwarteng policy approach in September. Even so, as wider rate markets have increased and concerns over the economic outlook (both domestic and international) have grown, so prices in general are now higher than they were at the start of the financial year. However, the changes do not leave prices misaligned with other creditworthiness indicators, such as credit ratings. **Nevertheless, 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 **£62m**. 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).

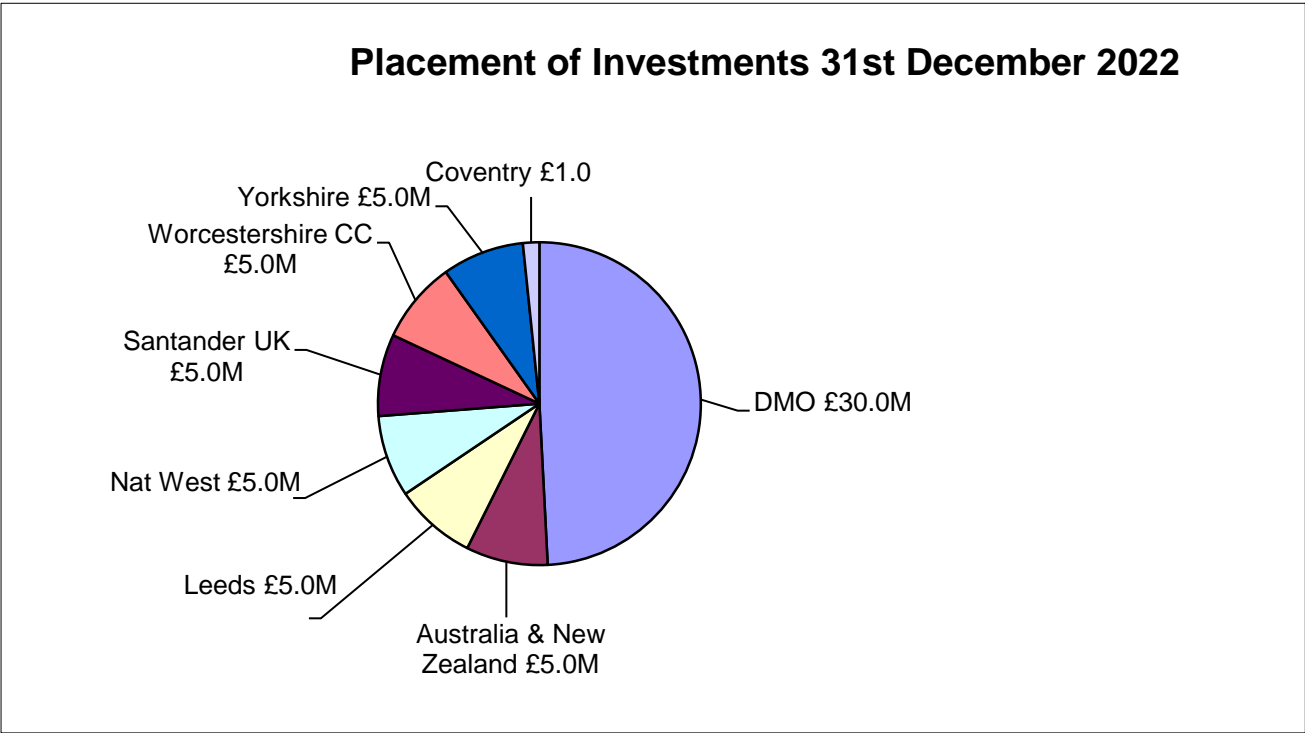
	Amount	Average
	£	Interest Rate %
Managed By NHC		
Banks	15,000,000	3.37
Building Societies	11,000,000	2.98
Local Authorities	5,000,000	3.85
Government	30,000,000	3.00
Total	61, 000,000	3.21

In percentage terms, this equates to:

	Percentage
Government	49
Banks	25
Local Authorities	8
Building Societies	18

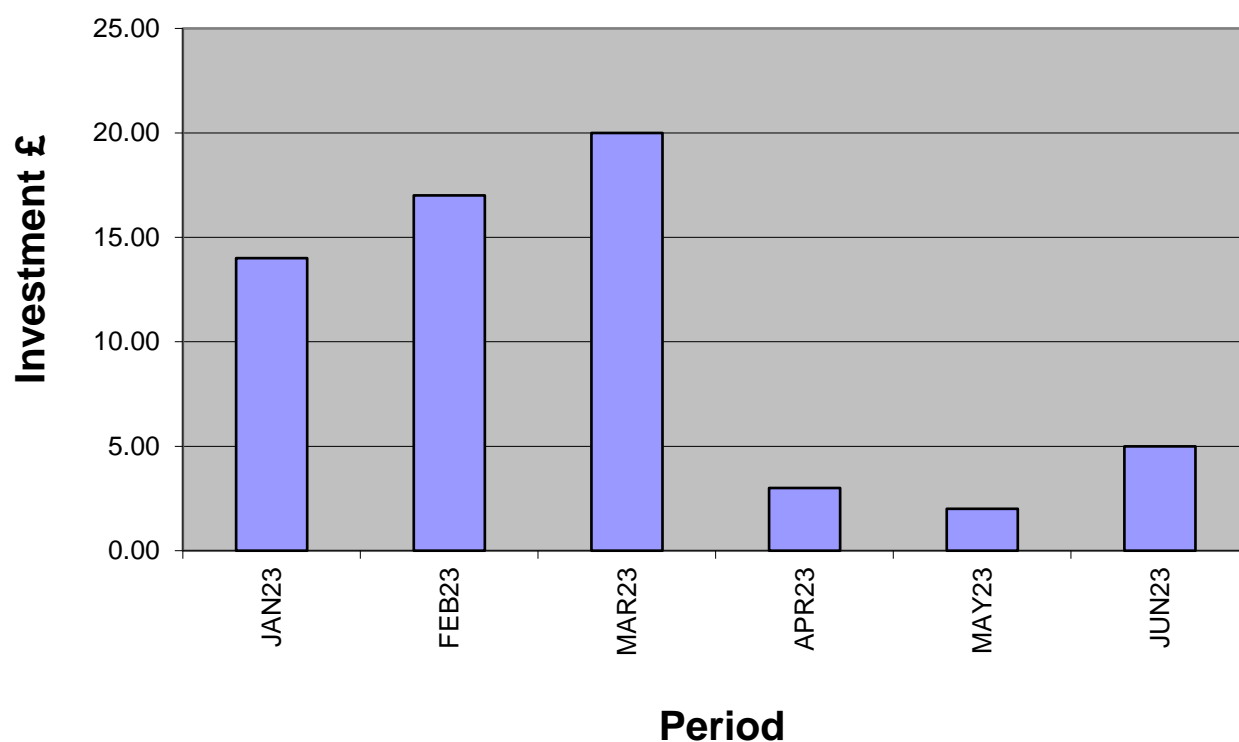
The approved 22/23 strategy is that no more than 60% of investments should be placed with Building Societies and Property Funds with a maximum value of £23M. The value at 31 December was £11.0M.

The pie chart below shows the spread of investment balances as at 31 December 2022. This is a snapshot in time that demonstrates the diversification of investments.

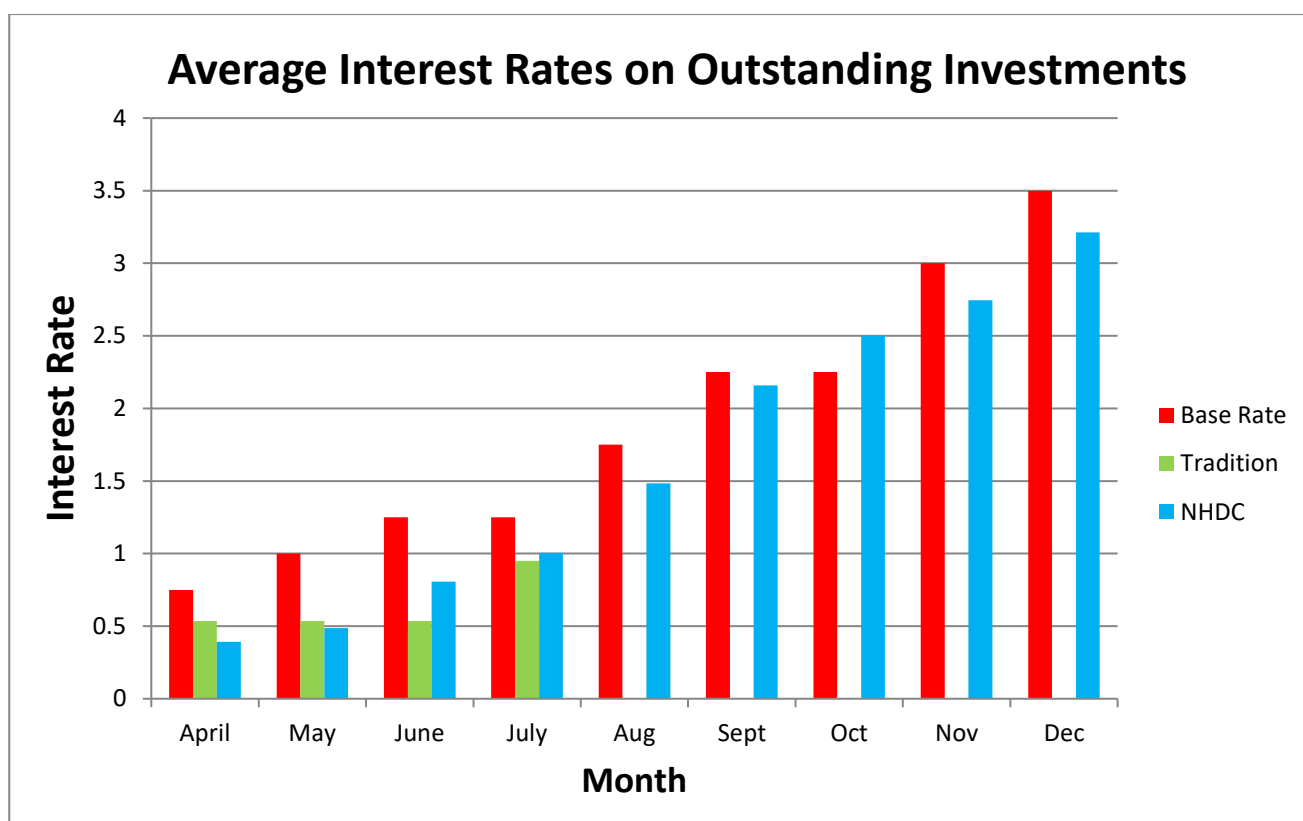


The chart below shows the Council's investment maturity profile.

Investment Maturity 31st December 2022



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



The final Tradition deal matured in August.

Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31st December 2022.

4. Borrowing

No borrowing was undertaken during the quarter ended 31st December 2022.

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

Based on 3rd quarter estimates for capital expenditure, the Council's capital financing requirement (CFR) for 2022/23 is expected to be -£2.65M (-£4.44M 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 31 December 2022:

	Amount	Average Interest Rate
	£	%
Public Works Loans Board	£377k	10.20

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
31 st March 2023 (Forecast)	0.367	0.731	0	1.098	2.1	7.1
31 st March 2024 (Forecast)	0.347	0.224	0	0.571	1.6	6.6
31 st March 2025 (Forecast)	1.632	0.106	1.307	0.431	1.5	6.5
31 st March 2026 (Forecast)	7.963	4.100	7.723	4.340	1.5	6.5
31 st March 2026 (Forecast)	8.873	3.592	9.034	3.431	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	17.786	0.219
2023/24	0.037	18.539	0.200
2024/25	0.095	18.333	0.517
2025/26	0.383	17.960	2.130
2026/27	0.440	17.345	2.534

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	1.277	-1.238	17.786	-6.961
2023/24	0.037	1.212	-1.175	18.539	-6.338
2024/25	0.095	1.602	-1.507	18.333	-8.220
2025/26	0.383	1.021	-0.638	17.960	-3.55
2025/26	0.440	0.531	-0.091	17.345	-0.525

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 of 31st December 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 of 31st December 2022

Treasury Indicators	2022/23 Budget £'000	31.03.22 Actual £'000
Authorised limit for external debt	7,100	377
Operational boundary for external debt	2,000	377
Gross external debt	387	377
Investments	47,400	61,000
Net borrowing	47,013	60,623
Maturity structure of fixed rate borrowing - upper and lower limits		
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	31.03.22 Actual £'000
Capital expenditure *	8,370	5,847
Capital Financing Requirement (CFR) *	-3,183	-2,982
In year borrowing requirement	0	0
Ratio of financing costs to net revenue stream *	-0.442	-2.49