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18,429	Investment Property	18	23,776
289	Intangible Assets	19	224
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1	Mortgages	20	0
17	Loans	20	0
320	Other Long Term Debtors	20	320
116,512	Long Term Assets		123,957
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26,627	Short Term Non Property Investments	20	24,539
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(25)	Short Term Borrowing	20	(26)
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(882)	Provisions (> 1 year)	26	(2,783)
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Long-term investments

See short-term investments description on next page

Definitions:

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

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

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

Long Term = life of more than 1 year

Current = life of less than 1 year

Property, Plant and Equipment

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

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

Heritage Assets

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

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

This insurance is a small revenue cost.

Operational Buildings (£79m) includes:

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

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

Amounts spent on works, depreciated over time

Surplus Assets (£10.2m), includes:

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

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

Plant and Equipment (£3.5m) includes

Waste vehicles @ £1.8m

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

Likely to need regular capital bids to replace them.

Intangible Assets

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

Revaluations and depreciation

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

Investment Property

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

Long-term Debtors:

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

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

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Inventories (Stock)

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

Short Term Debtors

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

The balance is made up of:

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

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

Assets Held for Sale

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

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

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

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

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

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

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Receipts in Advance (RIA)

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

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

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

Borrowing

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

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

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

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

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

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

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

Short Term Creditors

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

The balance is made up of:

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

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Long-term Creditors

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

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

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

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

Provisions

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

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

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

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

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

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Liability Related to Pension Scheme

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

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

Deferred Credit

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

Usable Reserves

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

They are made up of four parts:

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

Unusable Reserves

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

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