



**MEETING** : AUDIT AND GOVERNANCE COMMITTEE  
**VENUE** : PLEASE NOTE THAT THIS MEETING WILL BE HELD  
VIRTUALLY ON ZOOM  
**DATE** : TUESDAY 28 JULY 2020  
**TIME** : 7.00 PM

**PLEASE NOTE TIME AND VENUE**

## **MEMBERS OF THE COMMITTEE**

Councillor Mark Pope (Chairman)

Councillors A Alder, L Corpe, R Fernando, A Huggins, T Stowe (Vice-Chairman) and A Ward-Booth

## **Substitutes**

Conservative Group: Councillors J Burmicz

*(Note: Substitution arrangements must be notified by the absent Member to Democratic Services 24 hours before the meeting)*

**CONTACT OFFICER: WILLIAM TROOP**  
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## **DISCLOSABLE PECUNIARY INTERESTS**

1. A Member, present at a meeting of the Authority, or any committee, sub-committee, joint committee or joint sub-committee of the Authority, with a Disclosable Pecuniary Interest (DPI) in any matter to be considered or being considered at a meeting:
  - must not participate in any discussion of the matter at the meeting;
  - must not participate in any vote taken on the matter at the meeting;
  - must disclose the interest to the meeting, whether registered or not, subject to the provisions of section 32 of the Localism Act 2011;
  - if the interest is not registered and is not the subject of a pending notification, must notify the Monitoring Officer of the interest within 28 days;
  - must leave the room while any discussion or voting takes place.
2. A DPI is an interest of a Member or their partner (which means spouse or civil partner, a person with whom they are living as husband or wife, or a person with whom they are living as if they were civil partners) within the descriptions as defined in the Localism Act 2011.
3. The Authority may grant a Member dispensation, but only in limited circumstances, to enable him/her to participate and vote on a matter in which they have a DPI.

4. It is a criminal offence to:

- fail to disclose a disclosable pecuniary interest at a meeting if it is not on the register;
- fail to notify the Monitoring Officer, within 28 days, of a DPI that is not on the register that a Member disclosed to a meeting;
- participate in any discussion or vote on a matter in which a Member has a DPI;
- knowingly or recklessly provide information that is false or misleading in notifying the Monitoring Officer of a DPI or in disclosing such interest to a meeting.

(Note: The criminal penalties available to a court are to impose a fine not exceeding level 5 on the standard scale and disqualification from being a councillor for up to 5 years.)

### **Public Attendance**

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<https://www.youtube.com/user/EastHertsDistrict/live>

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To obtain a copy of the agenda, please note the Council does not generally print agendas, as it now has a paperless policy for all Members. If you are able to, you can use the mod.gov app to access, annotate and keep all committee paperwork on your mobile device.

Visit <https://www.eastherts.gov.uk/article/35542/Political-Structure> for details.

## AGENDA

### 1. Apologies

To receive apologies for absence

### 2. Minutes - 19 May 2020 (Pages 7 - 18)

To confirm the Minutes of the meeting of the Performance, Audit and Governance Oversight Committee held on Tuesday 19 May 2020

### 3. Chairman's Announcements

### 4. Declarations of Interest

To receive any Members' declarations of interest

### 5. Cyber Security - presentation by Helen Standen and Ruth Luscombe

### 6. External Audit Fees (Pages 19 - 32)

### 7. Annual Assurance Statement and Internal Audit Annual Report 2019/20 (Pages 33 - 56)

### 8. Shared Internal Audit Service Progress Report (Pages 57 - 74)

### 9. Shared Anti-Fraud Service Update - Annual Report 2019/20 (Pages 75 - 128)

### 10. General Fund Revenue and Capital Outturn (Pages 129 - 144)

### 11. Draft Statement of Accounts 2019/20 (Pages 145 - 262)

### 12. Annual Governance Statement (Pages 263 - 280)

### 13. Work Programme Proposals 2020-21 (Pages 281 - 292)

#### 14. Urgent Items

To consider such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration and is not likely to involve the disclosure of exempt information.

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MINUTES OF A MEETING OF THE  
PERFORMANCE, AUDIT AND GOVERNANCE  
OVERSIGHT COMMITTEE HELD IN THE  
PLEASE NOTE THAT THIS MEETING WILL BE  
HELD VIRTUAL VIA ZOOM ON TUESDAY 19  
MAY 2020, AT 7.00 PM

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PRESENT: Councillor M Pope (Chairman)  
Councillors S Bull, J Burmicz, L Corpe,  
A Curtis and T Stowe

ALSO PRESENT:

Councillors A Ward-Booth

OFFICERS IN ATTENDANCE:

Lorraine Blackburn	- Scrutiny Officer
Peter Mannings	- Democratic Services Officer
Graham Mully	- Insurance and Risk Business Advisor
Bob Palmer	- Head of Strategic Finance and Property

ALSO IN ATTENDANCE:

Nick Jennings	- Shared Anti-Fraud Service (SAFS)
Simon Martin	- Shared Internal Audit Service
Suresh Patel	- EY

18 APOLOGY

An apology for absence was submitted on behalf of Councillor Alder.

19 MINUTES - 14 JANUARY 2020

The Scrutiny Officer said that the Monitoring Officer would be arranging some more Standards Training in August 2020.

It was moved by Councillor Corpe and seconded by Councillor Stowe that the minutes of the meeting held on 14 January 2020 be confirmed as a correct record and signed by the Chairman. After being put to the meeting and a vote taken, the motion was declared CARRIED.

**RESOLVED** – that the Minutes of the meeting held on 14 January 2020 be confirmed as a correct record and signed by the Chairman.

20 DECLARATIONS OF INTEREST

There were no declarations of interest.

21 CHAIRMAN'S ANNOUNCEMENTS

The Chairman referred to the recent changes to the Committee, as agreed by Council at its meeting on 13 May 2020. He said that the performance aspect of the Committee had been transferred to the Overview and Scrutiny Committee. The change had been agreed to enable a more balanced workload for each Committee, and to reflect practice at other authorities.



The Chairman explained that the change was made on an interim basis, as it was contingent upon the review of scrutiny. It was noted that the Membership of the new Audit and Governance Committee remained the same as that for Performance, Audit and Governance Oversight Committee.

## 22 EXTERNAL AUDIT 2019/20 AUDIT PLAN

The External Auditor submitted a report on the Audit Plan which set out how the External Auditors intended to carry out their responsibilities; the proposed audit approach and scope for the 2019/20 audit against accountings requirements; and legislation to ensure that the audit was aligned both with the Council's service expectations and also the need to take account of the ongoing situation regarding Covid-19.

The External Auditor provided a summary of the report in terms of:

- An overview of the 2019/20 audit strategy;
- Audit risks;
- Value for money risks;
- Audit Materiality;
- Scope of the audit;
- Audit Team and timeline;
- Independence and appendices.

The External Auditor referred Members to page 37 of the report for an overview and to page 38 for a number of new areas of focus including group accounting and the implementation of new auditing and accounting standards. He said that the External

Auditor had identified a significant value for money conclusion risk in relation to the Council's capital programme. The External Auditor referred in particular to the management and delivery of the programme into 2021 and drew Members' attention to section 3 for further details of this risk and an outline of the planned procedure the External Auditors would use to form a value for money conclusion.

The External Auditor concluded his submission by referring to the impacts of Covid-19 on assets and valuations. He said that he was confident that EY could adhere to the timelines for delivering the Audit.

The External Auditor confirmed to Councillor Corpe that there would be a discussion with the Head of Strategic Finance and Property in respect of arbitration over the Audit Fees.

Councillor Stowe commented on the risks associated with Millstream, the Council's property company. The Head of Strategic Finance and Property said that this was a low level risk as the investment was backed by assets. The holding of rental property was not a high level risk to the Authority.

The Head of Strategic Finance and Property assured the Committee that the risk register had been updated. Councillor M Pope proposed and Councillor S Bull seconded, a motion that the report be received.

After being put to the meeting and a vote taken, this motion was declared CARRIED. Members received the report.

**RESOLVED** - that the report be received.

23 SHARED ANTI-FRAUD SERVICE - DRAFT PLAN 2020/21

The Shared Anti-Fraud Service (SAFs) submitted a report on the progress of the SAFs and East Herts draft Anti-Fraud Action Plan for 2020/21, which had been carried forward from the cancelled meeting in March 2020.

Members were advised that the report provided details of the Council's anti-fraud and corruption arrangements for 2020/21. The Anti-Fraud Plan ensured that the Council considered and acknowledged the risk of fraud and had in place appropriate policies and processes to investigate fraud.

The Officer said that a new and emerging risk was "phishing" emails which were intended to look exactly like legitimate correspondence from the Council. This resulted in a significant fraud risk to the Council and to the recipient of the email.

The SAFs Officer provided an update on the current situation regarding Covid-19 and Members sought and were provided with clarification on a number of issues including:

- Increases in reported fraud;
- Grants being issued to the Community;

The SAFs Officer explained that he had been working closely with team that was managed by the Head of the Revenues and Benefits Shared Service. He said

that the Council was performing well for an Authority of its size in dealing with suspected cases of fraud.

The Head of Strategic Finance and Property said that grant monies were being moved along as quickly as possible to avoid cases of bankruptcy. Members were reminded that a new Monitoring Officer had been appointed and that controls were in place to control, detect, prevent and mitigate fraud.

The Head of Strategic Finance and Property confirmed to Councillor Curtis that the reclaim of fraudulently claimed benefits was integral part of the normal anti-fraud activity.

It was moved by Councillor Bull and seconded by Councillor Pope that the recommendations, as detailed, be approved. After being put to the meeting and a vote taken, the motion was declared CARRIED.

**RESOLVED** – that the SAFs / EHC Anti-Fraud Plan 2020/21 be approved.

#### 24 DRAFT INTERNAL AUDIT PLAN FOR 2020/21

The Shared Internal Audit Service (SIAS) submitted a report on the proposed East Herts Internal Audit Plan for 2020/21. The SIAS Officer provided a summary of the report and referred Members to Appendices A and B for the key reporting data.

The Chairman referred to Page 126 of the report with particular reference to the steady reduction in Audit days since 2018. He referred to the figures as having been reduced from 400 days in 2017/18 to 360 days in

2018/19, to 340 days in 2019/20 and 320 days in 2020/21.

The Head of Strategic Finance and Property said that he would be concerned if the number of audit days went below 300. He said that 300 days was sufficient to give adequate assurance to the Authority.

The Committee asked that it be noted that Members would not wish to see the number of audit days fall below 300. It was moved by Councillor Corpe and seconded by Councillor Pope that the recommendation, as detailed, be approved. After being put to the meeting and a vote taken, the motion was declared CARRIED.

**RESOLVED** – that the East Herts Internal Audit Plan for 2020/21, be approved.

## 25 SHARED INTERNAL AUDIT SERVICES - PROGRESS REPORT

The Shared Internal Audit Service (SIAS) submitted a report on the progress made in delivering the Council's 2019/20 Internal Audit Plan as at 28 February 2020, the findings for that period including the status of previously agreed Internal Audit recommendations. The report summarised the proposed amendments required to the approved 2019/20 Internal Audit Plan and provided an update on performance management information as at 28 February 2020. The SIAS Officer provided a summary of the report.

The SIAS representative said that a more up to date position would be presented to the next meeting in July 2020. The Chairman sought and was provided

with clarification in respect of the Herts Home Improvement Agency. He also referred to a number of outstanding higher priority recommendations.

The SIAS Officer said that immediate workloads in supporting homeworking had meant that some higher priority recommendations had slipped a bit in terms of delivery. He suggested that an Officer from IT could be invited to the next meeting to update Members on the latest position.

Councillor Curtis commented on the percentage of critical higher priority recommendations that had not been implemented by Officers. The Committee supported the suggestion that an Officer from IT come to the next meeting to update Members on the latest position regarding higher priority recommendations.

It was moved by Councillor Pope and seconded by Councillor Bull that the recommendations, as detailed, be approved. After being put to the meeting and a vote taken, the motion was declared CARRIED.

**RESOLVED** – that (A) the Internal Audit progress report be noted;

(B) the status of critical and high priority recommendations, be noted.

## 26 QUARTER 3 CORPORATE BUDGET MONITORING

The Head of Strategic Finance and Property submitted a report on the finance and performance of the Council as at 31 December 2019. The Head of Strategic Finance and Property referred to an

anticipated underspend of £35k. He said that as this report had been to the Executive on 11 February 2020, no recommendations to the Executive would be made this evening.

The Head of Strategic Finance and Property provided a detailed breakdown of the report and responded to a number of queries from the Committee. There being no general debate and no recommendations to the Executive, the Committee received the report.

**RESOLVED** – that (A) the projected revenue budget forecast underspend of £35K in 2019/20 be noted (paragraph 2.5);

(B) the capital budget for 2019/20 of £77.812M, of which £78k is estimated to underspend and £64.292m is to be carried forward to future years be noted (paragraph 5.1.1);

(C) the reported performance for the period October 2019 to December 2019 be noted.

## 27 RISK MANAGEMENT STRATEGY

The Head of Strategic Finance and Property submitted a report regarding the Annual Review of the Risk Management Strategy. The Insurance and Risk Business Advisor said that there were no major changes and he summarised the new 3x3 matrix of plotting the likelihood and impact of risk.

The Insurance and Risk Business Advisor said that this Strategy was reviewed annually and had been report to the Leadership Team in February 2020. The report

had had originally been prepared for the meeting on 17 March 2020 that had been postponed. He referred to the 2 documents included with this report as appendices.

It was moved by Councillor Corpe and seconded by Councillor Pope that the Risk Management Strategy be received. After being put to the meeting and a vote taken, the motion was declared CARRIED.

**RESOLVED** – that the Risk Management Strategy be received.

## 28 STRATEGIC RISK REGISTER

The Head of Strategic Finance and Property submitted a report that proposed the content of the Strategic Risk Register for 2020/21. The Insurance and Risk Business Advisor said that this was a live document that been updated by the Leadership Team in April 2020.

Members were advised that the Strategic Risk Register was normally reviewed annually by this Committee and by Leadership Team on a quarterly basis. The Insurance and Risk Business Advisor said that the latest review by the Leadership Team had taken place on 3 February 2020 and the content had been further updated on 27 April 2020.

Councillor Corpe proposed and Councillor Curtis seconded, a motion that the Strategic Risk Register be received. After being put to the meeting and a vote taken, this motion was declared CARRIED.

**RESOLVED** – that the report be received.



## 29 WORK PROGRAMME 2020/21

The Scrutiny Officer said that the work programme had been developed with input from key officers. The Chairman referred to the inclusion of a number of governance items. The Scrutiny Officer explained that Council in May 2020 had agreed to a change to the terms of reference by the transference of performance matters from the former Performance Audit and Governance Committee (now Audit and Governance Committee) to Overview and Scrutiny Committee. This had been necessary to avoid a duplication of function as the issue of “performance” had been included in the remit of both committees.

Councillor Curtis commented on the change from Performance, Audit and Governance Oversight Committee to Audit and Governance Committee. The Committee supported the work programme as detailed in the report submitted.

**RESOLVED** – that (A) the main agenda items for the next meeting be agreed; and

(B) the draft work programme for the remainder of the year, as amended, be agreed.

The meeting closed at 9.11 pm

Chairman .....

Date .....

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## East Herts Council Report

### Audit and Governance Committee

**Date of Meeting:** 28 July 2020

**Report by:** Bob Palmer, Head of Strategic Finance and Property

**Report title:** Fees for the External Audit

**Ward(s) affected:** All

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### Summary

None.

### RECOMMENDATIONS FOR AUDIT AND GOVERNANCE COMMITTEE:

- (a) **That Members consider the letter from Public Sector Audit Appointments (PSAA) and the representations from Ernst and Young (EY) and that the amount of any increase in the scale fee for the audit be left for PSAA to determine.**

#### 1.0 Proposal(s)

- 1.1 This report proposes that any increase in the scale fee for the external audit should be left for PSAA to determine.

#### 2.0 Background

- 2.1 Each year PSAA sets the scale fee for the audit. A letter from PSAA to the section 151 officer and the Chair of the Audit Committee is attached as Appendix A. This provides background information on the fee setting process. Whilst PSAA have acknowledged issues in the audit market, they have left the scale fee for the audit unchanged at £40,295.

- 2.2 Previous reports from EY have indicated a desire to increase the scale fee for the audit. A note setting out their arguments is attached as Appendix B. The document sets out the basis for an increase of 67% in the scale fee from £40,295 to £67,244.
- 2.3 It is understood from colleagues across Hertfordshire that EY are seeking similar increases at most authorities. It is also understood that these increases are unlikely to be accepted.
- 2.4 Where an external auditor seeks an increase in the scale fee, they are required to submit a request to PSAA setting out their reasons. PSAA will review any application and the justification for it to determine if the work is necessary and the time claimed is reasonable. On reaching a determination PSAA may agree the request entirely, may agree the request but reduce the amount or may reject the request. If the request lacked detail or was being made too early in the process the PSAA would ask for additional information or defer their decision.

### **3.0 Reason(s)**

- 3.1 PSAA are the responsible body for setting audit fees and have the wider experience and understanding of the entire audit market.

### **4.0 Options**

- 4.1 Members could decide to accept the proposed increase of 67% in the scale fee, or to suggest some other level of increase that is deemed appropriate.

### **5.0 Risks**

- 5.1 There is a risk that audit quality could be compromised if the external auditor is unable to obtain a sufficient fee for performing the audit.

## **6.0 Implications/Consultations**

6.1 It was not appropriate to consult Leadership Team on this item.

### **Community Safety**

No

### **Data Protection**

No

### **Equalities**

No

### **Environmental Sustainability**

No

### **Financial**

If a significant increase in the scale fee is agreed this will apply not just to 2019/20 but to subsequent years as well. The Council is in an uncertain financial position, given the significant and ongoing reduction to income from fees and charges. It is clear that savings will need to be identified going forward, in addition to those already included in the Medium Term Financial Plan.

### **Health and Safety**

No

### **Human Resources**

No

### **Human Rights**

No

### **Legal**

No

## **Specific Wards**

No

## **7.0 Background papers, appendices and other relevant material**

Appendix A and B

### **Contact Member**

Councillor Geoff Williamson, Executive Member for Financial Sustainability [geoff.williamson@eastherts.gov.uk](mailto:geoff.williamson@eastherts.gov.uk)

### **Contact Officer**

Bob Palmer, Head of Strategic Finance and Property  
Tel: 01279 502074 [bob.palmer@eastherts.gov.uk](mailto:bob.palmer@eastherts.gov.uk)

## Appendix A

30 April 2020

By email

**Email** [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)

Dear Section 151 Officer and Audit Committee Chair

### **Fee Scale for the Audit 2020/21 and update on 2019/20**

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly.

PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees. These pressures still apply and the key aspects are summarised below;

- It is apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.

- It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

### How we set your scale fee

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website ([Scale fee document](#)). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit

	<b>Scale fee for the audit 2020/21</b>	<b>Scale fee for the audit 2019/20</b>
East Hertfordshire District Council	£40,295	£40,295

As well as the Scale of Fees document, we have also produced a [Q&A](#) which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the [Statement of Responsibilities](#). This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.



The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

### **Fee Variations**

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website ([Fee variations process](#)). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

### **Quality of Audit Services**

We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.

Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

### **Impact of COVID-19 on current 2019/20 audits**

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020.

We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.

We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

### **Local Audit Quality Forum**

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)

Your auditor will, of course, be best placed to answer any questions you may have with regard to your audit.

Yours sincerely,

Tony Crawley

**Chief Executive**

## East Hertfordshire District Council

### EY proposal for increases to the scale fee 2019/20 & rationale

We are proposing an increase to the scale fee for 2019/20. This document outlines our proposal, rationale and further contextual information.

We believe it is important that the audit fee you pay recognises the changes that have occurred within the audit market and the expectations that our regulators rightly have of us. The background to these areas were set out in the 10 February 2020 letter from Janet Dawson, EY's lead partner for our government and public sector assurance team. They are also recognised by PSAA Ltd themselves in their own letter to councils.

#### Our proposal

PSAA Set Scale Fee (fee letter)	Our Proposed Scale Fee	Increase	% Increase
£40,295	£67,244	£26,949	67%

Comprising:	
<u>Additional fee for increase in client in risk</u>	£11,878
<u>Additional fee for increase in regulatory compliance</u>	£14,739
<u>Additional fee for client readiness and technology</u>	£322
<b>Total additional fee</b>	<b>£26,949</b>

#### Rationale

The Council's statement of accounts is an important mechanism for telling local residents and taxpayers how their money is spent. Both officers and the audit committee have statutory responsibilities to ensure that the accounts tell the correct story of the Council's financial year. The role of the independent statutory audit is to form an opinion on the truth and fairness of the accounts. By reporting their work and findings to the audit committee, it helps to enable members to discharge their responsibilities. The auditor's ongoing engagement with officers throughout the year helps officers to discharge their responsibilities to prepare a materially accurate set of accounts.

In order for us to deliver an audit and provide the assurance that you, your members, your residents and taxpayers and other stakeholders take from our auditor's report we believe that we need to be fairly remunerated for the detailed work we are required to complete. Particularly as the volume and complexity of the work has increased, expectations on audit quality have grown, there is more need to use specialist inputs, recruitment and retention has become a massive challenge and the need to better use technology.

## **Changes since the last PSAA tender in 2017**

### **Volume and complexity of work**

Compared to three years ago the volume and complexity of audit work required has increased significantly. There are two main reasons for that.

The first relates to the sector itself. Financial reporting and decision making in local government continues to become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability and going concern of bodies given the current status of the sector. Audit committees need more robust assurance than ever.

In addition, the profession at large has been subject to ongoing scrutiny from regulators and reviews (I've mentioned these before – Kingman, Brydon and Redmond), which mean an evolving landscape. One of the biggest messages from the FRC, in its capacity as the profession's regulator, has been around the extent of challenge and corroboration auditors undertake and the extent to which this is documented on their files, i.e. rather than just confirming information obtained from the audited body to support an entry in the accounts, auditors should be challenging the audited body and seeking third party evidence to corroborate what the audited body has provided. This is what tends to be called professional scepticism and while clearly it has always been a requirement, the changes have been about making it much more structured and documented.

Relevant examples of the changes include:

- The biggest change is the expected level of auditor challenge on management's significant estimates and judgements. This includes things like provisions, accruals and the most striking example is on asset valuations. The extent of auditor challenge and testing has grown significantly. Previously we would read the valuers report and agree to your working papers. We are now required to demonstrate our challenge of management's use of its own expert by engaging directly with the expert, or using our own expert to challenge your expert. We read, assess and evaluate the valuation report and associated working papers and then select samples of assets to challenge your assumptions and test base data such as agreeing floor areas back to original documentation and challenging the designation of land and buildings. For social housing we even compare valuations to similar recent sales in the local market.  
The work we are required to do on the pensions liability falls into this category too. We now also engage our own expert to challenge the work of management's expert.
- Ensuring that the information provided by the Council is complete and valid. This is what we now call Information Provided by the Entity or IPE testing. Previously finance staff would run reports off their ledgers and provide the report as a working paper to support the accounts. Now, we are required to gain assurance over the IPE as a way of mitigating the risk of fraud and helps provide assurance over the completeness of information. This tends to be a combination of testing a sample of items in the population of IPE and sitting down with a finance officer to watch them input parameters into the ledger and generate the actual report. IPE is comprehensive for the Council.
- Group accounts – The FRC has highlighted from its inspection's deficiencies in the audit of group accounts and in particular the involvement of the group auditor in the work of a component auditor. Since 2017 we have enhanced our approach to group accounts, mandating a higher

level of engagement with component auditors and developing a more comprehensive approach to documenting the work of the group auditor. These changes have increased the number of procedures we undertake on a group audit.

The volume of work required has been steadily increasing and there is an element of catch-up in our fee increase. This is in line with other sectors where we are also agreeing increases to audit fees. Just by way of comparison, for an audit of the size/complexity of the Council, the corporate audit benchmark is a rate per hour of £100+. We estimate that the audit East Herts will take around 838 hours to deliver, which still equates to a lower rate per hour than the corporate benchmark.

### **Quality standards & compliance**

In July 2016 the FRC set a new target for firms that 90% of FTSE350 audits inspected should require no more than limited improvements. In July 2019 the FRC extended the 90% quality target to all audits inspected and set a new target for audit firms, that for 2020/21 onwards, 100% of audits inspected should require no more than limited improvement. We see no difference between audits that are in scope for FRC review and those that are not. The FRC target has raised the bar considerably in terms of quality standards and compliance and this is reflected in the additional time and inputs to delivering audits, in particular, the time of senior members of the audit team including additional quality review in the form of:

- Pre-issuance review of the accounts – This also applies to an MLA or an audit with a higher risk profile. This will be a separate independent manager or above, with a high degree of technical financial reporting expertise and they will review the draft accounts and final account for compliance with the CIPFA Code. Since 2017 we have introduced a more comprehensive approach to involving the pre-issuance reviewer in the audit and mandated an approach to documentation.
- Hot reviews of audit quality – We have developed an Audit Quality Support Team (AQST) who carry out hot reviews of audit files to ensure that teams are meeting the quality standards we expect. The AQST input to the audit in real time, enabling teams to make any improvements before they reach the conclusion stage of the audit.
- Consultation on modifications to auditor reports – Since 2017 our consultation processes have increased in their rigour and thoroughness as council accounts and activities become more complex, leading to more potential modified auditor reports.
- Increase in infrastructure to support the audit practice – We have increased significantly the IT and people infrastructure to enable us to meet all the increased regulatory requirements. For example, we now have an online risk management tool that enables us to document all consultations, involve the right senior members of our professional practice directorate (PPD) and manage the consultation process effectively.

As a result of the FRC raising the bar our cost of compliance to maintain our licence to practice within local public audit, and as a firm within the profession, has doubled since 2017. I have outlined some of the changes above, but this also includes investment in firm-wide risk management, professional practice development and regular training to maintain our quality at the highest level as it currently is in the PSAA contract and to ensure it is sustainable in the future.

We strongly believe that audited bodies gain value from our high-quality standards and compliance. These arrangements enable our teams to ask better questions which drive finance teams to provide

better answers and ultimately, deliver greater assurance to your stakeholders in respect of your financial reporting requirements.

### **Need for specialist inputs**

There is now an expectation that audit teams will use of specialists to address special audit considerations on the more judgemental and complex items disclosed in a council's accounts. For example, we now use specialists to support the audit team in the work on the valuation of property, the net pension liability and new ventures such as PFIs, joint ventures and groups.

We also use specialists to support our work on the value for money conclusion and since 2017, as council activities have become more commercial and riskier, this has included using specialists from our Forensics service line who bring extensive experience of due diligence, contracting, procurement and risk management.

All our specialists are experienced and trained in their area of expertise and increase the cost of the audit.

In my experience, our specialists add value to finance teams by highlighting the specific aspects of the subject matter that the finance teams themselves can use to challenge their own expert. For example, where we have used our specialist to challenge a valuer on an approach to valuing schools this has thrown up issues around land values, which finance teams have then used to challenge the valuer in the next year.

### **Recruitment and retention of staff**

I've talked before about the pressure on auditors to consistently meet high quality standards and the flak they can get if things go wrong at audited bodies (the fear of the Public Accounts Committee!). For the local government audit market, the additional pressure of an unsustainable timetable for financial reporting and audit has undermined the ability of firms such as ours to retain experienced public sector specialists and invest in public sector specialist teams and skills for the longer term. To develop a sustainable specialist team requires sustained investment over a five to ten-year cycle, to recruit, train and develop sufficient staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality. We can only do this if we are being remunerated fairly for the work we do.

Our ability to invest in staffing also gives us the flexibility to make sure we can put together the right time at the right time for the specific audit need.

Your finance team benefits from our ability to provide you with a team trained and experienced in public sector audit and with a good understanding of local government finance. I know from experience that well trained and specialist auditors transfer their financial reporting knowledge to your teams, they provide insights into emerging issues and provide a sounding board on finding solutions to financial reporting problems.

### **Investment in technology and maximising its use**

An element of PSAA tender requirements was the extent that suppliers would be innovative and forward thinking in their use of technology. Our PSAA bid was based on our ability to apply a digital audit. We have invested over £300 million to drive advancements in our suite of digital audit products, to help achieve more efficiencies to our audit approach. However, in our view the sector has failed to invest in digital and IT systems and therefore are unable to meet the standards required of an increasingly data-driven audit. This has led to increasing costs to deliver some of our audits which were not reflected in our bids for PSAA contracts. Your finance team has embraced the EY Client Portal and tends to service our request for data to enable use of analytics generally well.

The finance team benefits from our ongoing investment in technology as it reduces the time they need to spend dealing with audit queries and auditors. They have embraced the EY Client Portal as it has reduced some of the burden of providing supporting working papers to the accounts. They are also now familiar with our use of data analytics and incorporate our data needs into their closedown plans. We continue to develop our technical capabilities and are now using bots to undertake reviews of pdf invoices for example. Unfortunately, we are not able to implement our capabilities as fast as we had assumed in our response to the original ITT.

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### **East Herts Council 2019/20 Annual Assurance Statement and Internal Audit Annual Report**

**28 July 2020**

#### **Recommendations**

Members are recommended to:

Note the Annual Assurance Statement and Internal Audit Annual Report

Note the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP)

Accept the SIAS Audit Charter

Seek management assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2019/20

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## **Appendices**

- A Final position against the Council's 2019/20 Audit Plan
- B Definitions of Assurance Recommendation Priority Levels
- C Position against Public Sector Internal Audit Standards as at May 2020
- D Internal Audit Charter 2020/21

## **1. Purpose and Background**

### Purpose of Report

#### **1.1 This report:**

- a) Details the Shared Internal Audit Service's (SIAS) overall opinion on the adequacy and effectiveness of East Herts Council's (the Council) control environment. Reference is made to any significant matters and key themes.
- b) Shows the outcomes of the self-assessment against the Public Sector Internal Audit Standards (PSIAS) incorporating the requirements of the Quality Assurance and Improvement Programme (QAIP).
- c) Summarises the internal audit work that informs this opinion.
- d) Shows SIAS's performance in respect of delivering the Council's internal audit plan.
- e) Presents the 2020/21 Audit Charter.

### Background

- 1.2 A key duty of the Head of Assurance is to provide an annual opinion on the Council's internal control environment. This opinion informs the conclusions of the Council's Annual Governance Statement.
- 1.3 The assurance opinion in this report is based on internal audit work undertaken during 2019/20 which was planned and amended to give sufficient assurance on the Council's management of its key risks. Also considered is any relevant work undertaken in 2020/21 before the audit committee report deadline.
- 1.4 SIAS is grateful for the co-operation and support it has received from client officers during 2019/20.

## **2. Annual Assurance Statement 2019/20**

### Context

#### *Scope of responsibility*

- 2.1 Council managers are responsible for ensuring Council business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. They are also responsible for ensuring internal controls are robust and risk management arrangements are appropriate.

## Annual Assurance Statement and Internal Audit Annual Report

### *Control environment*

- 2.2 The control environment comprises three key areas: governance; risk management; and internal control. Together these aim to manage risk to an acceptable level, but it is accepted that it is not possible to completely eliminate it.
- 2.3 A robust control environment helps ensure that the Council's policies, priorities and objectives are achieved.

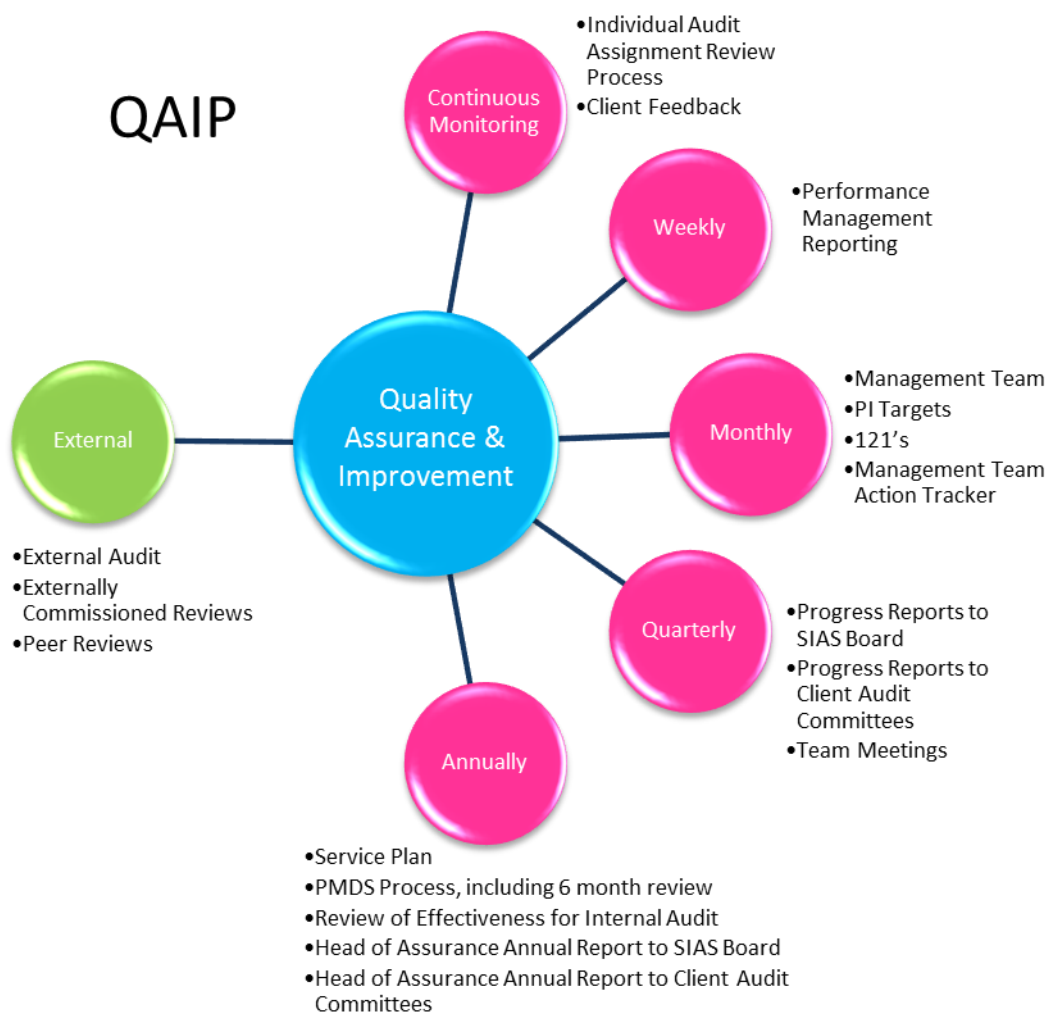
### *Review of effectiveness*

- 2.4 The Head of Assurance must confirm annually that the internal audit function is suitably qualified to carry out the work that informs the assurance opinion.
- 2.5 As part of a QAIP, a self-assessment was conducted against the Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF). They promote professionalism, quality, consistency and effectiveness of internal audit across the public sector. They highlight the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances needed to support them in both managing the organisation and producing the Annual Governance Statement.
- 2.6 The 2019/20 self-assessment identified 2 areas of agreed non-conformance. These are detailed in Appendix C. There are no significant deviations from Standards which warrant inclusion in the Council's Annual Governance Statement.
- 2.7 The PSIAS also requires that the SIAS be subject to an external quality assessment at least once every five years. This should be conducted by a qualified, independent assessor or assessment team from outside the organisation. The next external assessment is due in November 2020. However, it should be noted that in June 2020 the SIAS Board agreed to defer the five-yearly external assessment from November 2020 to May 2021 at the latest. This is as a result of the impact of COVID-19. A new timeline has therefore been set for undertaking the review.
- 2.8 The Head of Assurance has concluded, therefore, that SIAS 'generally conforms' to the PSIAS, including the Definitions of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. 'Generally conforms' is the highest rating and means that SIAS has a charter, policies and processes assessed as conforming to the Standards and is consequently effective.
- 2.9 The SIAS QAIP includes both internal and external monitoring and reporting to assess the efficiency and effectiveness of internal audit activity and identify opportunities for improvement. The diagram below

## Annual Assurance Statement and Internal Audit Annual Report

details the methods used to monitor and report on these. Detailed information outlining activity in each area is contained in the SIAS Audit Manual.

- 2.10 The Head of Assurance confirms that during 2019/20 SIAS operated according to its QAIP with evidence available within the service to support the achievement of each QAIP element.



### *Confirmation of independence of internal audit and assurance on limitations*

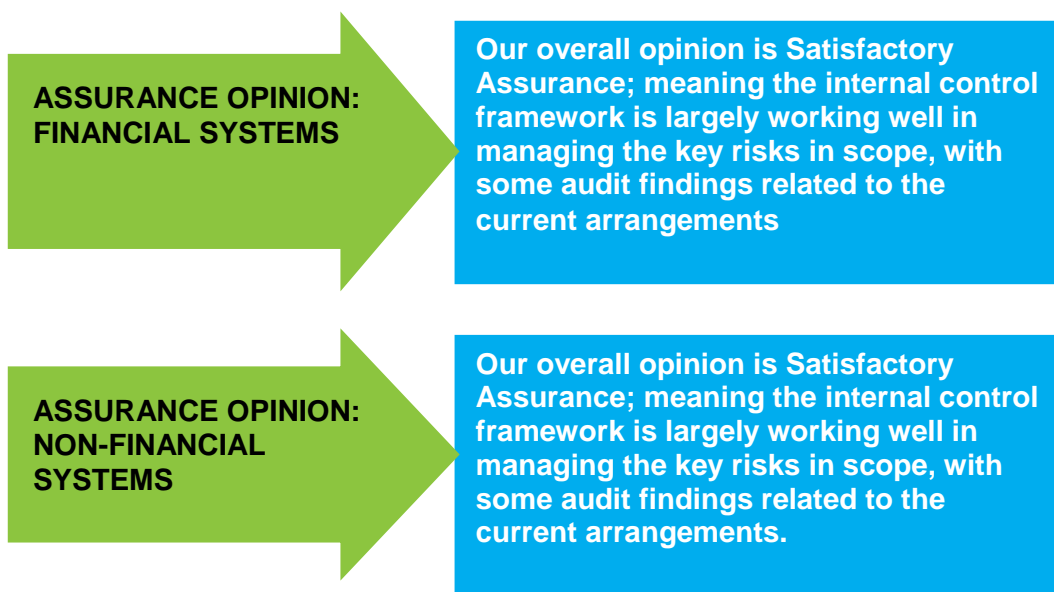
- 2.11 The Head of Assurance confirms that during the year:
- No matters threatened SIAS's independence; and
  - SIAS was not subject to any inappropriate scope or resource limitations.

## Annual Assurance Statement and Internal Audit Annual Report

### Annual Assurance Statement for 2019/20

#### *Assurance opinion on internal control*

- 2.12 Based on the internal audit work undertaken at the Council in 2019/20, SIAS can provide the following opinion on the adequacy and effectiveness of the Council's control environment, broken down between financial and non-financial systems.



#### *Assurance opinion on Corporate Governance and Risk Management*

- 2.13 SIAS has concluded that the corporate governance and risk management frameworks substantially comply with the CIPFA/SOLACE best practice guidance on corporate governance. This conclusion is based on the work undertaken by the Council and reported in its Annual Governance Statement for 2019/20 and the specific reviews of Risk Management and Corporate Governance carried out by SIAS during the year.

**Head of Assurance for the Shared Internal Audit Service  
May 2020**

### 3. Overview of Internal Audit Activity at the Council in 2019/20

- 3.1 This section summarises work undertaken at the Council by SIAS in 2019/20. It highlights any significant internal control matters and opportunities for improvement.
- 3.2 Appendix A shows the final position against the agreed revised internal audit plan, assurance levels and the number of recommendations made. A summary of assurance levels and recommendation priorities is shown in the tables below (2018/19 data in brackets).

Assurance Level	Number of reports 2019/20 (2018/19 data in brackets)	Percentage of reports 2019/20 (2018/19 data in brackets)
Good	7 (8)	25% (27%)
Satisfactory	16 (9)	55% (30%)
Limited	1 (6)	3% (20%)
No	0 (0)	0% (0%)
Not Assessed	4 (4)	14% (13%)
Not Complete	1 (3)	3% (10%)
Total	29 (30)	100% (100%)

Recommendation Priority Level	Number of recommendations 2019/20 (2018/19 data in brackets)	Percentage of recommendations made 2019/20 (2018/19 data in brackets)
Critical	0 (0)	0% (0%)
High	1 (21)	1% (33%)
Medium	48 (29)	58% (45%)
Low	34 (14)	41% (22%)
Total	83 (64)	100% (100%)

- 3.3 **The Satisfactory assurance opinion overall on financial systems**  
(Good in 2018/19) has been concluded from eight financial systems audits. Six received Good assurance and two received a Satisfactory assurance opinion. No Critical or High priority recommendations were made in these audits. However, seven Medium priority recommendations (one in 2018/19) were made.
- 3.4 **The Satisfactory assurance opinion overall on non-financial systems**  
(Limited in 2018/19) has been concluded from twenty audits. One audit received Good assurance, fourteen received Satisfactory assurance and one received a Limited assurance opinion. One High priority recommendation was made across these audits. In addition, four audits

## Annual Assurance Statement and Internal Audit Annual Report

were classified as Not Assessed, i.e. no assurance opinion was given. These were the:

- a) S106 Spend Arrangements – Follow Up audit,
- b) CCTV Joint Review – Follow Up audit,
- c) Cyber Security – Follow Up audit,
- d) IT Shared Service Agreement audit.

These four audits have contributed to the overall assurance opinion for non-financial systems as they were important pieces of consultancy and advice work carried out during the year.

- 3.5 In arriving at our Satisfactory assurance opinion for non-financial systems, we highlight that 94% of opinions issued for individual audits during the year were assessed as Good or Satisfactory assurance. This generally indicates the Council has satisfactory or good systems of internal control for a wide range of areas. However, it should be noted that there were some risks and impacts associated with control weaknesses in the Information Management audit which received a Limited assurance opinion. There were also some risks and impacts associated with control weaknesses in the Cyber Security – Follow Up audit.
- 3.6 Four audits were at draft report stage at the time of writing this Annual Report. These audits have contributed to the assurance opinion on financial and non-financial systems for 2019/20. These audits are:
- a) Main Accounting – at draft report stage, management response awaited.
  - b) Budgetary Control – at draft report stage, management response awaited.
  - c) Recycling – at draft report stage, management response awaited.
  - d) Information Management – at draft report stage, management response awaited.

In addition to the above, the Herts Home Improvement Agency – Follow Up audit was not complete at the time of writing this report. This audit was paused as a result of the COVID-19 outbreak, but it has since recommenced and is now being quality reviewed.

### Critical and High Priority Recommendations

- 3.7 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 made. It is Internal Audit's responsibility to advise Members of progress on implementation of critical and high priority recommendations; it is the responsibility of Officers to implement the recommendations by the agreed date.
- 3.8 One High priority recommendation was made within audits carried out during 2019/20. Members will continue to receive updates on the implementation progress of critical and high priority recommendations



## Annual Assurance Statement and Internal Audit Annual Report

through the SIAS quarterly progress reports to the Audit and Governance Committee.

### 4. Performance of the Internal Audit Service in 2019/20

#### Performance indicators

- 4.1 The table below compares SIAS's performance at the Council against the 2019/20 targets set by the SIAS Board.

Indicator	Target 2019/20	Actual to 31 March 2020
<b>1 SIAS Planned Days</b> – percentage of actual billable days delivered against planned billable days	<b>95%</b>	<b>98%</b> (312.5 / 317)
<b>2 SIAS Planned Projects</b> – actual completed projects to draft report stage against planned completed projects	<b>95%</b>	<b>97%</b> (28 / 29)
<b>3 SIAS Annual Plan</b> – presented to the March Audit Committee or the first meeting of the financial year should a March committee not meet.	<b>Deadline met</b>	<b>Yes</b> (12 March 2019)
<b>4 Client Satisfaction</b> - client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	<b>100%</b>	<b>100%</b> (8 received).
<b>5 Head of Assurance's Annual Report</b> – presented at the first Audit Committee meeting of the financial year	<b>Deadline met</b>	<b>Yes</b>
<b>6 Number of High Priority Audit Recommendations agreed</b>	<b>95%</b>	<b>100%</b> (1 agreed)

### Service Developments

4.2 During 2019/20 the development activities for SIAS included:

- Staffing - the delivery of core learning and coaching for all members of staff. This included external training on the principles of risk and internal control, and the practical application of data analytics within audit testing strategies. This will need to become embedded professional practice in 2020/21 in order to add further value to internal audit work. A Team Charter has also been developed to set expectations for core values and behaviours amongst staff and to create a link to the IPPF and the PSIAS.
- Practice - the template used for setting out the terms of reference for each audit assignment was revised and subsequently piloted at two SIAS partners. This received positive feedback from recipients and will now need to be rolled out during 2020/21. The revised template provides a means to explicitly link internal audit work to those things which prevent service objectives being met and to highlight alternative sources of assurance so that any audit duplication/overlap can be avoided where possible.
- Technology – replacement computer hardware and software has been rolled out to all staff. This has facilitated more effective remote working, for example by using video conferencing and other communication tools. An automated Performance Dashboard has also been produced as a means of monitoring individual staff performance against targets. This tool has helped to inform one to one discussions and annual appraisals. A review of the SIAS web offering has also commenced.

## 5. Audit Charter 2020/21

- 5.1 The PSIAS require a local authority to formally adopt an Audit Charter which covers the authority and responsibility for an internal audit function.
- 5.2 The SIAS Audit Charter sets out the framework within which it discharges its internal audit responsibilities to those charged with governance in the partner councils. It details the permanent arrangements for internal audit and key governance roles and responsibilities to ensure the effectiveness of internal audit provision.
- 5.3 The Audit Charter is reviewed annually. The review in April 2020 did not result in any fundamental changes and the 2020/21 Charter is attached at Appendix D.

## APPENDIX A – FINAL POSITION AGAINST THE COUNCIL’S 2019/20 AUDIT PLAN

### East Herts Council Audit Plan – 2019/20

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	STATUS/COMMENT
		C	H	M	LA		
<b>Key Financial Systems</b>							
Creditors	Good	0	0	0	0	10	Final Report Issued
Treasury Management	Good	0	0	0	0	6	Final Report Issued *
Payroll	Good	0	0	0	0	10	Final Report Issued
Council Tax	Good	0	0	0	4	6	Final Report Issued
NDR	Good	0	0	0	0	6	Final Report Issued
Housing Benefits	Good	0	0	1	1	6	Final Report Issued
Asset Management	N/A	-	-	-	-	1	Cancelled
Main Accounting System	Satisfactory	0	0	5	2	9.5	Draft Report Issued
Debtors	Satisfactory	0	0	1	0	10	Final Report Issued
<b>Operational Audits</b>							
Section 106 - Spend Arrangements (follow up)	NA	-	-	-	-	7	Final Report Issued
Recycling	Satisfactory	0	0	5	3	9.5	Draft Report Issued

## APPENDIX A – FINAL POSITION AGAINST THE COUNCIL'S 2019/20 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	STATUS/COMMENT
		C	H	M	LA		
Recruitment Process	Satisfactory	0	0	8	1	10	Final Report Issued
Members Allowances and Expenses	Satisfactory	0	0	3	1	8	Final Report Issued
Land Charges	Satisfactory	0	0	1	0	10	Final Report Issued
Homelessness Reduction Act / Temporary Accommodation	N/A	-	-	-	-	0	Cancelled
Herts Home Improvement Agency (follow up)	NA	-	-	-	-	1.5	In Quality Review
Health and Safety	Satisfactory	0	0	3	1	10	Final Report Issued
Consultation and Engagement	Satisfactory	0	0	1	1	10	Final Report Issued
Complaints Policy and Procedure	Satisfactory	0	0	0	3	10	Final Report Issued
Community Grants Programme/Lottery	Satisfactory	0	0	4	4	8	Final Report Issued
CCTV - joint review (follow up)	NA	-	-	-	-	1	Final Report Issued
Business Continuity Planning	Satisfactory	0	0	4	3	10	Final Report Issued
Budgetary Control	Good	0	0	0	3	9.5	Draft Report Issued
Insurance	Satisfactory	0	0	1	1	8	Final Report Issued

## APPENDIX A – FINAL POSITION AGAINST THE COUNCIL'S 2019/20 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	STATUS/COMMENT
		C	H	M	LA		
Risk Management	Satisfactory	0	0	1	4	8	Final Report Issued
Procurement	Satisfactory	0	0	1	1	10	Final Report Issued
Contract Management	Satisfactory	0	0	2	0	10	Final Report Issued
<b>IT Audits</b>							
IT Shared Service Agreement	NA	0	0	2	1	6	Final Report Issued
IT Project Management	Satisfactory	0	0	2	0	6	Final Report Issued *
Information Management	Limited	0	1	3	0	5.5	Draft Report Issued
Cyber Security (follow up)	NA	-	-	-	-	6	Final Report Issued
<b>Other Chargeable</b>							
2020/21 Audit Planning	-	-	-	-	-	10	Complete
Plan Delivery Monitoring	-	-	-	-	-	9	Complete
Head of Internal Audit Opinion 2018/19	-	-	-	-	-	5	Complete
Client Liaison	-	-	-	-	-	10	Complete

## APPENDIX A – FINAL POSITION AGAINST THE COUNCIL'S 2019/20 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	STATUS/COMMENT
		C	H	M	LA		
External Audit Liaison	-	-	-	-	-	1	Complete
Adhoc Advice	-	-	-	-	-	10.5	Complete
Audit Committee	-	-	-	-	-	12	Complete
Follow Up of Critical/High Priority Recommendations	-	-	-	-	-	4	Complete
Shared Learning/Joint Reviews	-	-	-	-	-	12.5	Complete
SIAS Development	-	-	-	-	-	5	Complete
18/19 Projects Requiring Completion	-	-	-	-	-	6	Complete
Contingency	-	-	-	-	-	23	N/A
<b>Total</b>		<b>0</b>	<b>1</b>	<b>48</b>	<b>34</b>	<b>336.5</b>	

\* At Draft Report stage at 31 March 2020, Final Report issued after year end.

Key to Assurance Level and Recommendation Priority Levels: NA = Not Assessed; C = Critical priority recommendations; H = High priority recommendations; M = Medium priority recommendations; LA = Low/Advisory priority recommendations.

## APPENDIX B – DEFINITIONS OF ASSURANCE AND RECOMMENDATION PRIORITY LEVELS

### 2019/20 Definitions of Assurance and Recommendation Priority Levels

Assurance Level		Definition
<b>Good</b>		The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
<b>Satisfactory</b>		The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
<b>Limited</b>		The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
<b>No</b>		The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.
Priority Level		Definition
Corporate	<b>Critical</b>	Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
	<b>High</b>	Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
Service	<b>Medium</b>	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	<b>Low / Advisory</b>	Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.

## APPENDIX C – POSITION AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT APRIL 2020 – ACTION PLAN

**Section A: Conformance** - During 2019/20 all areas apart from those identified in Section B below were conforming.

### Section B: Intentional Non-Conformance

Ref	Area of Non-Conformance with the Standard	Commentary	
3.1a	<b>Purpose, Authority and Responsibility</b>  Does the board (defined as the Audit Committee) approve decisions relating to the appointment and removal of the Chief Audit Executive (CAE) (Head of Assurance)?	The Director of Resources, Hertfordshire County Council (HCC), in consultation with the Board of the Shared Internal Audit Services approves decisions relating to the appointment and removal of the CAE.  This is as provided for in the governance of the Shared Internal Audit Service.	<b>Non-conformance</b>  No further action proposed. The current arrangements are considered effective given the shared nature of SIAS.
3.1c	<b>Purpose, Authority and Responsibility</b>  Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?	The performance appraisal is carried out by the Director of Resources (HCC).	<b>Non-conformance</b>  No further action proposed. The appraisal process was carried out by the Director of Resources (HCC) with input from all partner chief finance officers. The current arrangements are considered effective given the shared nature of SIAS.





## **Audit Charter 2020/2021**

### **1. Introduction and Purpose**

- 1.1. Internal auditing is an independent and objective assurance and consulting activity. It is guided by a philosophy of adding value to the operations of an organisation. It assists a council in achieving its objectives and ultimately provides assurance to the public by systematically evaluating and improving the effectiveness and efficiency of risk management, control and governance processes.

### **2. Scope**

- 2.1. This Charter applies to all clients of the Shared Internal Audit Service (SIAS).

### **3. Statutory Basis of Internal Audit**

- 3.1. Local government is statutorily required to have an internal audit function. The Accounts and Audit Regulations 2015 require that 'a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 3.2. In addition, a council's Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To fulfil this requirement, the S151 officer relies, amongst other sources, upon the work of internal audit.

### **4. Role**

- 4.1. SIAS internal audit activity is overseen by each client council's committee charged with fulfilling audit committee responsibilities herewith referred to as the Audit Committee. As part of its oversight role, the Audit Committee is responsible for defining the responsibilities of SIAS via this Charter.
- 4.2. SIAS may undertake additional consultancy activity requested by management. The Head of Assurance will determine such activity on a case by case basis

assessing the skills and resources available. Significant additional consultancy activity not already included in the Internal Audit Plan will only be accepted and carried out following consultation with the SIAS Board.

### 5. Professionalism

- 5.1. SIAS governs itself by adherence to the Public Sector Internal Audit Standards (PSIAS). These standards include the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (IPPF). They set out the fundamental requirements for the professional practice of internal auditing and the evaluation of the effectiveness of an internal audit function's performance.
- 5.2. SIAS also recognises the Mission of Internal Audit as identified within the IPPF, 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight' and the Core Principles for the Professional Practice of Internal Auditing, which demonstrate an effective internal audit function, achieving internal audit's mission.
- 5.3. SIAS's operations are guided by its operating procedures manual as well as applicable, Chartered Institute of Internal Auditors (CIIA) Position Papers, Practice Advisories and Guides, and relevant council policies and procedures, including compliance with the Bribery Act 2010.
- 5.4. Should non-conformance with the PSIAS be identified, the Head of Assurance will investigate and disclose, in advance if possible, the exact nature of the non-conformance, the reasons for it and, if applicable, its impact on a specific engagement or engagement outcome.

### 6. Authority and Confidentiality

- 6.1. Internal auditors are authorised full, free, and unrestricted access to any and all of a client's records, physical properties, and personnel as required to carry out an engagement. All client employees are requested to assist SIAS in fulfilling its roles and responsibilities. Information obtained during the course of an engagement is safeguarded and confidentiality respected.
- 6.2. Internal auditors will only use information obtained to complete an engagement. It will not be used in a manner that would be contrary to the law, for personal gain, or detrimental to the legitimate and ethical objectives of the client organisation(s). Internal auditors will disclose all material facts known which if not disclosed, could distort a report or conceal unlawful practice.

### 7. Organisation

- 7.1. The Head of Assurance and their representatives, have free and unrestricted direct access to Senior Management, the Audit Committee, the Chief Executive,

the Chair of the Audit Committee and the External Auditor. The Head of Assurance will communicate with any and all of the above parties at both committee meetings and between meetings as appropriate.

- 7.2. The Chairman of the Audit Committee has free and unrestricted direct access to both the Head of Internal Audit, and the Council's External Auditor.
- 7.3. The Head of Assurance is line managed by the Director of Resources at Hertfordshire County Council (HCC), who approves all decisions regarding the performance evaluation, appointment, or removal of the Head of Assurance, in consultation with the SIAS Board. Each partner's Section 151 Officer is asked to contribute to the annual appraisal of the Head of Assurance.

### 8. Stakeholders

The following groups are defined as stakeholders of SIAS:

- 8.1. The Head of Assurance and the Head of The Shared Internal Audit Service, both suitably experienced and qualified (CCAB and / or CMIIA), are responsible for:
  - hiring, appraising and developing SIAS staff in accordance with the host authority's HR guidance.
  - maintaining up-to-date job descriptions which reflect the roles, responsibilities, skills, qualifications, and attributes required of SIAS staff.
  - ensuring that together, SIAS staff possess or obtain the skills, knowledge and competencies (including ethical practice) needed to effectively perform SIAS engagements.
- 8.2. The Audit Committee is responsible for overseeing the effectiveness of SIAS and holding the Head of Assurance to account for delivery. This is achieved through the approval of performance targets set by the SIAS Board and receipt of regular reports.
- 8.3. The Audit Committee is also responsible for the effectiveness of the governance, risk and control environment within the Council, holding managers to account for delivery.
- 8.4. The Audit Committee, as set out in its formal Terms of Reference, also ensures that there is appropriate communication of, and involvement in, internal audit matters as required from the wider publicly elected Member body.
- 8.5. Senior Management, defined as the Head of Paid Service, Chief Officers and their direct reports, are responsible for helping shape the programme of assurance work. This is achieved through analysis and review of key risks to achieving the Council's objectives and priorities.

- 8.6. The SIAS Board is the governance group charged with monitoring and reviewing the overall operation of SIAS including:
- resourcing and financial performance.
  - operational effectiveness through the monitoring performance indicators.
  - the overall strategic direction of the shared service.

## **9. Independence and Objectivity**

- 9.1 No element in the organisation should interfere with audit selection, scope, procedures, frequency, timing, or report content. This is necessary to ensure that internal audit maintains the necessary level of independence and objectivity.
- 9.2 As well as being impartial and unbiased, internal auditors will have no direct operational responsibility or authority over any activity audited. They will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that might impair their judgment.
- 9.3 When asked to undertake any additional roles/responsibilities outside internal auditing, the Head of Assurance will highlight to the Audit Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the PSIAS Code of Ethics as well as any relevant requirements set out in other professional bodies to which the CAE may belong. The Audit Committee will approve and periodically review any safeguards put in place to limit any impairments to independence and objectivity.
- 9.4 The Head of Assurance will confirm to the Audit Committee, at least annually, the organisational independence of SIAS.

## **10. Conflicts of Interest**

- 10.1. Internal auditors will exhibit clear professional objectivity when gathering, evaluating, and communicating engagement information. When forming judgments, they will make a balanced assessment of all relevant circumstances and not be influenced by their own interests or the views and interests of others.
- 10.2. Each auditor will comply with the ethical requirements of his/her professional body and proactively declare any potential conflict of interest, whether actual or apparent, prior to the start of an engagement.
- 10.3. All auditors sign an annual declaration of interest to ensure that the allocation of work avoids conflict of interest. Auditors who undertake consultancy work or are new to the team will be prohibited from auditing in those areas where they have worked in the past year. Audits are rotated within the team to avoid over-familiarity and complacency.

- 10.4. SIAS procures an arrangement with an external partner to provide additional internal audit days on request. The external partner will be used to deliver engagements as directed by the Head of Assurance in particular providing advice and assistance where SIAS staff lack the required skills or knowledge.
- 10.5. In the event of a real or apparent impairment of independence or objectivity, (acceptance of gifts, hospitality, inducements or other benefits) the Head of Assurance will investigate and report on the matter to appropriate parties.

**11. Responsibility and Scope**

- 11.1. The scope of SIAS encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes (as they relate to the organisation's priorities and objectives) and the promotion of appropriate ethics and values.
- 11.2. Internal control and risk management objectives considered by internal audit extend to the organisation's entire control and risk management environment and include:
- consistency of operations or programs with established objectives and goals, and effective performance
  - effectiveness and efficiency of governance, operations and employment of resources
  - compliance with significant policies, plans, procedures, laws, and regulations
  - design, reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information
  - safeguarding of assets
- 11.3. SIAS is well placed to provide advice and support on emerging risks and controls and will, if requested, deliver consulting and advisory services or evaluate specific operations.
- 11.4. SIAS is responsible for reporting to the Audit Committee and senior management, significant risk exposures (including those to fraud addressed in conjunction with the Shared Anti-Fraud Service), control and governance issues and other matters that emerge from an engagement.
- 11.5. Engagements are allocated to (an) internal auditor(s) with the appropriate skills, experience and competence. The auditor is then responsible for carrying out the work in accordance with the SIAS Operating Procedures Manual, and must consider the relevant elements of internal control, the needs and expectations of clients, the extent of work required to meet the engagement's objectives, its cost effectiveness, and the probability of significant error or non-compliance.

**12. Role in Anti-Fraud**

- 12.1. The SIAS work programme, designed in consultation with Senior Management, the Audit Committee and, where applicable, the Shared Anti-Fraud Service, seeks to help deter fraud and corruption.
- 12.2. In conjunction with the Shared Anti-Fraud Service SIAS shares information with relevant partners to increase the likelihood of detecting fraudulent activity and reducing the risk of fraud to all.
- 12.3. The Head of Assurance should be notified of all suspected or detected fraud, corruption or impropriety so that the impact upon control arrangements can be evaluated.

**13. Internal Audit Plan**

- 13.1. Following discussion with appropriate senior management, the Head of Assurance will submit a risk-based plan to the Audit Committee for review and approval. This will occur at least annually. The plan sets out the engagements agreed and demonstrates the priorities of both SIAS (the need to produce an annual internal audit opinion) and those of the organisation. Also included will be any relevant declarations of interest.
- 13.2. The plan will be accompanied by details of the risk assessment approach used and will take into account the organisation's assurance framework. Also shown will be the timing of an engagement, its budget in days, details of any contingency for new or changed risks, time for planning and reporting and a contribution to the development of SIAS.
- 13.3. The plan will be subject to regular review in year, and may be modified in response to changes in the organisation's business, risks, operations, programmes, systems and controls. All significant changes to the approved internal audit plan will be communicated in the quarterly update reports.

**14. Reporting and Monitoring**

- 14.1. A draft written Terms of Reference will be prepared and issued to appropriate personnel at the start of an engagement. It will cover the intended objectives, scope and reporting mechanism and will be agreed with the client. Changes to the terms of reference during the course of the engagement may occur and will be agreed following consultation with the client.
- 14.2. A report will be issued on completion of an engagement. It will include a reasoned opinion, details of the time period and scope within which it was prepared, management's responses to specific risk prioritised findings and recommendations made and a timescale within which corrective action will be /

has been taken. If recommended action is not to be taken, an explanation for this will also be included.

- 14.3. SIAS will follow-up the implementation of agreed recommendations in line with the protocol at each client. As appropriate, the outcomes of this work will be reported to the audit committee and may be used to inform the risk-based planning of future audit work. Should follow-up activity identify any significant error or omission, this will be communicated by the Head of Assurance to all relevant parties. A revised internal audit opinion may be issued on the basis of follow-up activity.
- 14.4. In consultation with senior management, the Head of Assurance will consider, on a risk-basis, any request made by external stakeholders for sight of an internal audit report.
- 14.5. Quarterly update reports to the Audit Committee will detail the results of each engagement, including significant risk exposures and control issues. In addition, an annual report will be produced giving an opinion on the overall control, governance, and risk management environment (and any other issues judged relevant to the preparation of the Annual Governance Statement), with a summary of the work that supports the opinion. The Head of Assurance will also make a statement of conformance with PSIAS, and detail the nature and reasons for any impairments, qualifications or restrictions in scope for which the Committee should seek reassurances from management.

### 15. Periodic Assessment

- 15.1. PSIAS require the Head of Assurance and the SIAS Board to make arrangements for an independent review of the effectiveness of internal audit undertaken by a suitably knowledgeable, qualified and competent individual or organisation. This should occur at least every five years.
- 15.2. The Head of Assurance will ensure that continuous efforts are made to improve the efficiency, effectiveness, and quality of SIAS. These will include the Quality Assurance and Improvement Programme, client feedback, appraisals and shared learning with the external audit partner as well as coaching, supervision, and documented review.
- 15.3. A single review will be carried out to provide assurance to all SIAS partners with the outcomes included in the partner's Annual Report.

### 16. Review of the Audit Charter

- 16.1. The Head of Assurance will review this charter annually and will present, to the first audit committee meeting of each financial year, any changes for approval.

16.2. The Head of Assurance reviewed this Audit Charter in April 2020. It will next be reviewed in April 2021.

**Glossary of Terms**

Audit Committee	The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.
Management	Operational officers of the Council responsible for creating corporate policy and organising, planning, controlling, and directing resources in order to achieve the objectives of that policy. Senior management is defined as the Head of Paid Service, Chief Officers and their direct reports.
The SIAS Board	The Board that comprises officer representatives from the client authorities and that is responsible for the governance of the SIAS partnership
The Audit Plan	The programme of risk-based work carried out by the Shared Internal Audit Service on behalf of its clients
The Public Sector Internal Audit Standards	These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide stakeholders with the key assurances they need to support them both in managing and overseeing the organisation and in producing the annual governance statement.

**Note:**

For readability, the term ‘internal audit activity’ as used in the PSIAS guidance has been replaced with ‘SIAS’ in this Charter.





## East Herts Council Audit and Governance Committee

28 July 2020  
Shared Internal Audit Service –  
Progress Report

### Recommendation

Members are recommended to:

- a) Note the Internal Audit Progress Report
- b) Approve Amendments to the Internal Audit Plan as at 10th July 2020
- c) Note the Status of Critical and High Priority Recommendations

## Contents

- 1 Introduction and Background
  - 1.1 Purpose
  - 1.2 Background
- 2 Audit Plan Update
  - 2.1 Delivery of Audit Plan and Key Findings
  - 2.4 Proposed Audit Plan Changes
  - 2.9 Critical and High Priority Recommendations
  - 2.11 Performance Management

## Appendices:

- A Progress against the 2020/21 Audit Plan
- B Implementation Status of Critical and High Priority Recommendations
- C Audit Plan Items (April 2020 to March 2021) - Indicative start dates agreed with management
- D Assurance Definitions / Priority Levels

# 1 Introduction and Background

## Purpose of Report

- 1.1 To provide Members with:
- a) The progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's 2020/21 Internal Audit Plan as at 10th July 2020.
  - b) The findings for the period 1 April 2020 to 10th July 2020.
  - c) The proposed changes required to the approved Internal Audit Plan.
  - d) The implementation status of previously agreed audit recommendations.
  - e) An update on performance management information as at 10<sup>th</sup> July 2020.

## Background

- 1.2 Internal Audit's Annual Plan for 2020/21 was approved by the Audit and Governance Committee at its meeting on 19 May 2020. The Audit and Governance Committee receive periodic updates against the Internal Audit Plan.
- 1.3 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 function is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed changes to the agreed Annual Internal Audit Plan.

# 2 Audit Plan Update

## Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 10th July 2020, 12% of the 2020/21 Audit Plan days have been delivered (the calculation excludes contingency days that have not yet been allocated).
- 2.2 The following final reports have been issued since the last Progress Report to the Audit and Governance Committee:

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Creditors 2019/20	March 2020	Good	None
Debtors 2019/20	April 2020	Satisfactory	One Medium priority
Treasury Management 2019/20	April 2020	Good	None
IT Project Management 2019/20	April 2020	Satisfactory	Two Medium priority
Commercialisation 2019/20	May 2020	Satisfactory	Four Medium, One Low/Advisory priority
Main Accounting 2019/20	June 2020	Satisfactory	Five Medium, Two Low/Advisory priority

Budgetary Control 2019/20	June 2020	Good	Three Low/Advisory priority
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- 2.3 The table below summarises the position regarding 2020/21 projects as at 10<sup>th</sup> July 2020. Appendix A provides a status update on each individual project within the 2020/21 Internal Audit Plan.

Status	No. of Audits at this Stage	% of Total Audits
Final Report Issued	0	0
Draft Report Issued	0	0
In Fieldwork/Quality Review	4	14
In Planning/Terms of Reference Issued	2	6
Allocated	19	66
Not Yet Allocated	0	0
Cancelled	4	14
Total	29	100

#### Proposed Audit Plan Changes

- 2.4 At the start of the new financial year, Council resources were focused on maintaining services and responding to the COVID-19 pandemic. As a result, no internal audits were started in April and May (a delay in starting to deliver the 2020/21 Audit Plans was experienced across all SIAS partners). As part of the gradual return to Audit Plan delivery at this Council, six audits are now underway at the time of writing this report and it is anticipated that further audits will commence going forward.
- 2.5 Contact was maintained with the Head of Strategic Finance and Property during the above period and a decision made by management to delay some audits to later in the year and, as a result of the loss of available time within the year, an assessment made on those audits that are either no longer required or not seen as a priority.
- 2.6 For the reasons outlined above, the following Audit Plan changes were agreed with management and are proposed to the Committee:

#### Cancellations

- Emergency Planning (10 days) – audit intended for quarter 2, however, the Council's Plans were tested in the real environment through the response to COVID-19.
- Food Safety (10 days) – audit intended for quarter 1 but it was not considered a priority whilst many food premises were closed.

- c) Customer Services (10 days) – audit intended for quarter 1 but it was not considered a priority whilst the Council Offices were closed.

#### Amendments

- d) Grange Paddocks and Hartham Leisure Centres (10 days) – audit intended for quarter 1 but this project is now being reviewed by the Council's external auditor. The internal audit days have been returned to contingency and will be reallocated to a new audit later in the year.

- 2.7 The impact of the above changes is a total reduction of 30 days in the 2020/21 Internal Audit Plan as originally approved by Committee in March 2020.
- 2.8 It has also been necessary to re-profile the remaining audits in-line with service capacity as known at the time of writing this report. This is shown at Appendix C. The position will be reviewed as the year progresses and any further changes reported to Committee.

#### Critical and High Priority Recommendations

- 2.9 Members will be aware that a Final Audit Report is issued when it has been agreed ("signed off") by management; this includes an agreement to implement the recommendations that have been made.
- 2.10 The schedule attached at Appendix B details any outstanding Critical and High priority audit recommendations.

#### Performance Management

- 2.11 The 2020/21 annual performance indicators were approved at the SIAS Board meeting in March 2020.
- 2.12 The actual performance for East Herts Council against the targets that can be monitored in year is set out in the table below:

Performance Indicator	Annual Target	Profiled Target	Actual to 10 July 2020
<b>1. Planned Days</b> – percentage of actual billable days against planned chargeable days completed	95%	11% (31/270 days) Note (1)	12% (32.5/270 days)
<b>2. Planned Projects</b> – percentage of actual completed projects to draft report stage against planned completed projects	95%	0% (0/25 projects)	0% (0/25 projects)
<b>3. Client Satisfaction</b> – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100% (2 received) Note (2)

<b>4. Number of Critical and High Priority Audit Recommendations agreed</b>	95%	95%	No High priority recommendations have been made
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Note (1) - this reflects the delay in starting to deliver the 2020/21 Internal Audit Plan.

Note (2) - the 2 received in 2020/21 relate to 2019/20 audits.

## APPENDIX A - PROGRESS AGAINST THE 2020/21 AUDIT PLAN

### 2020/21 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Key Financial Systems – 64 days									
Main Accounting System						8	Yes	0	Allocated
Debtors						8	Yes	0	Allocated
Creditors						8	Yes	0	Allocated
Treasury Management						6	Yes	0	Allocated
Payroll						8	Yes	0	Allocated
Council Tax						6	Yes	0	Allocated
Business Rates						6	Yes	0	Allocated
Housing Benefits						6	Yes	0	Allocated
Asset Management						8	Yes	0	Allocated
Operational Audits – 109 days									
Customer Services						0	N/A	0	Cancelled
My View (Payroll self service)						10	Yes	0	Allocated
Grounds Maintenance						10	Yes	0	Allocated
Car Parking						10	Yes	0	Allocated
Emergency Planning						0	N/A	0	Cancelled
Development Control						10	Yes	0	Allocated
Facilities Management						10	Yes	6.5	In Fieldwork
Waste Management (follow-up)						2	Yes	0.5	In Planning
Fly Tipping						10	Yes	0	Allocated
Food Safety						0	N/A	0	Cancelled
Climate Change & Sustainability						7	Yes	0	Allocated
Tree Management						10	Yes	3	In Fieldwork
Performance Management						10	Yes	3.5	In Fieldwork

## APPENDIX A - PROGRESS AGAINST THE 2020/21 AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Business Improvement District						10	Yes	0	Allocated
Millstream Property Investment						10	Yes	0	Allocated
<b>Procurement, Contract Management and Project Management – 10 days</b>									
Grange Paddocks & Hartham Leisure Centres						0	N/A	0	Cancelled
Old River Lane						10	Yes	0	Allocated
<b>Risk Management and Governance – 10 days</b>									
Risk Management						10	Yes	2.5	In Fieldwork
<b>IT Audits – 12 days</b>									
Payment Card Industry Compliance						6	Yes	0.5	In Planning
Hardware Acquisition, Movement & Disposal						6	Yes	0	Allocated
<b>Shared Learning and Joint Reviews – 5 days</b>									
Joint Reviews						2	No	0	Not Yet Allocated
Shared Learning						3	No	0	Not Yet Allocated
<b>Counter Fraud – 3 days</b>									
Matters Identified By SAFS						3	Yes	0	Not Yet Allocated
<b>Ad Hoc Advice – 2 days</b>									
Advice						2	Yes	0	Allocated
<b>Completion of 19/20 Projects – 10 day</b>									
Various						10	Yes	2.5	In Progress
<b>Contingency – 20 days</b>									
Contingency						20	N/A	0	Through Year
<b>Strategic Support – 45 days</b>									
Head of Internal Audit Opinion 2019/20						3	Yes	3	Complete
Audit Committee						8	Yes	2.5	Through Year



## APPENDIX A - PROGRESS AGAINST THE 2020/21 AUDIT PLAN

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AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
Follow Up of Audit Recommendations						4	Yes	0.5	Through Year
Client Liaison						6	Yes	1	Through Year
Liaison with External Audit						1	Yes	0.5	Through Year
Plan Monitoring						12	Yes	1	Through Year
SIAS Development						5	Yes	5	In Progress
2021/22 Audit Planning						6	Yes	0	Allocated
<b>EHC TOTAL</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>290</b>		<b>32.5</b>	

## APPENDIX B – IMPLEMENTATION STATUS OF CRITICAL AND HIGH PRIORITY RECOMMENDATIONS

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (July 2020)
1.	Cyber Security follow up (2018/19).	<p><u>Network access control.</u> Management should establish a network access control to block unknown or unauthorised devices from connecting to the Council's IT network. This should include restricting the ability to physically connect to the IT network. Where there is a demonstrable need for a device to connect to the IT network, the Service should require:</p> <p>The purpose for the connection has been recorded</p> <p>Appropriate security controls have been enabled on the device connecting to the IT network</p> <p>The period of time that the device will require the connection</p> <p>All connections are approved before being allowed to proceed.</p> <p>Devices connected to the IT network should be reviewed on a routine basis.</p>	The Council has created a Security & Network Team who has been tasked to look at security / network tools. There is also a planned upgraded Office 365 and in particular Intune to manage all mobile (non-network connected) devices. The plan is to ensure that only known devices are allowed to access Council systems.	ICT Strategic Partnership Manager.	<p>Network Tools July 2019.</p> <p>Intune October 2019.</p> <p>Procurement of network tools revised to November 2020.</p>	<p><u>July 2019.</u> This is a new addition and the management response opposite is therefore the latest comment.</p> <p><u>September 2019.</u> Intune MDM has been installed and will be rolled out to manage all mobile devices and Windows 10 laptops. Plan in place to upgrade all Laptops to windows 10 is in place to ensure control via Intune encryption using Bitlocker.</p> <p>Financial and resource restrictions have forced the procurement of network tools to financial year 2020/21.</p> <p><u>December 2019.</u> Revised date as above. It is very rare (if ever) that someone connects</p>	Partially implemented – continue to monitor.

## APPENDIX B – IMPLEMENTATION STATUS OF CRITICAL AND HIGH PRIORITY RECOMMENDATIONS

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (July 2020)
						<p>an external device to the IT network. The Zero Clients do not allow the transfer of data to anything plugged into it.</p> <p><u>February 2020.</u> Revised implementation date as above.</p> <p><u>July 2020.</u> Budget obtained to purchase networking tools to cover this and other security areas. The procurement will start shortly.</p>	
2.	Incident Management follow up (2018/19).	<p><u>Updating the disaster recovery plan.</u> Management should update the Council's IT disaster recovery plan to include the procedure for establishing all IT services at a single data centre. A complete IT Disaster Recovery scenario test on all applications and systems should take place to provide assurance that recovery could happen within the</p>	With our upgrade to horizon VDI, we are installing hardware which will allow either site to run 100% of capacity allowing the complete downing of one site for upgrade work but will of course allow for full capacity in the event on one data centre being of offline.	ICT Strategic Partnership Manager.	<p>August 2019 – DR review.</p> <p>April 2020 - VDI upgrade.</p>	<p><u>July 2019.</u> This is a new addition and the management response opposite is therefore the latest comment.</p> <p><u>September 2019.</u> VDI upgrade out to tender with award scheduled for October 2019.</p> <p><u>December 2019.</u> Expected completion</p>	Partially implemented – continue to monitor.

## APPENDIX B – IMPLEMENTATION STATUS OF CRITICAL AND HIGH PRIORITY RECOMMENDATIONS

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (July 2020)
		<p>expected time frame.</p> <p>The Service should document the results of the test to determine the further actions required to improve the efficacy of the plan.</p>				<p>for this work is now April 2020.</p> <p><u>February 2020.</u> As above.</p> <p><u>July 2020.</u> A verbal update will be provided at the committee meeting.</p>	
3.	<p>Herts Home Improvement Agency 2018/19.</p> <p><i>These recommendations and their implementation status are overseen and monitored by Hertfordshire County Council as the lead authority but are included here for Member information.</i></p>	<p>The HHIA should review the current business continuity and succession planning arrangements in place to ensure that the service can continue to function in the absence of key officers.</p> <p>Given the existing recruitment difficulties, the Board should critically review whether the existing pay grading structure is sufficient, or indeed whether recruitment difficulties relate to underlying issues in respect of the structure, job roles and responsibilities within the Agency.</p> <p>The above recommendation is critical as whilst the HHIA may be able to secure sufficient staff capacity</p>	<p>New Senior Management structure in place:</p> <p>Head of Service reporting to Head of Hertfordshire Equipment Service. Longer term continuity to be reviewed as part of the review project.</p> <p>Put in place staffing to support the service whilst review is undertaken:</p> <ul style="list-style-type: none"> <li>- MA overseeing Operations team but not undertaking operations tasks</li> <li>- Operations Manager replaced by Senior Technical Officer (Agency) with sole focus on progressing projects</li> </ul>	<p>Head of HHIA and Head of Hertfordshire Equipment Service (HES).</p>	<p>In place.</p> <p>In place / in progress.</p>	<p><u>September 2019.</u> New Senior Management team in place and recruitment for Business Analyst will be complete August 2019. Senior Technical Officer role re-graded and out to advert August 2019. In discussion with HR to create a career grade for Technical roles to improve ability to attract staff. Quality Improvement plan under discussion but may be a long-term project.</p> <p>Quality Improvement Plan target subject to review.</p> <p><u>December 2019.</u></p>	Implemented.

## APPENDIX B – IMPLEMENTATION STATUS OF CRITICAL AND HIGH PRIORITY RECOMMENDATIONS

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (July 2020)
		through the use of temporary staff, this is not financially sustainable within the business model, nor does it provide the required workforce stability that the HHIA requires to provide a consistent level of service and drive through key business change activities.	<ul style="list-style-type: none"> <li>- SE acts as cover/support for MA</li> <li>- Business Development Manager resigned – to be replaced by Business Analyst (fixed term 1 year)</li> </ul> <p>Work with HR colleagues to review current structure, with particular focus on technical roles, although there needs to be an acceptance that there will be short-term reliance on agency staff in technical roles until these can be reviewed.</p> <p>Undertake Financial Analysis to understand potential to grow staffing with revenue</p> <p>Review of processes to improve productivity and stop blockages. To be incorporated in recovery plan.</p>		<p>Oct/Nov 2019.</p> <p>Oct/Nov 2019.</p> <p>In progress.</p>	<p>Standard Operating Procedures are being developed and are nearing completion.</p> <p>The new Business Analyst is now in post and will provide both strategic and operational statistics alongside case monitoring infrastructure .</p> <p>A new caseworker started in November and technical officer have been recruited and due to start on 9 Dec 19.</p> <p>Senior Technical Officer role was re-graded and interviews are taking place this month for the second time.</p> <p>A review of the HIA team structure is due to take place in early 2020. As the HIA moves towards a client centred approach.</p> <p><u>February 2020.</u></p>	

## APPENDIX B – IMPLEMENTATION STATUS OF CRITICAL AND HIGH PRIORITY RECOMMENDATIONS

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (July 2020)
						As above. Revised implementation date May 2020.  <u>July 2020.</u> The recommendation has been implemented.	
4.	Herts Home Improvement Agency 2018/19. <i>As above.</i>	Further training should be provided to HHIA staff to ensure that the case management system is completed and updated in line with expectations. Regular data quality checks should be performed on the case management system to obtain assurance that records are updated in an accurate and timely manner (including a review of data exceptions – e.g. blank fields). A mapping exercise should be performed to identify the key fields within the case management system that support key monitoring and KPI routines, with data quality checks focusing in particular on these areas. We also recommend that HCC Finance is provided	Undertaking review of CMS system Process mapping exercise completed to understand how staff currently use the system and where changes need to be made Identification of training needs for staff and resource to undertake these. Training to include inputting and quality of data. Super-user / system manager to be identified to oversee data checks, develop the system e.g. for mobile working, and work with Finance to develop reporting suite. Review access to CMS/ other reporting	Head of HHIA and Business Improvement Manager.	In progress completion by August 2019.  Mapping complete.  Further recommendation by Aug 2019.  By August 2019 Training by Oct 2019.  Autumn 2019 (funding and resource dependent).  Autumn 2019.	<u>September 2019.</u> Review and process mapping complete. Some training completed July 2019 and Business Analyst (when in post) to oversee superusers and work with Finance to develop reporting protocols. Due to issues raised in review, a meeting is to be held with Foundations and systems developer in August 2019 to raise issues around outstanding development of the system. Report will be made to HHIA Board regarding potential options which could include replacing the system when the current	Implemented.

## APPENDIX B – IMPLEMENTATION STATUS OF CRITICAL AND HIGH PRIORITY RECOMMENDATIONS

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (July 2020)
		with access to a reporting suite within the case management system, sufficient to support the production of financial monitoring / Board reports.	suites for Finance to allow for improved financial reporting or define how this will be achieved e.g. Business Analyst to report on non-SAP data.			<p>contract ends (Sept 2020).</p> <p>December 2019. A full review of the CMS system has now been completed. Report is available - with recommendations now being incorporated into the audit tracker for monitoring.</p> <p>All current HIA staff will undertake "Ferret Training" in January 2019 to ensure all staff are "up skilled" and we are resilient as a team.</p> <p>The new Business Analyst will be the Super user of the team, followed by Senior Business Support after training.</p> <p>The Business Analyst has begun working with finance to align CMS and SAP reporting.</p>	

## APPENDIX B – IMPLEMENTATION STATUS OF CRITICAL AND HIGH PRIORITY RECOMMENDATIONS

No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	SIAS Comment (July 2020)
						<p>The Business analyst starting from November to undertake random monthly "spot check" audits.</p> <p><u>February 2020.</u> As above.</p> <p><u>July 2020.</u> The recommendation has been implemented.</p>	







## APPENDIX C – AUDIT PLAN ITEMS (APRIL 2020 TO MARCH 2021) – INDICATIVE START DATES AGREED WITH MANAGEMENT

Apr	May	Jun	July	Aug	Sept
2019/20 Projects Requiring Completion	Food Safety (Cancelled)	Customer Services (Cancelled)	Performance Management c/f from May (In Fieldwork)	Climate Change and Sustainability	Grounds Maintenance
Grange Paddocks and Hartham Leisure Centres (Cancelled)		Risk Management (In Fieldwork)	Waste Contract (follow up) (In Planning)	Fly Tipping	Emergency Planning (Cancelled)
		Tree Management (In Fieldwork)			Payment Card Industry Compliance c/f from May (In Planning)
		Facilities Management c/f from April (In Fieldwork)			
Oct	Nov	Dec	Jan	Feb	Mar
Old River Lane	Council Tax	Main Accounting	Treasury Management	Asset Management	
Car Parking c/f from July	Non-Domestic Rating	Debtors	Hardware Acquisition, Movement & Disposal	Millstream Property Investment	
	Housing Benefits	Creditors	Business Improvement Districts		
	My View (payroll self-service)	Payroll	Development Control		

## APPENDIX D – ASSURANCE / PRIORITY LEVELS

Assurance Level	Definition
<b>Good</b>	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
<b>Satisfactory</b>	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
<b>Limited</b>	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
<b>No</b>	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

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



## East Herts Council

### Anti-Fraud Report 2019/20

#### Recommendation

Members are recommended to:

- Review the Councils work to combat fraud in 2019/20
- Review the performance of SAFS in meeting its KPIs in 2019/20

## **Contents**

- 1 Introduction and Background**
- 2 Delivery of the 2019/20 Anti-Fraud Plan**
- 3 SAFS Joint Review/ Internal Audit**
- 4 Transparency Code- Fraud Data**

## **Appendices**

- A. Fighting Fraud and Corruption Locally a Strategy for the 2020s
- B. Anti-Fraud Plan 2019/20
- C. Delivery of the Fraud Plan 2019/20
- D. Fraud Statistics 2019/2020

## 1 Introduction and Background

### Introduction

This report provides details of the work undertaken to protect the Council against the threat of fraud as laid out in the Council's Anti-Fraud Action plan for 2019/20. The Committee are asked to note this work.

Recent reports have been provided to Council officers and are being used by SAFS to ensure that the Council is aware of its own fraud risks and is finding ways to mitigate or manage these effectively wherever possible.

These reports include:

*Fighting Fraud and Corruption Locally a Strategy for the 2020s* published in partnership by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Credit Industry Fraud Avoidance Service (CIFAS), the Local Government Association (LGA) and the Society of Local Authority Chief Executives (SOLACE) in March 2020. This is the first time that such a publication has had this level of support across the counter fraud in local government. See **Appendix A** for a copy of the Strategy.

*Perspectives on Fraud- Insights from Local Government.* In 2019 CIPFA commissioned a survey and round table events for senior managers in local government to establish what local authorities were doing to tackling fraud. The survey was conducted by an independent body with the support of LGA & MHCLG.

CIPFAs *Fraud and Corruption Tracker 2019* indicates that fraud risks had increased since 2016 but that counter fraud capacity within councils had reduced, and would continue to do so, placing local government at even greater risk.

The Governments *United Kingdom Anti-Corruption Strategy 2017-2022* includes the vision and priorities for dealing with and reducing the risk of corruption within the UK private, public & charity sectors and when working with organisations /companies/government agencies abroad.

## **1. Background**

- 1.2 According to reports from CIPFA, the 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.
- 1.3 The Cabinet Office, Ministry for Housing Communities and Local Government, National Audit Office, 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 Councils to be vigilant in recognising their fraud risks and to invest sufficient resources in counter fraud activities that deliver savings through prevention.
- 1.4 It is essential that the Council has in place a robust framework to prevent and deter fraud, including effective strategies and policies, and plans to deal with the investigation and prosecution of identified fraud.
- 1.5 East Herts Council is a founding member of the Hertfordshire Shared Anti-Fraud Service (SAFS). This Committee has received detailed reports about the creation of SAFS and how this service works closely with the Shared Internal Audit Service (SIAS).

## **2. SAFS Activity 2019/20 & Delivery of the 2019/20 Anti-Fraud Plan**

### The Plan

- 2.1 This committee reviewed and commented on the Councils Anti-Fraud Plan for 2019/20 at its meeting in March 2019. A copy of the Plan can be found at **Appendix B**.
- 2.2 The plan was proposed by SAFS and agreed and approved by senior officers within the Council. Delivery of the plan is very much a partnership between officers across the Council with key roles and SAFS providing expertise and operational support where required.
- 2.3 We are very pleased to report that all actions proposed for the 2019/20 Anti-Fraud Plan commenced in year with the vast majority being completed in-year. Where actions were incomplete they have been carried into the current years (2020/21) plan. Delivery of the 2019/20 plan can be found at **Appendix C**

### Staffing

- 2.3 The SAFS Team (in April 2019) was composed of 18 accredited and fully trained counter fraud staff and is based at Hertfordshire County Councils offices in Stevenage.

- 2.4 Each SAFS partner receives dedicated support by the allocation of officers to work exclusively for each partner whilst allowing all officers within the Team to work with different partners from time to time. Providing the service this way allows officers to develop good working relationships with council officers whilst providing resilience and flexibility across the partnership as a whole.
- 2.5 In 2019/20 SAFS deployed one member of staff to work for the Council. This officer was supported by SAFS management and the SAFS intelligence team, data-analytics and an Accredited Financial Investigator. SAFS officers have access to Council offices, officers and systems to conduct their work
- 2.6 As part of the Councils Anti-Fraud Plan for 2019/20 a number of KPIs were agreed with SAFS to measure its performance, these are shown below with outcomes.

KPI	Measure	Target 2019/2020	PROGRESS TO OCTOBER 2019	Reason for KPI
1	Return on investment from SAFS Partnership.	Demonstrate, via SAFS Board, that the Council is receiving a financial return on investment from membership of SAFS and that this equates to its financial contribution.	Fees to SAFS £81.6k. SAFS identified £193k in loss/savings. CTR Review identified £100k in Council Tax. NFI identified £125k in savings.	Transparent evidence to Senior Management that the Council is receiving a service matching its contribution.
2	Provide an investigation service.	A. 1 FTE on call at the Council. (Supported by SAFS Intel/ AFI/Management). B. 3 Reports to Audit Committee. C. SAFS Attendance at Mgt Meetings	A. FTE in post B. AC reports included in Fwd Plan. C. Meetings ongoing	Ensure ongoing effectiveness and resilience of the Councils anti-fraud arrangements.
3	Action on reported fraud.	A. All urgent/ high risk cases 2 Days. B. All other cases 5 Days on Average.	A&B Performance -2 day on average for all EHC referrals	Ensure that all cases of reported fraud are triaged within agreed timescales.
4	Added value of SAFS membership.	A. Membership of NAFN B. Membership of CIPFA Counter Fraud Centre C. NAFN Access/Training for relevant Council Staff D. 5 Fraud training events for staff/Members in year.	A&B. NAFN/ CIPFA Membership in place for EHC. C. NAFN license & access provided. D. Training events agreed with 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. 100 - Fraud referrals from all sources to SAFS  B. 60% of cases investigated and closed in year	81  60% (23 cases from 38 closed)	Measure the effectiveness of the service in promoting the reporting of fraud by staff and public & Measure the effectiveness in identifying cases worthy of investigation.
6	Making better use of data to prevent/identify fraud.	A. Implement the Herts FraudHub for the Council. B. Complete NFI 2018/2019 Reports.	A. FraudHub contract signed by EHC Mgt 2020 B. NFI Review ongoing	Build a Hub that will allow the Council to access and share data to assist in the prevention/detection of fraud.

- 2.7 KPI 5A. the reported fraud target was missed but we review fraud reporting across all SAFS Partners and EHC has been 'traditionally' at the low end in volume of cases reported since 2015.
- 2.8 KPI 6A&B were also incomplete at year end but we are working with Council officers to resolve these in 2020/21

**Fraud Awareness and Reported Fraud**

- 2.9 A key aim for the Council is to create an anti-fraud culture, that encourages senior managers and members to consider the risk of fraud when developing policies or processes, this will help to prevent fraud occurring; deter potential fraud through external communication and; encourage staff and the public to report fraud where it is suspected.
- 2.10 In 2019/20 the Council reviewed all anti-fraud and corruption policies including those on anti-bribery and whistleblowing and the latest version of these will all be published in 2020.
- 2.11 The Council's website includes pages on how fraud affects the Council <https://www.eastherts.gov.uk/about-east-herts-0/fraud-and-whistleblowing-policies>. The website has links for the public to report fraud and to the SAFS webpage. The SAFS webpage in turn provides further information on fraud, the latest news stories as well as options for the public to report fraud.
- 2.9 Council staff can use the same methods to report fraud, or they can report fraud directly to SAFS staff working at the Council. Working with the Councils HR service SAFS have delivered an anti-fraud and corruption e-training package for staff and this is being linked to the Councils latest anti-fraud policies in 2020.
- 2.10 During 2019/20 SAFS received 81 allegations of fraud affecting Council services.

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

Council Tax Discount/ Housing Benefit	Housing	Blue Badge Abuse	Other*	Total
61	12	6	2	81

\*Other 1 NNDR & 1 Mandate

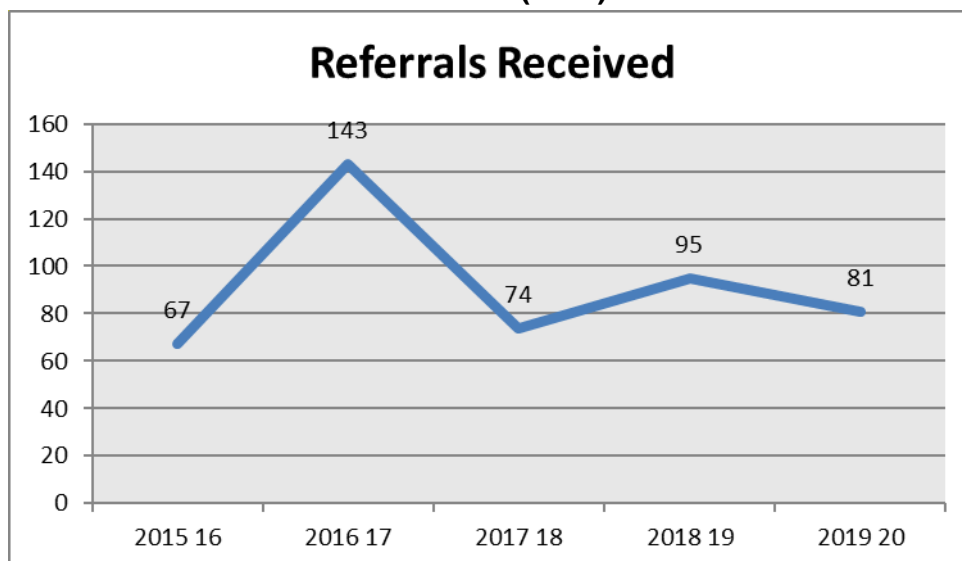
**Table 2. Who is reporting Fraud**

Fraud Reported by Staff	Reports from Public	Data- Matching/ Proactive Investigations	Other	Total
24	51	2	4	81

- 2.11 In comparison to other SAFS Partners reporting of fraud in East Hertfordshire tends to be lower than elsewhere. The volume of reported fraud in 2019/20 reduced slightly on the previous year but the number does tend to fluctuate each year. SAFS regularly review this data to see if there are any trends or concerns for the lower reporting rate and this is shared with officers.



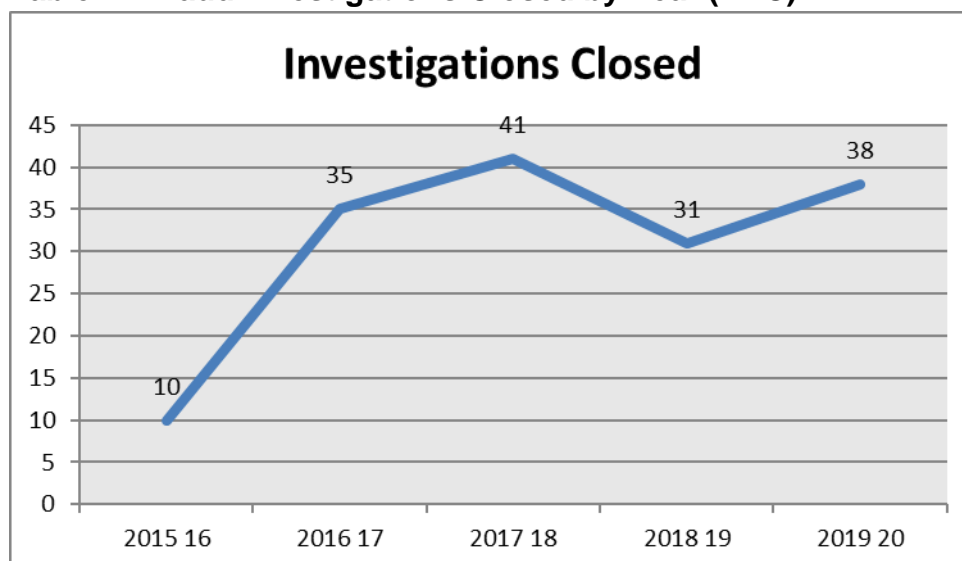
**Table 3. Historic Fraud Referrals (EHC)**



*Investigation and Prevention Activity*

- 2.12 At this time many cases raised for investigation are still in the early stages. However, of 38 cases investigated and closed in the year 23 identified fraud or error and recoverable losses of £162,000 and savings (through prevention) of £31,000 were reported. In a further 18 cases of alleged fraud compliance action, advice or warning letters were issued rather than full investigations. See **Appendix D** for a breakdown of all cases reported and investigated in 2019/20. At year end 22 cases remained under investigation.

**Table 4. Fraud Investigations Closed by Year (EHC)**



- 2.13 As well as the financial values identified SAFS has worked with the Revenue and Benefit Service to apply financial penalties as alternatives to prosecution where lower level fraud affecting Council Tax Discounts is uncovered.

Financial penalties were applied on 4 occasions in 2019/20. But, in more serious cases of fraud prosecution is still considered by the Council.

**Case study 1:**

*An allegation was received by SAFS that a resident living in Ware had failed to declare, whilst claiming housing benefit and council tax reduction as a single person, that they had married and that their partner, who was in work, had moved in.*

*The subject of this case attempted to frustrate the investigation by failing to attend interviews and even failed to appear at court after being summonsed. This did not prevent the investigation identifying all the relevant facts and that overpayments for HB and CTR of just under £7,000 had occurred as result of the resident failing to report the change in circumstances.*

*After the failing to appear at court for initial hearings the subject was arrested and brought before the court to be sentenced to 12 weeks imprisonment suspended for 12 months and ordered to complete 200 hours unpaid work.*

*The overpayment is being repaid in full.*

- 2.14 The vast majority of the investigation work for SAFS involves housing benefit or council tax discounts and SAFS works very closely with officers from the Council and the Department for Work and Pensions to ensure that all these cases are jointly worked in accordance with a national framework. In 2019/20 significant delays were encountered working with the DWP as their staff were redeployed to other areas and a number of cases have been carried into 2020.

**Case study 2:**

*A Hertford resident failed to declare that for two years another adult (non-dependant) was living at their address and was working. This was identified as the result of a data match and was a joint investigation with the DWP. The overpayment of £4,700 is being repaid and an Additional Penalty of £522.00 was accepted by the claimant.*

*A benefit claimant from Bishops Stortford failed to declare a substantial amount of capital when claiming HB & CTR. Following an investigation these claims were cancelled, and an overpayment created between 2016 and 2019, that has since been repaid.*

*Due to the circumstances of this case a decision was made that priority should be given to recovery of losses and a civil penalty was imposed for £280.00 as an alternative to prosecution.*

- 2.15 In March 2020 as part of the Governments response to the Covid-19 pandemic funding to support small businesses was provided via local councils. SAFS worked closely with Council officers at the time to provide assurance with pre-payment checks of all applications received and, is now providing a post payment assurance piece. Members of this committee received a detailed report on this work at its May 2020 meeting. As a result of the initial work 5 individual grant applications are under investigation for suspected fraud.
- 2.16 SAFS assist the Councils Civil Enforcement Officers (CEOs) in the prevention, detection and prosecution of blue badge misuse in the Councils car parks. In 2019 officers from the Council and SAFS engaged in a countywide blue badge abuse campaign which resulted in several misused badges being inspected and seized.

**Case Study 3:**

*A woman from London has been ordered to pay costs and a fine after pleading guilty to misusing her mother's Blue Badge in Bishop's Stortford.*

*On the 16 August 2019 at Stevenage Magistrates Court, a female from Haringay pleaded guilty to a charge under section 117 Road Traffic Regulation 1984 for falsely displaying a disabled person's Blue Badge.*

*The court heard how the woman had parked her car in a disabled bay at Apton Road Car Park, Bishop's Stortford and displayed a Blue Badge belonging to her disabled mother when her mother was not with her. The woman was approached at the scene by officers from Hertfordshire Shared Anti-Fraud Service (SAFS) and later formally interviewed where she admitted misusing her mother's blue badge.*

*The woman pleaded guilty at the first opportunity for which she received credit from the bench and ordered to pay a fine of £126, investigation and prosecution costs of £650 and the Victim Surcharge of £30.*

- 2.17 In November 2019 the Councils Communication Team, along with other SAFS Partners, took part in the *International Fraud Awareness Week* through a social media campaign explaining to the public the impact of fraud on the Council's finances as well as how the public can protect themselves against fraud.
- 2.18 The Council did not make use of the Council Tax Review Framework in 2019/20 conducting a review of all single person discounts claimed by residents across the District and although we are still awaiting the final report an estimated additional £100,000 in council tax was identified in 2019/20.
- 2.19 The Council has yet to fully comply with the statutory requirement of the National Fraud Initiative (NFI) 2018, however the vast majority of the high risk/priority matches have been fully reviewed and resolved. The NFI is a national anti-fraud exercise conducted by the Cabinet office every two years across local and central government. SAFS supports this work with Council officers responsible for the review of data-matches. Table 3. Below shows progress with this work in 2019/20, these statistics are in addition to these reported above and are shown at **Appendix D**.

**Table 3. NFI Activity**

Total Matches received 2018/19	High Priority Matches	Matches Reviewed at 31.3.2020	Matches Not Actioned or OS at 31.3.2020	Total
1,447	296	352	1,095	£125,222

- 2.20 In May 2019 the SAFS Partnership won the award for 'Overall Contribution' to combatting fraud from the Fighting Fraud and Corruption Locally Board at its annual conference hosted by CIPFA and in December 2019 won the 'Outstanding Partnership' at the inaugural Tackling Economic Crime Awards.

#### **TECAs Awards December 2019**

The winners of the first-ever Tackling Economic Crime Awards were announced on Monday 9<sup>th</sup> December at the Sheraton Grand London Park Lane where 250 representatives from the financial crime sector were in attendance. The winners were selected from an esteemed panel of judges and the awards were presented in 13 categories to public, private and third sector organisations and individuals who had made a significant impact in desisting all areas of economic crime.

*Professor Martin Gill, founder of the TECAs, commented:*

*"It's a great honour to be able to play a part in recognising the achievements of so many outstanding players in this sector. All the finalists and especially the winners should be proud. The judging process is strict and robust; each judge marks independently against a set of criteria, and they commit to declaring any conflict of interest. Each entry must achieve a fixed score threshold to become a finalist, ensuring consistent quality across the competition; which means all the finalists – individuals, teams and companies represent outstanding performance of the highest level."*

#### **Outstanding Partnership – Hertfordshire Shared Anti-Fraud Service**

The Hertfordshire Shared Anti-Fraud Service (SAFS) deals with the growing threat of fraud to local government. Set up in 2015, the partnership utilises local government funding to increase effectiveness in preventing and detecting fraud. The partnership includes seven councils across Hertfordshire and Bedfordshire and a number of social housing providers. The SAFS team members are all fully accredited and trained. The service has received 4,000 fraud referrals in the last four years and successfully investigated more than 1,500 individual cases, been responsible for 60 successful prosecutions and recovered more than 90 social homes as well as saving in excess of £15m in public funds across numerous council services.

### **3. SAFS Internal Audit 2019/20**

- 3.1 It was agreed by the SAFS Board that in 2019/20 the Service would part of a Joint Review Audit, as part of the Shared Internal Audit Service (SIAS) 2019/20 Audit Plan, for all SAFS partners. The primary aim of the review was to provide assurance that the key objectives of SAFS are being achieved.
- 3.2 The final report for the 2019/20 Internal Audit Review of the Shared Anti-Fraud Service conducted by SIAS/BDO was provided to the SAFS Board on 27 May 2020. SAFS Management was very pleased to receive a 'Good' level of assurance from this report and the positive feedback provided by board members.

### **4. Transparency Code- Fraud Data**

- 4.1 The Department for Communities and Local Government (DCLG) published a revised Transparency Code in February 2015, which specifies what open data local authorities must publish.
- 4.2 The Code also recommends that local authorities follow guidance provided in the following reports/documents:

CIPFA: *Fighting Fraud Locally Strategy*

([https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/118508/strategy-document.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/118508/strategy-document.pdf)).

The National Fraud Strategy: *Fighting Fraud Together*

(<https://www.gov.uk/government/publications/nfa-fighting-fraud-together>)

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

(<http://www.cipfa.org/->

[/media/files/topics/fraud/cipfa\\_corporate\\_antifraud\\_briefing.pdf](http://www.cipfa.org/-/media/files/topics/fraud/cipfa_corporate_antifraud_briefing.pdf))

- 4.3 The Code requires that Local Authorities publish the following data in relation to Fraud. The response for *East Herts Council* for 2019/2020 is in **Bold**:

- 3 Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.

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

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

**1.5 FTE**

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

**1 .5 FTE**

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

**£81,600**

- 7 Total number of fraud cases investigated.

**38 Cases investigated and closed in year**

- 4.4 In addition, the Code recommends that local authorities publish the following (*for East Herts Council Fraud/Irregularity are recorded together and not separated*):

- Total number of cases of irregularity investigated-

**See 7 above**

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

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

**£162,000 of fraud losses & £31,000 of fraud savings identified in year (a further £125,000 in savings was identified through the NFI).**

# Fighting Fraud and Corruption Locally

A strategy for the 2020s

A response to economic crime and fraud



# With support from:



This is the third Fighting Fraud and Corruption Locally Strategy, produced by local government for local government.





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# Foreword

## — Richard Watts

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Since the first strategy was produced in 2011 councils have faced significant financial challenges. Councils have innovated, collaborated and prioritised in order to meet the financial challenge and to protect front line services. Tackling the threat of fraud and corruption has been and continues to be a cornerstone of protecting council finances and enabling them to maximise the value of every pound spent on behalf of local residents.

Every pound siphoned off by a fraudster is a pound that cannot be spent on services where they are needed. Councils need to be vigilant. Councils have a good record in countering fraud and the strategy contains numerous case studies and examples of successes.

As the strategy highlights, it is estimated that about one in three of all crimes committed nationally is fraud based and fraudsters are always seeking new ways to take money. The strategy also highlights that potential losses to fraud could run into hundreds of millions or even billions of pounds if preventative action is not

taken. Councils need to be agile and work together with national agencies and the Government to respond to new fraud threats, to prevent losses and to protect vulnerable people in our society. Collaboration to counter and prevent fraud is a theme running through the strategy.

The Fighting Fraud and Corruption Locally Strategy is an excellent example of how councils can come together for the overall benefit of local services and residents served. The strategy has been led by the Fighting Fraud and Corruption Locally Board. This Board has been described as “a coalition of the willing”. It is a group of senior multi-disciplinary experts from councils working together with partners, that work with the councils on counter fraud activities. The Board is currently chaired by a representative from the Society of Local Authority Chief Executives (SOLACE). The Board members and the organisations they come from all provide their expertise on a pro bono basis, for the benefit of the sector and to help counter fraud. The board is supported by the LGA. In carrying out the research to draft this new strategy, the board has run several workshops up and down the country that have been attended by representatives from more than 250 councils. The work of all these people is reflected in the strategy and our thanks are due to all of them.

The strategy outlines, outlines a governance framework for continuing national and regional collaboration on counter fraud under the Fighting Fraud and Corruption Locally umbrella. Section four of the strategy outlines a practical programme and checklist for individual councils to follow.

I am happy to endorse this strategy on behalf of the LGA and welcome it as an opportunity for councils to review and further improve their counter fraud work in the 2020s.

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**Cllr Richard Watts**

Chair Resources Board, Local  
Government Association  
Leader Islington Council

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# Foreword

## — Mike Haley

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As the Chair of the Joint Fraud Taskforce I am delighted to support The Fighting Fraud and Corruption Locally 2020 strategy at a time when incidences of fraud and corruption are rising and there is an identified need for councils and their leaders to adopt a robust response.

Having worked as a fraud investigator I understand the importance of collaborative working and of having a structure and framework that guides and governs counter fraud and associated corruption activities.

Through working together and applying the principles of this strategy I am convinced that, perhaps for the first time, we have a model for true collaboration that is so important in identifying fraudsters, often organised groups, who seek to undermine and take financial advantage of systemic vulnerabilities and abuse those citizens in our community who are in themselves vulnerable.

I recognise the challenge that we all face in having to balance demands on resource across essential services at a time when funding is constrained. However, I also recognise the important role that local authorities and their frontline services play in tackling fraud and corruption that are a drain on those resources. Savings through enforcement and bringing fraudsters to justice can be used to support our social services and can build stronger and safer communities.

I am convinced that this strategy is an important step in tackling fraud and corruption that is so corrosive to society. In my role as Chair of the Joint Fraud Taskforce I welcome my local authority colleagues. By working together, I am convinced that we can deliver a step change in tackling fraud.

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**Mike Haley**

Chair of the Joint Fraud Taskforce

The Joint Fraud Taskforce is a partnership between banks, law enforcement and government to deal with economic crime.

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# Executive Summary

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*Fighting Fraud and Corruption Locally 2020 is the updated counter fraud and corruption strategy for local government. It provides a blueprint for a coordinated response to fraud and corruption perpetrated against local authorities with the support of those at the top.*

**By using this strategy local authorities will:**

- *develop and maintain a culture in which fraud and corruption are unacceptable*
- *understand the harm that fraud can do in the community*
- *understand their fraud risk*
- *prevent fraud more effectively*
- *use technology to improve their response*
- *share information and resources more effectively*
- *better detect fraud loss*
- *bring fraudsters to account more quickly and efficiently*
- *improve the recovery of losses*
- *protect those at risk.*

This strategy is aimed at council leaders, chief executives, finance directors and all those charged with governance in local authorities including those on audit committees and with portfolio responsibility. It is produced as part of the Fighting Fraud and Corruption Locally initiative, a partnership between local authorities and key stakeholders, and succeeds the previous strategies written in 2011 and 2016. It is not 'owned' by any one organisation but by the local authorities who have given time and support to develop it. Areas of focus for elected members, chief executives and those charged with governance are laid out in Section 4: The Local Response.

This partnership has been so successful it has existed since 2010 when the research and engagement first began.

Local authorities continue to face a significant fraud challenge and while the official figures are dated the argument about protecting funds and vulnerable people remains. The National Fraud Authority estimated local authorities face the threat of £2.1bn fraud in a year in 2013. In fact, the Annual Fraud Indicator produced by Crowe Clark Whitehill estimates that figure may be as high as £7.8bn in 2017, out of a total of £40.4bn for the public sector as a whole. The Government's Economic Crime Plan states that the numbers of fraud offences rose by 12% during 2018 to 3.6 million – constituting a third of all crimes in the UK.

Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraud and corruption are a drain on local authority resources and can lead to reputational damage and the repercussions maybe far reaching.

Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. There is a clear need for a tough stance supported by elected members, chief executives and those charged with governance. This includes tackling cross-boundary and organised fraud and corruption attempts, as well as addressing new risks such as social care fraud and cyber issues.

In addition to the scale of losses and potential losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities report that they are still encountering barriers to tackling fraud effectively, including lack of incentives, data sharing, information sharing and powers, but also that they require support from senior stakeholders and those in charge of governance.

These factors do present challenges. However, this strategy demonstrates the tenacity of local fraud teams in continuing to lead on innovation and collaborate and also that there is a network of local leaders willing to support this initiative. This strategy, then, is about creating a self-sustaining counter fraud response for the sector.

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# *Review of 2016 Fighting Fraud and Corruption Locally Strategy*

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**The previous two strategies focused upon pillars of activity that summarised the areas local authorities should concentrate efforts on. These were 'acknowledge', 'prevent' and 'pursue'.**

**These pillars are still applicable. During the research for this strategy they were supported as key areas by those who have input. However, another two areas of activity have emerged that underpin tenets of those pillars. These are 'govern' and 'protect'.**

**The pillar of 'govern' sits before 'acknowledge'. It is about ensuring the tone from the top and should be included in local counter fraud strategies.**

## **Govern**

Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation. Having a holistic approach to tackling fraud is part of good governance.

## **Acknowledge**

Acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.

## **Prevent**

Preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.

## **Pursue**

Punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive local enforcement response.

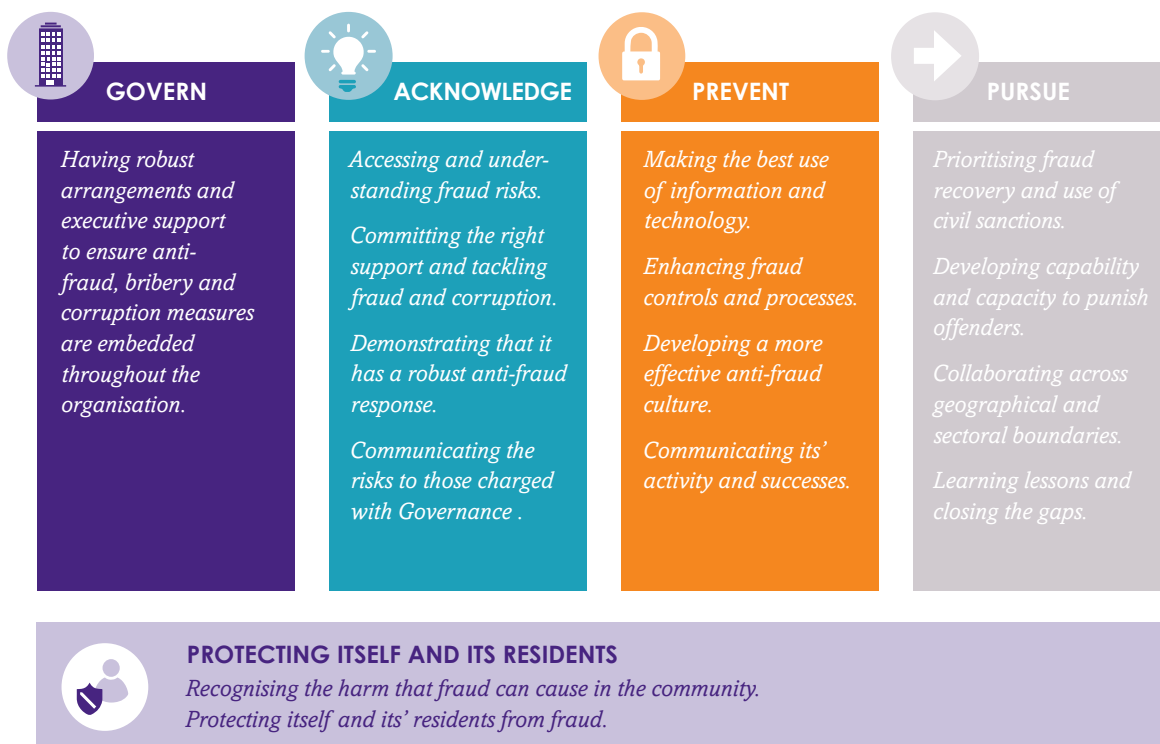
Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat and protect themselves and the community.

The second new area that has appeared during the research recognises the increased risks to victims and the local community:

## **Protect**

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

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



This strategy and its tools provide ways for local authorities to further develop and enhance their counter fraud response by ensuring that it is comprehensive and effective and by focusing on the key changes that will make the most difference.

Local authorities can ensure that their counter fraud response is comprehensive and effective by considering their performance against each of the six themes – the six Cs – that emerged from the 2016 research:

- Culture
- Capability
- Competence
- Capacity
- Communication
- Collaboration

Many local authorities have demonstrated that they can innovate to tackle fraud and can collaborate effectively to meet the challenges. Indeed, many have identified that a reduction in fraud can be a source of sizeable savings. There are case studies and quotes through this document evidencing the good work that is already happening.

### This strategy

- *recognises that fraud is not a victimless crime and seeks to protect the vulnerable from the harm that fraud can cause in the community*
- *calls upon senior management in local authorities to demonstrate that they are committed to tackling fraud and corruption*
- *calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment*
- *calls upon local authorities to work together to illustrate the benefits that can accrue from fighting fraud more effectively*
- *calls upon senior stakeholders to listen to the business cases on barriers put by local authorities in order to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers such as a lack of powers.*

## Case Study

### Birmingham City Council: Acknowledge Using data to tackle fraud

*In the original Fighting Fraud Locally 2011 Birmingham City Council was cited as good practice for setting up a data warehouse and protecting public funds. BCC continues to put fraud at the top of the agenda.*

BCC has used a well-established, sophisticated data warehouse to develop an automated programme of data matching that allows potential fraud and error to be detected within 24 hours. This has been particularly effective in identifying fraudulent claims for council tax single person discounts and fraudulent housing applications. In time BCC expects the process to reduce the amount of fraud or error requiring a formal investigation as it will have been prevented or stopped almost as soon as it began. As a result, services that are being provided incorrectly can be stopped quickly, thus helping to preserve resources and reduce the level of fraud and error.

“Local authorities must ensure they take the necessary steps to put in place a strategy which can deliver a response that protects itself and its residents. Councils need to commit adequate resources to support that work and also measure its progress against that strategy. Fighting Fraud and Corruption Locally provides the necessary tools and ideas to support that work.”

*Trevor Scott, Chief Executive Wealden District Council*



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# Introduction

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*This strategy document is aimed primarily at council leaders and other elected members, chief executives, finance directors and those charged with governance in local authorities.*

*As a result of lessons learned during previous incarnations this document contains the core strategy together with companion documents which provide more detailed guidance on its implementation which will be updated when necessary during the life of this strategy. In that way there will be live documents for practitioners to draw upon that will more readily reflect the ever changing fraud local landscape.*

*We recognise that pulling together practitioners and stakeholders to discuss these issues is a local authority exercise and detracts from day-to-day activity where there are limited resources in place. Therefore this strategy will cover from 2020 onwards supported by live companion documents.*

*The research for this strategy was carried out by local practitioners and board members.*

*The research was commissioned by the board and was coordinated by the secretariat.*

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## The research consisted of:



### RESEARCH

*Desktop research of publications, legislation, and current activity in the landscape.*



### INTERVIEWS

*Individual interviews and discussions with stakeholders from the counter fraud community.*



### EXPERTS

*Specific interviews with subject matters experts.*



### WORKSHOPS

*Facilitated discussions at FFCL 2019 Conference, thirteen specific workshops across UK and two additional conference workshops*

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The original Fighting Fraud Locally 2011 strategy was launched with a series of pilots and joint working, conferences and awards and was hugely successful. The workshops highlighted much work being done in local authorities that is commendable and can prevent fraud across boundaries. Therefore, as part of these fact-finding engagement exercises those that attended workshops were asked to offer activity to demonstrate the partnership as part of FFCL. Around 30 activities and events have been identified for 2020 that demonstrate some of the good practice found during the research for this document and show that local authorities continue to tackle fraud and corruption. It is intended that these examples will be used to kick-start momentum in the way that the 2011 strategy did. In addition a number of working groups have formed already to implement the recommendations.

The activity following the publication of FFCL 2016 was more limited. There was no formal local launch and limited board activity. Therefore some of the issues raised during that research still persist. Efforts have been made to redress this during the research for this strategy by setting in place activity to address those persistent issues.

Nevertheless it is clear that local authorities continue to tackle fraud, as evidenced in this strategy's case studies and by the appetite to take forward the issues raised during the research and in the good practice guides.

Several new areas were raised during the research as barriers to overcome and local authorities have already stepped up to join together to help tackle these barriers. As part of the engagement exercise working groups and local authorities are already in place to begin the work on these issues.



This document is divided into four sections:

### Section 1

#### The Context

Sets out the nature and the scale of fraud losses, the argument for measurement and the key issues raised by stakeholders.

### Section 2

#### The Strategic Response

Describes the response that is required from local authorities to address the challenges they are facing, identifying the activities necessary in order to achieve the strategic vision.

### Section 3

#### Turning Strategy into Action – Delivery Plan

Sets out the recommendations and the framework for delivery.

### Section 4

#### The Local Response – Appendices

## Companion Annexes

The live companions to this strategy document set out more information on how local authorities can ensure that their counter fraud response is comprehensive and effective. These documents may be refreshed at any time during the life of the strategy. They are not part of the strategy but are further guidance that is changeable. Areas they cover include fraud risks, good practice and the counter fraud local landscape.

## Section 1: The Context

### a) The scale of fraud and corruption

It is accepted that fraud affects the UK across all sectors and causes significant harm.

The Office for National Statistics states that one in 16 members of the population is likely to fall victims. The Government's Economic Crime Plan 2019 states that the number of fraud offences rose by 12% during 2018 to 3.6 million – constituting a third of all crimes in the UK.

The last, most reliable and comprehensive set of local authority figures was published by the National Fraud Authority in 2013, and indicates that the fraud threat may have been costing the UK £52bn a year.

Within these figures the threat to local authorities totalled £2.1bn.

More recent estimates are higher. The Annual Fraud Indicator produced by Crowe Clark Whitehill estimated that figure may be as high as £7.8bn in 2017 of which procurement fraud was estimated as £4.3bn. This study estimated that the total threat faced by the public sector was £40.4bn.

*“We do not have a wholly reliable estimate of the total scale of economic crime. However, all assessments within the public and private sectors indicate that the scale of the economic crime threat continues to grow.”*

*Economic Crime Plan 2019*

The National Fraud Authority estimated public sector fraud (including local government) at £20.6bn in 2013.

The National Audit Office's Local Landscape Review 2018 estimated fraud at up to £20.3bn excluding local government.

The estimated losses for local authorities in 2013 are broken down in the following by identified fraud losses and hidden fraud losses:

#### Estimated Local Government Fraud Loss 2013

Fraud Type	Estimated loss
Housing tenancy fraud	£845m
Procurement fraud	£876m
Payroll Fraud	£154m
Council Tax fraud	£133m
Blue Badge Scheme misuse	£46m
Grant fraud	£35m
Pension fraud	£7,1m

Annual Fraud indicator 2013

These figures do not take into account the indirect costs of responding to and dealing with fraud and exclude some potentially significant areas of fraud loss. The fraud landscape has changed since 2013 as councils have introduced new ways of working and innovative responses to risks, while at the same time new areas of fraud risk have appeared.

Local authorities were sceptical about current publications on sector fraud figures and performance as there was a plethora of different numbers with no agreement or consensus. However, they remain keen to develop a consistent risk and performance methodology for the sector and for individual councils to estimate the potential risk they face on a consistent basis. Following the research for this strategy, a working group has been set up to develop methodologies for the sector to use.

## b) The nature of the problem

In June 2019 the Government published its first Economic Crime Plan and included fraud and corruption in the definition.

### The Government's Economic Crime Plan 2019

#### *What is economic crime?*

To help establish our partnership, we have agreed a common language across the public and private sectors regarding economic crime. We have used the following definition of economic crime to guide our efforts. Economic crime refers to a broad category of activity involving money, finance or assets, the purpose of which is to unlawfully obtain a profit or advantage for the perpetrator or cause loss to others. This poses a threat to the UK's economy and its institutions and causes serious harm to society and individuals. It includes criminal activity which:

- allows criminals to benefit from the proceeds of their crimes or fund further criminality

- damages our financial system and harms the interests of legitimate business
- undermines the integrity of the UK's position as an international financial centre
- poses a risk to the UK's prosperity, national security and reputation

*1.12 This definition is broader than terms such as 'financial crime' or 'white-collar crime' to provide a holistic response to the following types of criminality:*

- fraud against the individual, private sector and public sector
- terrorist financing
- sanctions contravention
- market abuse
- corruption and bribery
- the laundering of proceeds of all crimes

For the purposes of this strategy we have retained the terms 'fraud' and 'corruption' while recognising that they are part of a wider agenda. The strategy has not been re-titled 'Economic Crime'.

## c) Issues raised by stakeholders

During the workshops and research a number of barriers to effective working were raised – the main issues raised are below. Participants were asked how they would solve these issues and there were many ideas and opportunities presented. Local authorities are keen to play a part and influence the outcomes. Therefore a working group has been set up for each of these areas to assess the evidence so far, collect any further evidence and to report into the secretariat for the FFCL Board to consider. There is evidence to create an FFCL operational group from the current FFCL representative network. Further detail on how this will operate will be in the live Delivery Annex.

*Recommendation: A single regional FFCL operational group should be formed from the existing FFCL regional representatives.*

### Fraud measurement

While recognising that the repercussions of fraud are wider than financial it is important that councils have an up-to-date estimate of what the figures and areas of risk appear to be. There are a number of different methods of calculating fraud losses, and these vary across regions. Moreover the fraud priorities differ across regions. External organisations present figures to the sector but there is little or no ownership of these within local authorities. Local authority attendees raised this lack of independent analysis and free benchmarking to look at areas in deep detail rather than reported figures on numbers of referrals or cases detected. Local authorities could use this analysis to make the business case to tackle fraud, understand fraud issues more closely and see a more detailed picture across boundaries.

*Recommendation: A working group on measurement should be formed to develop a consistent risk and performance methodology for the sector.*

Local authorities have agreed to work together to build a set of figures for use as an indicator of actual losses, prevention measures and fraud areas. In addition this group will look at the area of benchmarking. This work is underway and the working group is now formed and is in place.

### Powers

Local authorities welcomed the introduction of the Prevention of Social Housing Fraud Act (PSHFA) and reported that it had improved accessibility to information and intelligence.

However, some issues on powers that had been raised previously had not been taken forward by any parties, as the PSHFA, had and have been exacerbated by

## Case Study

*An employee responsible for managing Ipswich Market and collecting stall rent from traders was prosecuted for theft of cash collected. The council's finance team identified an irregularity when it attempted to reconcile income received to income due. The theft was valued at £33,376 and totalled 91 thefts. The employee was given an 18-month prison sentence suspended for two years and ordered to carry out 250 hours of unpaid work in the community.*

*He was also ordered to pay £14,000 compensation to Ipswich Borough Council at the rate of £400 a month.*

new fraud areas such as social care fraud where local authorities report it is difficult to obtain information. During the research local authorities have provided a number of examples across service areas where they cannot obtain information or access organisations in order to progress investigations.

There are a number of potential avenues to resolve these issues and local authorities have themselves suggested opportunities to resolve these. These issues need to be explored further to identify and evidence areas where lack of powers currently frustrate efforts by the sector to successfully progress counter fraud investigations. This will then enable the sector to lobby for the additional powers required.

*Recommendation: A working group on powers should be formed.*

Local authorities have agreed to work together to identify and evidence areas where lack of powers currently frustrate efforts by the sector to successfully progress counter fraud activity and identify what additional powers are required, what forms that should take and to examine the suggestions that have been collated. This evidence should then be used to lobby government to grant additional powers required. This recommendation is underway and the working group is now formed and is in place

### Incentives

Local authorities welcomed the Counter Fraud Fund in 2015 which had been distributed by the then Department for Communities and Local Government

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This fund was a one-off and there were good results that are detailed on the Local Government Association Counter Fraud Hub page. However, many local authorities did not have the opportunity to bid and some had lost resources. Local authorities reported that they did not have funds to set up dedicated teams or undertake proactive work, and offers of technology were expensive and often duplicated existing offerings. Local authorities have made some suggestions about ways in which counter fraud activity may be funded. Local authorities have put together ideas on what types of incentives could support improved activity.

*Recommendation: A working group on incentives should be formed.*

Local authorities have agreed to work together to indicate where incentives may be required from Government and what forms they may take and to examine the suggestions that have been collated in the research.

The working group is now formed and is in place and the work is underway.

### Data analytics and matching

A number of data related initiatives exist which local authorities may take part in for example, counter fraud hubs. At the majority of workshops it was said that there is inconsistent advice, high pricing, lack of discussion with suppliers and difficulty filtering out what is useful from what is not. The National Fraud Initiative has two products which were highlighted as useful and these are the Fraud Hub and AppCheck. It was also reported that there were issues with data quality, data standards and a lack of quality assurance about products.

*Recommendation: A working group should be formed to review existing data related initiatives available to local authorities and recommend best practice or new ideas.*

Local authorities have agreed to form a working group to look at the area of data. A number of ideas have been put together and the group will consider these and what further activity is required. This group will need to decide what is in scope for this work as the issues raised are varied. This recommendation is underway and the working group is now formed and is in place.

### Social care issues

At most workshops the area of social care fraud was raised. Social care fraud harms the community and vulnerable individuals who are unable to detect scams or fraud and are often unable to report them. Sometimes abuse of funds by family members or carers complicates the situation. This can include financial abuse of vulnerable persons, not just direct payments and personal budgets.

This area of fraud has emerged as a growing risk since the last strategy was published. The impact of this risk on already stretched social care services and budgets is potentially very significant. For this reason, organisations with relevant skills together with those local authorities that have developed good practice have offered to support work in this area of risk. Our research also highlighted a number of ideas about identifying and tackling some systemic vulnerabilities in this area. Local authorities should ensure fraud strategies are aligned with safeguarding responsibilities to ensure we actively protect the most vulnerable in our communities. Close working with social care teams will be required with joint approaches and planning.

*Recommendation: A working group on social care fraud should be formed to look at how local fraud strategies should align to local authorities' safeguarding responsibilities as well as to identify best practice in countering risks relating to social care fraud.*

Local authorities have agreed to form a working group to look at the area of social care fraud. A number of ideas have been put together and the group will consider these and what further activity is required. This recommendation is underway and the working group is now formed and is in place.

“Investing to prevent fraud should be one of the early steps in building your counter fraud response. The repercussions of fraud can be far reaching. We have a duty to protect residents in our communities from fraud and we should work in collaboration with officers across the council and partner agencies to prevent fraud and safeguard the vulnerable. Fraud is not a victimless crime”.

*Clive Palfreyman, Executive Director Finance & Resources  
London Borough of Hounslow*

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## d) The themes

In FFCL 2016 a number of themes were identified and while those are still relevant and supported during the research one in particular stood out: collaboration.

### Collaboration

There is an appetite for collaboration across the sector and geographically. However, it does not apply solely to local authorities. There is a need for collaboration across sectors, local law enforcement and with suppliers and external organisations.

The current FFCL regional representatives' network functions well. However, there is still a gap where information does not flow. There are also links to law enforcement and both national and local bodies which if they were stronger would help support the fight against fraud. Some councils already participate in regional bodies that could easily be better connected. There is overwhelming support for the idea of more formal FFCL-linked groups. Local authorities requested FFCL regional group.

There is also the possibility of exploring the principle of placing an obligation on partner bodies to share information to assist the detection and prevention of fraud even if the fraud is not against the sharing body.

Furthermore, local authorities reported the need to be more formally linked into the national law enforcement bodies. During the research a number of issues and patterns appeared in workshops that have been raised with enforcement; this demonstrates the merits of a joined-up approach. The Chief Executive of Cifas currently chairs the Joint Fraud Taskforce as well as sitting on the FFCL board and this has enabled Cifas to raise issues with the National Economic Crime Centre about local authorities' fraud risks. Local authorities requested support for better links to the major bodies in enforcement.

It was noted that where support was offered from outside the sector this could lead to a lack of 'ownership' by local authorities and that, had they been consulted or asked to contribute, products and services might have had better take-up. In particular, the cost of external support was raised several times as a barrier to take-up.

*Recommendation: A single FFCL regional operational group should be created using the existing network that can link to relevant boards and enforcement.*

### Activity

During the workshops local authorities agreed to join the existing FFCL regional groups with a representative who is able to form part of a regional FFCL operational group supported by an FFCL Strategic Advisory Board (the current FFCL board).

The North East Regional Investigations Group will form a pilot and link to wider local law enforcement. This has been agreed with that region and is in place.

The new FFCL Strategic Advisory Board should have a dotted-line link into the Joint Fraud Taskforce, which will give access to the main players in local law enforcement.

There is further detail on this in the Delivery Plan Annex with a diagram that outlines how operational issues may flow upwards. The new FFCL regional operational group should be initially chaired by one of the local authority experts from the FFCL Strategic Advisory Board.

### Organising ourselves

#### – a collaborative governance model

Local authorities involved in the workshops realised the need for a strategic board and were pleased that the FFCL board had been in place since 2010 with oversight and had stood the test of time. It was also noted that the board had changed in role several times as had the membership. The original board had been very active, the second board had been more of an oversight body and the current board was wider but less visible. Attendees at workshops raised questions regarding the governance of FFCL, the route for selection to the board and the seniority and expertise of the board.

Further detail is included in the Delivery Plan Annex

Attendees appreciated the support from the firms and private sector and did not object in any way to these board members. In particular, the rebuilt secretariat and the support for the conference and awards in 2019 were noted, as was Mazars' free support on toolkits.

*Recommendation: It is recommended that a review of governance takes place in respect of the role of the current board in light of the FFCL regional operational group and links to the Joint Fraud Taskforce.*

Further recommendations are detailed in the Delivery Plan Annex.



## Case Study

### The first social care fraud prosecuted by Veritau and City of York Council

*Veritau investigated following a referral from a member of the public. This is the first prosecution of a social care fraud by the council's legal department and an area of development for the counter fraud team. Several prosecutions for social care fraud have been achieved before, but these were jointly investigated by the police and taken to court by the Crown Prosecution Service.*

The defendant was the financial representative for his mother who received social care support funded by City of York Council. The council funded his mother's social care, and he failed to inform them when his parents' property sold in 2014. He subsequently lied about this on a financial assessment form. The £86,000 has been paid back to the council in full. Information was received that his parents' property had been sold in 2014 for £200,000 and he had not declared this to the council in an attempt to avoid paying for his mother's care fees. The investigation found that on two separate occasions in 2015 he informed the council that his parents were still joint owners of the property and that his father lived there. In a financial assessment for social care funding, jointly owned properties are disregarded if a family member continues to live there.

The counter fraud team worked alongside financial investigators from the council's trading standards team, who were able to obtain financial information which showed that £198,000 from the house sale was deposited into the son's bank account. This money should have been taken into account for his mother's social care funds, meaning that the council would not have had to pay £86,000 out of the public purse. As a result of the two teams working together, the man was billed and the entire loss has now been repaid to the council.

He pleaded guilty to two charges of fraud by false representation at York Magistrates' Court on 8 October 2019. The case was referred to York Crown Court for sentencing on 19 November where he received a 20-month suspended sentence and was ordered to do 80 hours of unpaid work. He was also ordered to pay court costs of over £1,100 and an £80 victim surcharge. When sentencing, the judge said that a significant factor in mitigation was that he had already repaid the £86,000 to the council.

## e) Fraud risk areas

*The research has highlighted the following types of fraud risks. These frauds are expanded on in the companion documents and the list below is a brief description:*

### Fraud risks raised in the research

<i>Social care fraud: personal budgets and direct payments</i>	overstatement of needs through false declaration, multiple claims across authorities, third party abuse by carer, family or organisation, posthumous continuation of claims
<i>Schools</i>	most issues that were raised in the workshops were also raised as issues for schools. This area did not feature in FFCL 2016
<i>Right to buy</i>	fraudulent applications under the right to buy/acquire
<i>Money laundering</i>	exposure to suspect transactions
<i>Commissioning of services</i>	including joint commissioning, joint ventures, commercial services, third sector partnerships – conflicts of interest, collusion
<i>Tenancy</i>	fraudulent applications for housing or successions of tenancy, and subletting of the property
<i>Procurement</i>	tendering issues, split contracts, double invoicing
<i>Payroll</i>	false employees, overtime claims, expenses
<i>Identity fraud</i>	false identity/fictitious persons applying for services/payments
<i>Council tax</i>	discounts and exemptions, council tax support
<i>Blue Badge</i>	use of counterfeit/altered badges, use when disabled person is not in the vehicle, use of a deceased person's Blue Badge, badges issued to institutions being misused by employees
<i>Grants</i>	work not carried out, funds diverted, ineligibility not declared
<i>Business rates</i>	fraudulent applications for exemptions and reliefs, unlisted properties
<i>Insurance fraud</i>	false claims including slips and trips
<i>Disabled facility grants</i>	fraudulent applications for adaptations to homes aimed at the disabled

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“Fraud has not disappeared: it is ever present, evolving and affects the funding that is needed for frontline services. In many public sector bodies it is still an area where there is significant underinvestment, because they are not recognising the extent of the epidemic and seeing other priorities, particularly around service delivery, as more important. As fraudsters evolve, we must too. To these ends, through collaboration and intelligence sharing with a fraud prevention specialist service, we are ensuring that cases of fraud are not replicated across our partnership, mitigating controls are put in place and offenders are dealt with appropriately. Through our proactive intelligence-led approach we are taking steps to ensure the public purse is protected from all fraudulent activity.”

*David Hill, Chief Executive South West Audit Partnership*

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*Concessionary travel schemes* – use of concession by ineligible person, including freedom passes

*No recourse to public funds* – fraudulent claims of eligibility

*New responsibilities* – areas that have transferred to local authority responsibility

*Local Enterprise Partnerships* – partnerships between local authorities and businesses. Procurement fraud, grant fraud. All LEPs should now be incorporated, with a local authority as accountable body, in a more formal and regulated relationship. Key issues are LEP governance, procedures for allocating/prioritising grants

*Immigration* – including sham marriages. False entitlement to services and payments

*Cyber-dependent crime and cyber-enabled fraud* – enables a range of fraud types resulting in diversion of funds, creation of false applications for services and payments.

However, during the research for this strategy it has become clear that some frauds have become more prevalent and that some risks have reduced. In addition, fraud risks were raised at several workshops about money laundering, suspicious activity reports and risks attached to local authorities becoming more commercial.

The details of these risks are included in the companions as these are seen as changing areas that may need frequent updating.

While the direct consequences of fraud may be financial and reputational loss there are wider impacts that surround the harm to victims locally and the harm in the community. Local authorities have raised a number of issues about protecting the vulnerable from fraud and this spans a large area. There are also other stakeholders in this local landscape who offer support to victims, have developed networks and done deeper research. A large number of volunteers have come forward from the workshops with good practice and a willingness to collaborate to prevent and tackle these issues. The main fraud risk area that has drawn attention is social care fraud. However, there are other frauds that may merit scrutiny.

### Activity

Local authorities have agreed to form a working group to look at the area of social care fraud. A number of ideas have been put together and the group will consider these, what further activity is required and if any wider work can be done.

### Economic Crime Plan 2019

*Economic crime touches virtually all aspects of society. Economic crimes range across the full breadth of criminality, ranging from low-level frauds through to sophisticated cyber-enabled market manipulation. Fraud is now the second most common crime type in England and Wales, with nearly every individual, organisation and type of business vulnerable to fraudsters.*

## f) Counter Fraud Capacity, Competence and Capability

In FFCL 2016 themes were identified in the areas of capacity, competence and capability as part of the 6Cs – see page 23. These issues still exist.

Despite the challenge around capacity, competence and capability and lack of dedicated resource it is clear that activities to tackle fraud across the sector are being pursued and having a positive impact. But demand and growth in the number of incidents of fraud reported nationally mean local authorities must focus on areas of fraud that they identify as posing greatest risk and adverse impact on their organisations and the vulnerable. Working collaboratively and sharing resources should be encouraged and the FFCL regional board should undertake an analysis of which local authorities may benefit from support and how this might happen.

Many local authority practitioners reported that their capacity to tackle fraud and corruption had been reduced as a result of austerity-related local authority funding reductions. In addition several workshops were attended by shared service representatives and reported that non-attendees no longer had counter fraud resources. In one workshop it was noted that eight councils did not have any resource but that a colleague in the revenue department of a neighbouring authority had been 'helping out' across them. There are also situations that require collaboration: for example, a district council pursues council tax and business rates fraud, but the main beneficiaries are the county council and the Government.

In many cases practitioners also reported that some of the skilled investigation resource had been transferred to the Department for Work and Pensions and had not been replaced. There were large disparities in respect of numbers of staff and skills.

Local authorities reported that their staff did not always have the skills or training to tackle fraud and corruption. Many attendees were skilled and qualified. It was also clear that because a number of local authorities did not have access to a team they were not covering the full range of fraud activities. In contrast the workshops were well attended by experts who, while overloaded, were attempting to tackle all frauds but with one hand behind their backs. Very often they said they would be pleased to assist neighbouring councils but had no contact or requests. The FFCL regional board may assist with this and what support can be given.

In addition there were some parts of the country where the teams were not up to date with current local landscape issues or activities that would benefit them in their roles. At the FFCL 2019 conference questions were raised about free access to tools and

good practice and it was agreed to hold this in the Knowledge Hub, which is an independent, free tool that many local authorities already use. In addition some local authorities already have small networks in the Knowledge Hub that they could link to the FFCL pages. The Knowledge Hub has been open for FFCL since the summer and now contains the archive documents as well as details about other current issues.

### Adult care services successful prosecution and repayment in full of fraud loss

*The subject of this investigation was the husband of a Hertfordshire County Council service user in receipt of financial support to pay for daily care. He completed the financial assessment forms on behalf of his wife but failed to declare ownership of residential property that was rented out in the private sector.*

*The allegation originated from a social worker who had a 'gut feeling' that the couple had a second home and referred to matter to Herts' shared anti-fraud service.*

*The investigation found that the couple jointly owned three properties in addition to their residential home. All three properties were rented out and held equity.*

*The husband was interviewed under caution where he accepted ownership of the properties but denied any wrongdoing, stating that there was no capital in any of the additional homes and that he had been struggling financially since his wife became ill. As part of the enquiries conducted by the team a fourth property was identified abroad.*

*On 1 July 2019 at Luton Crown Court, he pleaded guilty to all three counts of fraud by false representation. He was sentenced to two years in prison, suspended for two years. The judge adjourned any financial sanction until the confiscation order was completed. A service decision was made in that had the financial assessment form been completed correctly and the additional property declared, the service user would have been deemed a self-funder and received no financial support for care. Therefore the loss to HCC was calculated as £75,713 and a future saving of £1,166 per week (£60,632 per year) was recorded.*

*The loss including interest was calculated to be £89,141, which he has paid in full.*



## Case Study

### Collaboration on Protect and Pursue

*A man was sentenced to 18 months' imprisonment, suspended for 18 months, after forging documents when applying for disabled persons' freedom passes and disabled persons' Blue Badges.*

He was found guilty of 12 offences - nine at Brent, Enfield and Haringey councils. He then pleaded guilty to a further three charges of forgery at Waltham Forest Council.

A lengthy investigation, led by Brent Council's fraud team, discovered that the subject used fake birth certificates, utility bills and medical certificates to falsely present himself and others as disabled.

Brent Council worked with the other three local boroughs, who carried out their own thorough and professional investigations with Brent's support, to join up the charges that resulted in the successful verdict.

For the Brent, Enfield and Haringey offences he was sentenced to 18 months' imprisonment per offence for these nine offences to be served concurrently. The sentence was suspended for 18 months.

The man was sentenced to 12 months' imprisonment for each of the three Waltham Forest offences. This was also suspended and will be served concurrently with the 18-month sentence. He also needs to complete 20 hours of a rehabilitation activity requirement order.

## Culture

Some local authority practitioners reported that senior managers were finding it difficult to dedicate sufficient time to demonstrate their support for counter fraud activities due to a focus on other priorities such as meeting budget savings targets and maintaining key services to residents.

This was considered to have a negative effect upon performance, and was associated with counter fraud work having a low profile and the benefits of counter fraud work not being fully appreciated. Appendix 1 details what senior officers and members should focus on.

There is reluctance in some cases to report identified fraud, for example in press releases, for fear of presenting a negative impression of an authority. Reporting of successful outcomes is a powerful tool in prevention and deterrence.

It is important to embed a counter fraud culture and this requires a focus and leadership from the top. This requires having an appropriate resource in place. There is a role for the audit committee to challenge activity, understand what counter fraud activity can comprise and link with the various national reviews of public audit and accountability.

## Collaboration

Local authority practitioners demonstrated an appetite for working more formally across local authority boundaries and with other agencies, departments and the private sector. They reported a range of difficulties in securing progress to working together.

Examples included counter fraud work not being consistently prioritised across the sector, lack of financial incentives to make the business case to collaborate, local lack of understanding of data protection rules, and lack of funding.

They also reported an appetite for innovative use of data and wider data sharing, but had encountered barriers to this or made very slow progress.

Local authorities further reported that they found it hard to get the police involved in their cases and that they did not receive feedback on cases from crime reporting hotlines.

During the research a number of incidents were highlighted that demonstrated patterns of activity, organised fraud and money laundering. These issues have been acted upon. However, it is important that local authorities have access to routes where they can report these matters. Local authorities are the eyes and ears of the community and have a wealth of data that can help other local law enforcement if legally

accessed but this communication is not happening everywhere. This collaboration would support the fight against serious and organised crime. If the recommendations about links between the operational board and the JFT are agreed this will start to resolve some of the issues in this section.

*Recommendations:*

*The external auditor should highlight FFCL and its appendices to the audit committee in the annual report*

*The regional network should continue use the Knowledge Hub as a free, independent, non-commercial confidential space to share information. When it is live the secretariat should hand it to the FFCL operational board.*

*Local authorities should partner with neighbours and engage in regional networks and should consider sharing resources and expertise. The FFCL operational board should take the lead on this.*

While this strategy covers fraud and corruption, no instances of corruption were raised at the workshops though it was clearly considered alongside fraud in local strategies. The Ministry of Housing, Communities and Local Government has conducted research on procurement fraud and corruption that will be added to

the live FFCL documents.

“Working in partnership has allowed the Veritau member councils to establish a dedicated corporate fraud team. The team offers each council access to fraud investigators with specialist knowledge of the fraud risks facing local government. The team has also helped each council to recover significant fraud losses, particularly in new and emerging areas like adult social care.”

*Max Thomas, Managing Director Veritau*

## Case Study

### Devon Audit Partnership

A social housing local landlord alleged that Mr P was potentially subletting his property illegally to an unentitled third party. Mr P was already in the process of applying for the right to buy his social housing property.

The subsequent investigation revealed evidence that Mr P's friend was subletting the property from him and had been for at least two years. It also confirmed that Mr P was living in a private rented property with his girlfriend less than two miles away.

Mr P constantly denied the allegations. However, at his interview under caution with the DAP counter fraud services team, after repeatedly lying, he admitted the overwhelming evidence proved he was letting his friend live at his social housing property but denied that he had done anything wrong.

***Mr P was subsequently prosecuted and pleaded guilty at that point to two offences contrary to:***

*Prevention of Social Housing Fraud Act 2013 – in relation to the dishonest illegal sublet of a social housing property*

*Fraud Act 2006 – in relation to the dishonest attempt to fraudulently obtain a £39,600 discount on his right to buy.*

Mr P was sentenced to 160 hours' unpaid work for each charge and ordered to pay Plymouth City Council £750 towards its costs. Judge Darlow stated at the end of the case: “It was fraud [and] the decision by Plymouth City Council to prosecute is to be applauded.”

## Section 2: The Strategic Approach

To support the delivery of the strategy there is a need for an action plan, appropriate governance arrangements and revised structures to underpin the key requirements to foster and improve collaboration across boundaries.

The recommendations contained in this strategy need to be turned into a set of achievable actions that are properly resourced, timetabled and allocated to appropriate local and national partners. These will need to be supported by an advisory board of senior stakeholders that commands widespread support and leadership across all levels of local

government. This should include the Local Government Association and the relevant central government departments.

New structures, appropriate to the changing demands, need to be constructed to support the delivery of the strategy. It is recommended that these are built upon the existing counter fraud arrangements already paid for by local government, and that the resources of the existing and new structures are committed to supporting the delivery of this strategy.

The key principles are laid out in the pillars and themes:



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## Govern

The bedrock of the strategy is that those who are charged with governance support the activity by ensuring that there are robust arrangements and executive support to ensure counter fraud, bribery and corruption measures are embedded throughout the organisation. Beating fraud is everyone's business. The internal arrangements that are put in place should be communicated throughout the organisation and publicly available to demonstrate the culture and commitment to preventing fraud.

Without exception the research revealed an 'ask' that those charged with governance be directed to the strategy and that this become a key element. During the research for FFL 2011 and 2016 it was requested that some key points be laid out for those charged with governance in local authorities to make it simple for them to ensure fraud was being tackled. This request was repeated on numerous occasions during the workshops for FFCL 2020. Some basic questions are laid out at the end of the strategy in Appendix 1.

The supplements to this strategy lay out some key stakeholders, their roles and the areas that they should consider when evaluating the counter fraud efforts in their organisations.

The pillar of 'govern' sits before 'acknowledge'. It is about ensuring the tone from the top and should be included in local counter fraud strategies.

## Acknowledge

In order to create a counter fraud response an organisation must acknowledge and understand fraud risks and then demonstrate this by committing the right support and appropriate resource to tackling fraud.

This means undertaking a risk assessment of fraud areas and vulnerabilities and then agreeing an appropriate resource. Not every local authority requires a large team but they should have assessed the risk, have a plan to address it and have access to resources with the right capabilities and skills.

## Prevent

Fraud can be prevented and detected by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.

Local authorities should set in place controls to prevent fraudsters from accessing services and becoming employees. It is nearly always more cost-effective to prevent fraud than to suffer the losses or investigate after the event.

The technology to establish identity, check documents and cross-check records is becoming cheaper and more widely used. Controls should apply to potential employees as well as service users. If someone lies about their employment history to obtain a job they are dishonest and it may not be appropriate to entrust them with public funds. In any case they may not have the training or qualifications to perform the job to the required standard.

## Case Study

### Fraud Hub Hertfordshire County Council

Hertfordshire County Council and a number of its neighbouring authorities are taking the next step to protect themselves by sharing intelligence in a newly formed FraudHub from the National Fraud Initiative to ensure they can reveal the full extent of fraudulent activities within their region.

**Results so far have been extremely positive for Hertfordshire with over...**

- *3,000 Blue Badges cancelled*
- *3,000 concessionary travel passes being revoked*
- *120 LG pensions or deferred pensions stopped*
- *182 Direct Payments or personal budgets for adult care being stopped/reduced or reviewed*
- *15 residential care placements being cancelled*
- *23 payroll discrepancies being subject to further investigation*
- *50,000 customer records removed from database alone using mortality data*
- *More than £5m in estimated savings in its first 12 months*

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## Pursue

Punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response on sanctions and collaboration.

Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat.

A further theme has appeared during the research to link with the government strategy but also recognising the increased risks to victims and the local community.

## Protect

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

For a local authority this will also cover protecting public funds, protecting its organisation from fraud and cyber-crime and also protecting itself from future frauds. This theme lies across the pillars of this strategy.

From the research it is clear that a large number of local authorities use the FFCL initiative as a basis for local plans. Some local authorities have embedded the pillars into operational work. An example of how this has been done is included in the Annexes.

### Case Study Pursue

#### Subletting Case Study Westminster City Council – unlawful profits

The council investigated following an anonymous tipoff that the tenant of a council property was not using the address as required by their tenancy and was profiting from the short-term letting of the property using Airbnb.

Searches of Airbnb carried out by the investigator found the property, which is a studio flat, advertised as a whole property with over 300 reviews. The council investigator found that even though the listing was not in the tenant's name, some of the reviews mentioned the tenant by his name, thanking him for his advice and local restaurant recommendations.

The council obtained the tenant's bank statements under the provisions of the Prevention of Social Housing Fraud Act using the authorised officer service provided by the National Anti-Fraud Network. The investigator subsequently found credits totalling over £125,000 covering four years.

All payments were credited from Airbnb, PayPal or Worldpay. When investigators visited the property they found a man at the premises who denied being the tenant even though his appearance matched the tenant's description. The next day the adverts had been removed from Airbnb but the investigator

had already retrieved and saved copies.

The tenant failed to attend several interviews under caution, but when possession action began his solicitors asked for a further opportunity for their client to be interviewed under caution to provide an account of events. This was agreed but again the tenant failed to attend the interview. Having applied the Code for Crown Prosecutors to the facts of the case and the defendant's personal circumstances, criminal action was not taken.

At the possession hearing, the District Judge said the Airbnb evidence was strong and that there was no distinction between 'short-term let' and subletting the home. The judge found in favour of the council. At an unsuccessful appeal hearing the judge agreed to the council's unlawful profits order of £100,974.94 – one of the highest that has ever been awarded to the council.

The tenant has now been evicted from the property.

## Fighting Fraud and Corruption Locally – embedding the pillars

*Durham County Council's counter fraud and corruption team has embedded many of the themes to create a robust approach. They have set up partnerships across sectors and regions, created a data hub and used the FFCL strategy to inform all of their work. The audit committee has supported the team and attended the FFCL awards in 2019.*

*DCC believes the best defence is to create a strong anti-fraud culture based on zero tolerance to deter fraud from being committed. It has reinforced this with a new corporate fraud sanction policy.*

*Norwich City Council adopted the FFCL pillars into its anti-fraud and bribery strategy in 2017 with the additional pillars of governance (similar to the NHS model). This has had a positive response from council executives and members including the audit committee. The annual report contains a RAG-rated review against the criteria set out in the local strategy and an activity plan based on the criteria each year to demonstrate progress and highlight areas to focus on.*

*A more detailed explanation of these is in the Annexes.*

## The Themes – Six Cs

*The live companions to this strategy document set out more information on how local authorities can ensure that their counter fraud response is comprehensive and effective. In the 2016 Strategy six themes were identified and during the research the workshop attendees were keen that these remain part of the strategy document.*

*Local authorities should consider their performance at a minimum against each of the six themes that emerged from the research conducted. To ensure this is effective and proportionate local authorities should benchmark this information where possible.*

### The themes are:

**Culture** – creating a culture where fraud and corruption are unacceptable and that is measurable

**Capability** – assessing the full range of fraud risks and ensuring that the range of counter fraud measures deployed is appropriate

**Capacity** – deploying the right level of resources to deal with the level of fraud risk that is monitored by those charged with governance

**Competence** – having the right skills and standards commensurate with the full range of counter fraud and corruption activity

**Communication** – raising awareness internally and externally, deterring fraudsters, sharing information, celebrating successes

**Collaboration** – working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

### Making the business case:

#### Investing in counter fraud activity –

Local authorities should pursue opportunities to invest in counter fraud and corruption activity in order to generate savings by preventing and recovering losses.



Local authorities do not, as a rule, explicitly budget for fraud losses (the exception to this is housing benefit, where subsidy losses are budgeted for). However, estimates of local authority losses demonstrate that there is a significant problem, and therefore a significant opportunity for local authorities.

Local authorities should seek to assess their potential losses and measure actual losses in order to make the business case for investing in prevention and detection. In many cases there is an existing business case based upon the experience of other local authorities. For example, the prevention and detection of fraud perpetrated in income areas such as council tax is now widespread and offers higher tax revenue which can be recovered through existing, efficient collection systems. However, each local authority will need to make its own case as fraud risks will vary significantly depending on location, scope, and scale of activities.

**The moral case –** fraud and corruption in local authorities are unacceptable crimes that attack funds meant for public services or public assets.

The result is that those in genuine need are deprived of vital services. Fraud and corruption are often linked with other criminal offences such as money laundering and drug dealing. Local authorities have a duty to protect the public purse and ensure that every penny of their funding is spent on providing local services. More often than not, in doing so they achieve wider benefits for the community. For example, adult social care sits within the precept for council tax and reducing fraud in this area means that taxpayers' money is protected and is an incentive.

## Case Study

An interim manager hired vehicles for personal use covering at least nine different vehicles and costing more than £18,000. The fraud included various invoice frauds for gardening services and over £20,700 paid to the interim manager's account.

In total the interim manager's actions resulted in monies, goods or services with a total value of £60,882.16 being ordered or obtained at a cost to the council from seven suppliers, including false invoices purporting to be from a gardening company.

Thirty-one fraudulent invoices were introduced by the interim manager totalling over £48,000 and were processed, authorised and paid using the council's systems. A further eight invoices totalling

more than £7,000 were subsequently authorised by the interim manager's line manager for liabilities incurred by the interim manager. Employee purchase cards were used to pay for goods worth over £1,270 and the interim manager personally benefited by £4,000 from the compensation payment and over £20,780 from the fraudulent invoices he submitted from the gardening company.

### *The fraud was discovered via a whistleblowing referral to audit services*

The council's investigation found that the maintenance company with the same bank account as the interim manager's company did not exist. The council's audit services department led an investigation with the police to take the matter to Birmingham Crown Court where the interim manager pleaded guilty to Fraud Act offences. He was sentenced to three years' imprisonment on 25 September 2019.

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## Section 3: Turning Strategy into Action

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### The Delivery Plan

To support the delivery of the strategy there is a need for an action plan, appropriate governance arrangements and revised structures to underpin the key requirements and foster and improve collaboration across boundaries.

The set of recommendations contained in this strategy need to be turned into a set of achievable actions that are properly resourced, timetabled and allocated to appropriate local and national partners. These will need to be supported by an advisory board of senior stakeholders that commands widespread support across all levels of local government. This should include the Local Government Association and the relevant central government departments.

New structures, appropriate to the changing demands, need to be constructed to support the delivery of the strategy. It is recommended that these are built upon the existing counter fraud arrangements already paid for by local government, and that the resources of the existing and new structures are committed to supporting the delivery of this strategy.

Further details on governance and recommendations are in the Delivery Plan Annex.





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# Section 4: The Local Response

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## Appendix 1

*What should senior stakeholders do?*

### *The chief executive*

1. Ensure that your authority is measuring itself against the checklist for FFCL
2. Is there a trained counter fraud resource in your organisation or do you have access to one?
3. Is the audit committee receiving regular reports on the work of those leading on fraud and is the external auditor aware of this?

### *The section 151 officer*

1. Is there a portfolio holder who has fraud within their remit?
2. Is the head of internal audit or counter fraud assessing resources and capability?
3. Do they have sufficient internal unfettered access?
4. Do they produce a report on activity, success and future plans and are they measured on this?

### *The monitoring officer*

1. Are members, audit committees and portfolio leads aware of counter fraud activity and is training available to them?
2. Is the fraud team independent of process and does it produce reports to relevant committees that are scrutinised by members?

### *The audit committee*

1. Should receive a report at least once a year on the counter fraud activity which includes proactive and reactive work
2. Should receive a report from the fraud leads on how resource is being allocated, whether it covers all areas of fraud risk and where those fraud risks are measured
3. Should be aware that the relevant portfolio holder is up to date and understands the activity being undertaken to counter fraud
4. Should support proactive counter fraud activity
5. Should challenge activity, be aware of what counter fraud activity can comprise and link with the various national reviews of public audit and accountability.

### *The portfolio lead*

***Receives a regular report that includes information, progress and barriers on:***

- The assessment against the FFCL checklist
- Fraud risk assessment and horizon scanning.

## Appendix 2

### *FFCL Checklist*

- The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members.
- The local authority has undertaken a fraud risk assessment against the risks and has also undertaken horizon scanning of future potential fraud and corruption risks. This assessment includes the understanding of the harm that fraud may do in the community.
- There is an annual report to the audit committee, or equivalent detailed assessment, to compare against FFCL 2020 and this checklist.
- The relevant portfolio holder has been briefed on the fraud risks and mitigation
- The audit committee supports counter fraud work and challenges the level of activity to ensure it is appropriate in terms of fraud risk and resources
- There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been communicated throughout the local authority and acknowledged by those charged with governance.
- The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.
- The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.
- Counter fraud staff are consulted to fraud-proof new policies, strategies and initiatives across departments and this is reported upon to committee.
- Successful cases of proven fraud/corruption are routinely publicised to raise awareness.
- The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.
- The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering:
  - codes of conduct including behaviour for counter fraud, anti-bribery and corruption
  - register of interests
  - register of gifts and hospitality.
- The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended

- in FFCL 2020 to prevent potentially dishonest employees from being appointed.
- Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to committee.
- There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.
- There is an independent and up-to-date whistleblowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.
- Contractors and third parties sign up to the whistleblowing policy and there is evidence of this. There should be no discrimination against whistleblowers.
- Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.
- There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.
- Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.
- Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.
- There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communications team.
- All allegations of fraud and corruption are risk assessed.
- The fraud and corruption response plan covers all areas of counter fraud work:
  - prevention
  - detection
  - investigation
  - sanctions
  - redress.
- The fraud response plan is linked to the audit plan and is communicated to senior management and members.
- Asset recovery and civil recovery are considered in all cases.
- There is a zero tolerance approach to fraud and corruption that is defined and monitored and which is always reported to committee.
- There is a programme of proactive counter fraud work which covers risks identified in assessment.
- The counter fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.

- The local authority shares data across its own departments and between other enforcement agencies.
- Prevention measures and projects are undertaken using data analytics where possible.
- The counter fraud team has registered with the Knowledge Hub so it has access to directories and other tools.
- The counter fraud team has access to the FFCL regional network.

There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work they too must be trained in this area.

The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.

The counter fraud team has access (through partnership/ other local authorities/or funds to buy in) to specialist staff for:

- surveillance
- computer forensics
- asset recovery
- financial investigations.

Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud-proof systems.

## Section 4

*The Fighting fraud and Corruption Locally board would like to thank*

*The Fighting Fraud and Corruption Locally board is:*

Charlie Adan – Chief Executive and SOLACE  
 Bevis Ingram – LGA  
 Andrew Hyatt – Royal Borough of Kensington and Chelsea  
 Mike Haley – Cifas and Joint Fraud Taskforce  
 Rachael Tiffen – Cifas and secretariat  
 Suki Binjal - Lawyers in Local Government  
 Colin Sharpe – Leicester City Council  
 Clive Palfreyman – LB Hounslow  
 Trevor Scott – Wealden District Council  
 Alison Morris – MHCLG  
 Mark Astley – NAFN  
 Paula Clowes – Essex County Council  
 Simon Bleckly – Warrington Council  
 Karen Murray – Mazars  
 Paul Dossett – Grant Thornton  
 Marc McAuley – Cipfa

The Board would like to thank Cifas for managing this process, for the delivery of the research and the drafting of this document.

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## *Regional Workshops*

*Around 260 councils attended workshops organised in the following areas:*

East Anglia  
SouthWest, Devon, Plymouth, Cornwall and Devon  
Kent  
London and the South East  
Essex  
Hertfordshire and Home Counties  
Midlands Fraud Group and Chief Internal Auditors and County Networks  
North West Fraud Groups  
Yorkshire Groups  
North East and North Regional Fraud Group

*The Fighting Fraud and Corruption  
Locally board wishes to thank:*

Andrea Hobbs  
Colin Sharpe  
Debbie Dansey  
Helen Peters  
James Flannery  
Jamie Ayling  
Jacqui Gooding  
David Hill  
Max Thomas  
Jonathan Dodswell  
Hannah Lindup  
Shelley Etherton  
Gary Taylor  
Nick Jennings  
Ken Johnson  
Mark O'Halloran  
Paul Bicknell  
Lauren Ashdown  
Steven Graham  
Matt Drury  
Gillian Martin  
Sara Essex  
Sally Anne Pearcey  
Paula Hornsby  
Rachel Worsley  
Nikki Soave  
Francesca Doman  
Andrew Reeve  
Jason Pengilly  
Paul Bradley  
Professor Alan Doig  
Sean Turley  
Neil Masters  
Dan Matthews  
Scott Reeve  
Corinne Gladstone  
Louise Baxter  
Keith Rosser  
Ben Russell  
Philip Juhasz  
Paddy O'Keefe  
Mark Wilkes

Andrew Taylor  
Neil Farquharson  
Steven Pearse  
Lucy Pledge  
Sheila Mills  
Jamey Hay  
Kerrie Wilton  
Michael Skidmore  
Oliver Day  
Carol McDonnell  
Nici Frost-Wilson

*Special thanks go to:*

***The researchers and drafters:***

Rachael Tiffen – Cifas  
Paula Clowes – Essex County Council  
Andy Hyatt – Royal Borough of Kensington and Chelsea

\*\*

And all those who attended the workshops, provided feedback, responded to surveys and who took up the actions after the workshops.

## **Section 5**

*Glossary and documents*

NAFN – National Anti-Fraud Network  
CIPFA – Chartered Institute of Public Finance and Accountancy  
Cifas – UK's fraud prevention service  
NECC – National Economic Crime Centre  
NCA – National Crime Agency  
MHCLG – Ministry of Housing, Communities and Local Government

ONS: [www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/bulletins/crimeinenglandandwales/yearendingseptember2019#fraud](http://www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/bulletins/crimeinenglandandwales/yearendingseptember2019#fraud)  
[www.gov.uk/government/publications/economic-crime-plan-2019-to-2022](http://www.gov.uk/government/publications/economic-crime-plan-2019-to-2022)  
National Fraud Authority, Annual Fraud Indicator, March 2013  
National Fraud Authority - Good practice publication: [www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/](http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/)  
Economic Crime Plan 2019: [www.gov.uk/government/publications/economic-crime-plan-2019-to-2022](http://www.gov.uk/government/publications/economic-crime-plan-2019-to-2022)  
Eliminating Public Sector Fraud: [www.cabinetoffice.gov.uk/sites/default/files/resources/eliminating-public-sector-fraud-final.pdf](http://www.cabinetoffice.gov.uk/sites/default/files/resources/eliminating-public-sector-fraud-final.pdf)  
Smarter Government: [www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/smarter-government-report](http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/smarter-government-report)  
Local Government Association Counter Fraud Hub: [www.local.gov.uk/counter-fraud-hub](http://www.local.gov.uk/counter-fraud-hub)  
Veritau: [veritau.co.uk/aboutus](http://veritau.co.uk/aboutus)  
SWAP Internal Audit Services: [www.swapaudit.co.uk](http://www.swapaudit.co.uk)  
Devon Audit Partnership: [www.devonaudit.gov.uk](http://www.devonaudit.gov.uk)

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**East Herts Council  
Anti-Fraud Plan 2019/2020**

**in partnership with**

**The Shared Anti-Fraud Service**



**SAFS**  
Shared Anti-Fraud Service  
*Fighting Fraud in Partnership*

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## **Introduction**

This plan supports the Councils Anti-Fraud and Corruption Strategy by ensuring that the Council, working in partnership with the Hertfordshire Shared Anti-Fraud Service and others, has in place effective resources and controls to prevent and deter fraud as well as investigate those matters that do arise.

The Councils states that the key elements for the Strategy are;

**Culture- the prevailing set of assumptions and values within the organisation- and the reporting of suspicions of fraud and corruption,**

**Actions to prevent and deter fraud and corruption,**

**Controls to detect and ensure investigation of fraud and corruption,**

**Alertness and vigilance reinforced by training.**

This plan includes objectives and key performance indicators that support the Strategy and meet the best practice guidance/directives from central government department such as Ministry for Housing Communities and Local Government and other bodies such as National Audit Office and the Chartered Institute for Public Finance and Accountancy.

## **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 by various organisations including CIPFA, NAO and MHCLG stating that the threat of fraud against local government is both real, causes substantial loss and that fraud should be prevented where possible and pursued where it occurs.

In its 2015 publication ***Code of practice on managing the risk of fraud and corruption*** CIPFA highlighted the five principles for public bodies to embed effective standards for countering fraud and corruption in their organisations. These principles support good governance and demonstrate effective financial stewardship and strong public financial management

The five key principles of the code are to:

- Acknowledge the responsibility of the governing body for countering fraud and corruption
- Identify the fraud and corruption risks
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy
- Take action in response to fraud and corruption.

The CIPFA ***Local Government Counter Fraud and Corruption Strategy (2016-2019)*** included a summary of reported fraud losses across councils in England totalling £307m per annum but that hidden and unreported fraud risks could exceed £2bn each year. The strategic response for local government to respond to the threat of fraud threats provides three key principles '**Acknowledge/Prevent/Pursue**'. The strategy was supported by Department for Communities and Local Government, the Local Government Association and Fighting Fraud Locally Board.

In addition, local authorities can ensure that their counter fraud response is comprehensive and effective by considering their performance against each of the six themes (6C's) identified in the CIPFA Strategy:

- Culture - creating a culture in which beating fraud and corruption is part of daily business,
- Capability - ensuring that the range of counter fraud measures deployed is appropriate to the range of fraud risks,
- Capacity - deploying the right level of resources to deal with the level of fraud risk,
- Competence - having the right skills and standards,
- Communication - raising awareness, deterring fraudsters, sharing information, celebrating successes
- Collaboration - working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information

The Annual Fraud Indicator (AFI) 2017 (published in partnership by Crowe Clark Whitehill, Portsmouth University and Experian) attempts to identify the cost of fraud to the UK economy. The AFI estimated fraud losses for local government as follows.

- Total loss across local government - £7.8bn
- Tenancy Fraud- £1.8bn
- Procurement Fraud - £4.4bn
- Payroll Fraud - £1bn
- Other - £.6bn

The AFI does not include housing benefit fraud or council tax fraud as a loss to local government but estimates the loss of these combined at around £1.1bn.

What is clear is that every pound lost to fraud from the public purse is a pound lost from essential front line services. The Councils Anti-Fraud Plan 2019/2020 is based on the principles of 'Acknowledge/ Prevent/ Pursue' and the 6 C's to ensure the Council is adequately protected from fraud risk or, where fraud does occur, that there are plans to manage,mitigate, recover any losses.

## **SAFS Resources 2019/2020**

### **Anti-Fraud Arrangements**

East Herts Council is a founding Partner in the Hertfordshire Shared Anti-Fraud Service (SAFS) and this service has provided the majority of the anti-fraud arrangements for the Council since April 2015.

SAFS is a Partnership where each organisation pays an annual fee for Hertfordshire County Council to provide a contracted service across the whole Partnership. SAFS, as a service, has a number of key objectives developed by its Management Board (the Board) and every Partner has one seat on the Board. For East Herts Council the Head of Strategic Finance and Property is the Board representative.

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

### **Budget**

In September 2018 the SAFS Board accepted a report from the SAFS Manager to increase the fees for all Partners. The Board also received assurance from financial modelling that the service would be sustainable, in its current form, for the next three years. There has been no previous increase in fees since SAFS was established in 2015.

The Board agreed that the annual fee for all Partners would increase by 2% per annum to 2022 to be reviewed further at that time and that fees for District Councils, without housing stock, would be fixed to £81,600 +VAT.

Fees for East Herts Council in 2019/2020 will increase from £80,000 + VAT to £81,600 + VAT.

### **Staffing**

The full complement of SAFS in 2019/20 will be 17.6 FTE's; 1 Manager, 2 Assistant Managers, 10 Investigators, 3 Intelligence Officers. The Team is also supported by 1 FTE Data-Analyst and .6 FTE Accredited Financial Investigator both posts funded from SAFS Budgets.

For staffing – East Herts Council will have exclusive access to 1 FTE Investigator, access to intelligence functions of the service, all data-matching services being offered through the SAFS Data-Hub and Herts *FraudHub* hosted by the Cabinet Officer and can call on SAFS management for liaison meetings, management meetings and two Audit Committees reports per annum. SAFS also have access to specialist IT forensics, covert surveillance and national counter fraud intelligence services provided via third party providers and litigation services.



## **SAFS - Standards of Service.**

SAFS will provide the Council with the following fraud prevention and investigation services as part of the contracted anti-fraud function.

1. Access to a managed fraud hotline and webpage for public reporting.
2. Process and document for SAFS Partner staff to report suspected fraud to SAFS.
3. Training in: Fraud Awareness (management/staff/members), Fraud Prevention, Identity Fraud and Prevention.
4. Assistance in the design/review of Council policies, processes and documents to deter/prevent fraud.
5. SAFS will design shared/common anti-fraud strategies and policies or templates which can be adopted by the Council.
6. SAFS will provide a proactive 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. The protocol will clearly outline security provisions and include a Privacy Impact Assessment.
  - SAFS will work with nominated officers in the Council to access data-sets to load into the data-warehouse and determine the frequency of these.
  - SAFS will work with Council officers to determine the most appropriate data-matching for each of them and the frequency of such data-matching.
7. All SAFS Staff will be qualified, trained and/or accredited to undertake their duties lawfully.
8. All SAFS investigations will comply with legislation including DPA, GDPR, PACE, CPIA, HRA, RIPA\* and all relevant policies of the Council.
9. Reactive fraud investigations.
  - All reported fraud will be actioned by SAFS within 5 days, on average.
  - Any high profile, high value, high risk cases or matters reported by senior managers will receive a response within 2 working days of receipt
  - All cases reported to SAFS will be reviewed within 5 days of receipt and decision made on immediate action including selection of cases for further review, no action, investigation or referral to 3<sup>rd</sup> 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 selected for investigation.
  - SAFS officers will liaise with nominated officers at the Council to access data/systems/office accommodation required to undertake their investigations.
  - SAFS officers will provide updates on cases and a report with summary of facts and supporting evidence on conclusion of the investigation for the Council to review and make any decisions.
  - Where a decision indicates an offence SAFS will draft a report for the nominated officers of the Council to make a decision on any further sanctions/prosecutions.
10. Where sanctions, penalties or prosecutions are sought SAFS will work with the Council to determine the appropriate disposal based on the Code for Crown Prosecutors and the Council's published policies.
11. SAFS will provide Alerts to the Council, of suspected fraud trends or reports/guidance from government and public organisations that are relevant to fraud.
12. SAFS will provide reports to senior management on the progress with delivery of this Plan and any other relevant activity planned or otherwise.
13. SAFS will provide reports through the SAFS Board and to the Council's Audit 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.*

EHC / SAFS Action Plan 2019/2020			
CIPFA Principles	Goals & 6Cs	Activities	Responsible Officer
ACKNOWLEDGE	Fraud is acknowledged as a Risk for the Council <b>CULTURE</b>	The Council has in place Anti-Fraud and Corruption Strategy & Fraud Response Plan Inclusion of Fraud Risks and the Councils actions to manage/mitigate/reduce this in its Annual Governance Statement. Review the Councils Money Laundering/ Bribery/ Whistleblowing/ Cyber-Crime Policies PAGS Committee and Senior Managers ensure compliance with CIPFA best practice in their counter fraud arrangements 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.	Chief Executive / Monitoring Officer S. 151 Officer/ Monitoring Officer S. 151 Officer Head of Legal/ Head of Human Resources
		The Councils Communication Team will publicise prosecutions, anti-fraud campaigns and provide internal communications to staff on fraud awareness Access to SAFS fraud reporting tools (web/phone/email) for staff, public and elected Members. The Council and SAFS will provide fraud awareness or specific anti-fraud training across all Council services and review the E-Learning Training for staff SAFS will provide fraud alerts to appropriate officers/staff/services from Action Fraud/ NAFN/ Police .	Senior Communications Officer SAFS Manager / Senior Communications Officer SAFS Manager & Head of Human Resources SAFS Manager
	The Council has a robust communication policy demonstrating its commitment to prevent fraud <b>COMMUNICATION</b>	Implement the contract for EHC to join the Herts <i>FraudHub</i> in 2019. Review data sharing agreements/protocols to ensure compliance with DEA & GDPR/DEA Deliver the NF12018/19 Exercise Work with DWP to deliver CTRS/HB joint working 2018 roll-out Work with other organisations, including private sector, to improve access to data	SAFS Manager/ s.151 Officer Monitoring Officer / SAFS Manager SAFS Manager/ s.151 Officer SAFS Manager/ Head of Shared R&B Service SAFS Manager
		All SAFS staff will be fully trained and accredited All investigations will comply with relevant legislation and Council Policies SAFS will work with the LGA and Cabinet Office to support the roll out of a Counter-Fraud Profession SAFS will work with Council Services to make best use of 3rd party providers such as NAFN, PNLD, CIPFA	SAFS Manager SAFS Manager SAFS Manager s.151 Officer/ SAFS Manager
PREVENT	Co-ordination of effort, sharing of best practice, data, fraud alerts and new threats. <b>COLLABORATION</b>	SAFS will provide reports to Board and SAFS Champions quarterly on anti-fraud activity at the Council SAFS will record and report on all fraud referred, investigated and identified SAFS will review fraud trends and new threats and report on these to Council officers SAFS and the Councils Legal and Debt teams will seek to 'prosecute' offenders and recover losses	SAFS Manager/ s.151 Officer SAFS Manager SAFS Manager SAFS Manager /Monitoring Officer/ s.151 Officer/ Head of Shared R&B Service
	Have the highest levels of professional standards <b>COMPETENCE</b>	The Council will review its ROI from SAFS Membership SAFS will assist the Council in providing its Transparency Code (Fraud) Data annually Reports for PAGS Committee on all Counter Fraud activity SAFS will work with bodies including MHCLG/LGA/CIPFA/FFLB to develop anti-fraud strategies at a national level that support fraud prevention in local government	s.151 Officer SAFS Manager SAFS Manager / s.151 Officer SAFS Manager
	Ensuring the Counter-Fraud Measures are appropriate to the range of fraud risk. <b>CAPABILITY</b>		
PURSUE	Develop the right level of resources to deal with the level of fraud risk <b>CAPACITY</b>		

**SAFS**

**KPIs 2019/2020**

KPI	Measure	Target 2019/2020	Achieved 2018/2019	Reason for KPI
1	Return on investment from SAFS Partnership.	Demonstrate, via SAFS Board, that the Council is receiving a financial return on investment from membership of SAFS and that this equates to its financial contribution.	New Target	Transparent evidence to Senior Management that the Council is receiving a service matching its contribution.
2	Provide an investigation service.	A. 1 FTE on call at EHC. (Supported by SAFS Intel/ AFI/Management). B. 3 Reports to PAGS Committee. C. SAFS Attendance at Council management/governance groups.	100% to all	Ensure ongoing effectiveness and resilience of the Councils anti-fraud arrangements.
3	Action on reported fraud.	A. All urgent/ high risk cases 2 Days. B. All other cases 5 Days on Average.	New Target	Ensure that all cases of reported fraud are triaged within agreed timescales.
4	Added value of SAFS membership.	A. Membership of NAFN B. Membership of CIPFA Counter Fraud Centre C. Access to NAFN for relevant Council Staff D. 5 Fraud training events for staff/Members in year.	New Target	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. 100 - Fraud referrals from all sources to SAFS B. 60% of cases investigated and closed in year	A. 100 B. 60%	This target will measure the effectiveness of the service in promoting the reporting of fraud by staff and public, & Measure the effectiveness in identifying cases worthy of investigation.
6	Making better use of data to prevent/identify fraud.	A. Implement the Herts FraudHub for EHC. B. Complete NFI 2018/2019 Reports.	New Target	Build a Hub that will allow the Council to access and share data to assist in the prevention/detection of fraud.

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EHC / SAFS Action Plan 2019/2020				
CIPFA Principles	Goals & 6Cs	Activities	Responsible Officer	Progress to March 2020
ACKNOWLEDGE	Fraud is acknowledged as a Risk for the Council <b>CULTURE</b>	The Council has in place Anti-Fraud and Corruption Strategy & Fraud Response Plan	Chief Executive / Monitoring Officer	Review conducted in early 2020 for publication later this year. This will include the latest guidance and best practice.
		Inclusion of Fraud Risks and the Councils actions to manage/mitigate/reduce this in its Annual Governance Statement. Review the Councils Money Laundering/ Bribery/ Whistleblowing/ Cyber-Crime Policies	S. 151 Officer/ Monitoring Officer	Review partially completed - see above.
		PAGO Committee and Senior Managers ensure compliance with CIPFA best practice in their counter fraud arrangements	S. 151 Officer	Policy review and new training plan with HR, resources dedicated to counter fraud activity.
		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.	Head of Legal/ Head of Human Resources	Officers are working to embed trainin and policies and shae these via the Intraet and other means to all staff
	The Council has a robust communication policy demonstrating its commitment to prevent fraud <b>COMMUNICATION</b>	The Councils Communication Team will publicise prosecutions, anti-fraud campaigns and provide internal communications to staff on fraud awareness	Senior Communications Officer	SAFS and EHC Comms publicise AF activity and campaigns
		Access to SAFS fraud reporting tools (web/phone/email) for staff, public and elected Members.	SAFS Manager / Senior Communications Officer	All in place and made available to EHC staff and residents
		The Council and SAFS will provide fraud awareness or specific anti-fraud training across all Council services and review the E-Learning Training for staff	SAFS Manager & Head of Human Resources	Fraud awareness programme delivered with HR and supprt from service managers
		SAFS will provide fraud alerts to appropriate officers/staff/services from Action Fraud/ NAFN/ Police .	SAFS Manager	24. Alerts issued from SAFS Intel to SAFS Partners.
	Co-ordination of effort, sharing of best practice, data, fraud alerts and new threats. <b>COLLABORATION</b>	Implement the contract for EHC to join the Herts <i>FraudHub</i> in 2019.	SAFS Manager/ s.151 Officer	Contracts were approved in early 2020 but due to Covid this has been delayed and no further action at present.
		Review data sharing agreements/protocols to ensure compliance with DEA & GDPR/DEA	Monitoring Officer / SAFS Manager	Complete and in place
		Deliver the NFI 2018/19 Exercise	SAFS Manager/ s.151 Officer	1447 matches in all received by EHC . All high risk matches cleared.
		Work with DWP to deliver CTRS/HB joint working 2018 roll-out	SAFS Manager/ Head of Shared R&B Service	JW in place with DWP/FES at Stevenage on relevant cases
		Work with other organisations, including private sector, to improve access to data	SAFS Manager	SAS Project in place (HCC). Destin Solutions SBRR scheme offered to EHC R&B.
PREVENT	Have the highest levels of professional standards <b>COMPETENCE</b>	All SAFS staff will be fully trained and accredited	SAFS Manager	SAFS all trained and accredited.
		All investigations will comply with relevant legislation and Council Policies	SAFS Manager	SAFS Mgt monitor all live cases to comply
		SAFS will work with the LGA and Cabinet Office to support the roll out of a Counter-Fraud Profession	SAFS Manager	SAFS are part of a Collective Application to join Profession by March 2020 (now delayed to late 2020)
		SAFS will work with Council Services to make best use of 3rd party providers such as NAFN, PNLD, CIPFA	s.151 Officer/ SAFS Manager	All complete and licenses in place
	Ensuring the Counter-Fraud Measures are appropriate to the range of fraud risk. <b>CAPABILITY</b>	SAFS will provide reports to Board and SAFS Champions quarterly on anti-fraud activity at the Council	SAFS Manager/ s.151 Officer	SAFS Provides quarterly reports to Board and EHC S.151 attends these and/or SAFS Champion Meeting
		SAFS will record and report on all fraud referred, investigated and identified	SAFS Manager	All Cases are recorded on SAFS Case Management System
		SAFS will review fraud trends and new threats and report on these to Council officers	SAFS Manager	Ongoing as part of the CMS
		SAFS and the Councils Legal and Debt teams will seek to 'prosecute' offenders and recover losses	SAFS Manager /Monitoring Officer/ s.151 Officer/ Head of Shared R&B Service	SAFS has worked with the Councils legal team and other third parties to bring cases to court
	Develop the right level of resources to deal with the level of fraud risk <b>CAPACITY</b>	The Council will review its ROI from SAFS Membership	s.151 Officer	s.151 Receives update and reports as required.
		SAFS will assist the Council in providing its Transparency Code (Fraud) Data annually	SAFS Manager	All 2018/19 data was published in July 2019
		Reports for PAGO Committee on all Counter Fraud activity	SAFS Manager / s.151 Officer	PAGO rec'd reports in Sep 2019/ Jan 2020 the March 2020 delayed to May.
		SAFS will work with bodies including MHCLG/LGA/CIPFA/FFLB to develop anti-fraud strategies at a national level that support fraud prevention in local government	SAFS Manager	SAFS is part of the Fighting Fraud Locally Working Group to develop a national strategy for local government from 2020
PURSUE				

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## Appendix D

### EHC Reported Fraud Stats 2019/20

#### REFERRAL SOURCES

TOTAL	Partner	Public	Proactive	Other Agency
81	24	51	2	4

#### REFERRAL TYPES

TOTAL	CTRS & HB	Discounts	Housing	Blue Badge	NNDR	Other
81	56	5	12	6	1	1

#### ALL CASES CLOSED IN YEAR

TOTAL	Positive	Not Proved	Intervention	Rejected
95	23	15	18	39

#### POSITIVE CASES CLOSED

Investigated	% Positive	CTR/HB Sanctioned	Prosecuted	Employee disciplined	Employee Dismissed	Blue Badges Seized
38	60%	3	2	0	0	?

#### BREAKDOWN LOSSES/ NEW REVENUE

	Recoverable Losses/ New Revenue	Saving/ Prevention	Notes
Housing Benefit	£ 129,700	£ 25,800	HB Subsidy creates potential new revenue of £51,600
Council Tax	£ 32,100	5,500	Lost and Saved all billed for recovery
Staff		nil	
Housing Fraud			
Blue Badge		£ 575	
NNDR	£ 45,000		NNDR live case
Other			Procurement case
NFI		£ 125,000	NFI 2018/19 Stats (30th March)
Ctax Framework	£ 100,000		Not used in 2019/20
Fines & Penalties	£ 800		From HB/Ctax penalties
Total	£ 307,600	£ 156,875	

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## East Herts Council Report

### Executive

### Audit and Governance Committee

#### Dates of Meetings:

7 July 2020

28 July 2020

**Report by:** Councillor Geoffrey Williamson, Deputy Leader and Executive Member for Financial Sustainability

**Report title:** General Fund Revenue and Capital Outturn 2019/20

Ward(s) affected: All

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### Summary

#### **RECOMMENDATIONS FOR EXECUTIVE: to approve**

- (a) The transfer of the General Fund revenue outturn of £16k underspend to the General Reserve**
- (b) That capital budgets of £30.898m be carried forward to 2020/21 to fund ongoing capital schemes**

#### **1.0 Proposal(s)**

- 1.1 To advise members on the General Fund Revenue Outturn for 2019/20 and provide explanations for significant variances against approved budget.
- 1.2 To advise members of the financing arrangements for the 2019/20 Capital Outturn.

#### **2.0 Background**

- 2.1 The 2019/20 budget was approved by Council on 5 March 2019.
- 2.2 In year budget monitoring and management actions have sought to deliver spending plans approved by the Council. Members have been kept updated throughout the year

through quarterly budget monitoring reports where any significant variances have been reported.

### 3.0 Reason(s)

- 3.1 The final outturn for the year, detailed in this report is still subject to external audit. The final audited accounts will be presented to the Audit and Governance Committee on 22 September 2020.
- 3.2 An underspend of £16k is reported against the 2019/20 revenue budget. This is summarised in Table 1. It is recommended that this underspend is transferred to the Councils General Reserve.

Table 1: Summarised 2019/20 Outturn position

	2019/20 Original Budget	2019/20 Outturn	Variance
	£'000	£'000	£'000
Total Net Cost of Services	14,201	14,168	(33)
Corporate Budgets Total	972	773	(199)
Net Use of Reserves	558	3,289	2,731
Funding	(5,463)	(7,978)	(2,515)
Council Tax	(10,268)	(10,268)	-
<b>Underspend</b>	<b>0</b>	<b>(16)</b>	<b>(16)</b>
<b>Contribution to general reserve</b>	<b>0</b>	<b>16</b>	<b>16</b>

### Net Cost of Services

- 3.3 An underspend of £33k against original budget is reported for the Net Cost of Services. This is in line with the forecast outturn reported as at the end of Quarter 3 2019/20.

- 3.4 Included in the net cost of services outturn is a net use of reserves of £754k. Appendix A contains a breakdown of the reserves affected.
- 3.5 All contributions from reserves have been approved in line with the Councils Constitution.

### **Corporate Budgets**

- 3.6 Corporate budgets achieved additional income to that budgeted of £199k, as detailed in the table below.

Table 2: Corporate Budgets 2019/20

	<b>2019/20 Budget</b>	<b>2019/20 Outturn</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
NHB Grants to Town & Parish Councils	697	654	(43)
Interest Payments	669	662	(7)
Interest & Investment income	(1,090)	(1,239)	(149)
Pension Fund Deficit contribution	696	696	0
<b>Corporate Budgets Total:</b>	<b>972</b>	<b>773</b>	<b>(199)</b>

- 3.7 An underspend of £43k is shown against the New Homes Bonus grants to town and parish councils budget. This is due to East Herts not receiving as much grant funding from Central Government as initially expected, which impacts on the amounts distributed.
- 3.8 The 2019/20 investment outturn is £149k above budget, this is due to property fund investments exceeding anticipated performance. This surplus will be transferred to reserves and used to manage any future investment budget deficits.

## **Reserves**

- 3.9 There has been a significant contribution to reserves in 2019/20, as shown in the table below and Appendix A:

Table 3: Contributions to and from Reserves 2019/20

	<b>2019/20 Budget</b>	<b>2019/20 Outturn</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Contributions to Earmarked reserves	739	3,385	2,646
Contributions from Earmarked reserves	(85)	0	85
Use of General reserve	(96)	(96)	0
<b>Use of Reserves:</b>	<b>558</b>	<b>3,289</b>	<b>2,731</b>
2019/20 underspend to general reserve	<b>0</b>	<b>16</b>	<b>16</b>
<b>Net Use of reserves</b>	<b>558</b>	<b>3,305</b>	<b>2,747</b>

- 3.10 In 2019/20 £2.555m relating to business rates, as detailed in paragraphs 3.12 & 3.13, will be transferred to the collection fund reserve this will enable smoothing of potential future deficits

## **Funding**

- 3.11 A breakdown of the Councils funding sources is shown in the table below; this shows a £2.5m surplus above budget.

Table 4: 2019/20 Funding

	<b>2019/20 Budget</b>	<b>2019/20 Outturn</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
NDR & S31	(2,675)	(4,499)	(1,824)
75% BRR pilot	0	(731)	(731)
(Surplus)/Deficit on Collection fund	0	(114)	(114)
Other General Grants	0	(17)	(17)
New Homes Bonus	(2,788)	(2,617)	171
<b>Funding:</b>	<b>(5,463)</b>	<b>(7,978)</b>	<b>(2,515)</b>

3.12 A major contributor to additional funding in 2019/20 is Non Domestic Rating (NDR) Section 31 income. This is due to timing differences between when the council sets its budget and statutory returns submitted to Central Government which determine the funding for the year. Section 31 grant is received from central government to compensate local government for mandatory business rate reliefs granted. There has also been growth in business rates income above amounts budgeted.

3.13 In 2019/20 East Herts was part of a 75% Business Rate Retention pilot with Hertfordshire County Council and the other Hertfordshire district and borough councils. The outcome from the pool was reliant on the performance of all the other members and as this could not be predicted with any confidence, it was prudent not to budget for any gain. This has resulted in a gain for East Herts of £731k, although this is a one-off as we are not in the pool for 2020/21.

### **Capital Outturn**

3.14 The progress of the capital programme has been reported to Executive throughout the year as part of the budget monitoring process.

3.15 Capital expenditure in 2019/20 was £10.76m, as detailed in table 5:

Table 5: 2019/20 capital outturn

	<b>2019/20 Budget</b>	<b>2019/20 Outturn</b>	<b>Variance</b>	<b>Carry forward to 2020/21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Strategic Finance & Property	31,213	4,578	(26,635)	26,417
Business & Technology Shared Service	798	546	(252)	362
Operations	6,806	3,391	(3,415)	3,416
Housing & Health	571	581	10	113
Planning	193	163	(30)	2
Communications, Strategy & Policy	253	52	(201)	201
Millstream Loans	1,838	1,451	(387)	387
<b>Total:</b>	<b>41,672</b>	<b>10,762</b>	<b>(30,910)</b>	<b>30,898</b>

3.16 An underspend of £30.91m is reported in 2019/20. This is largely due to schemes not commencing or progressing in line with initial expectations. The majority of this, £19.03m relates to the construction of the new Northgate End Car Park, which has commenced in 2020/21.

3.17 It is recommended that £30.898m of budgets be carried forward from 2019/20 to the 2020/21 capital programme. This relates to schemes that have either been re-timetabled to take place during 2020/21 or schemes which were started during 2019/20 but not complete as at 31<sup>st</sup> March 2020. Further details can be found in Appendix B.

3.18 The 2019/20 capital programme expenditure has been financed from the following sources:

Table 6: Capital Financing

	£'000
Capital Receipts & Reserves	3,481
Government Grants	58
Third Party Contributions	2,692
Internal Borrowing	4,531
<b>TOTAL:</b>	<b>10,762</b>

## 4.0 Options

4.1

## 5.0 Risks

5.1

## 6.0 Implications/Consultations

6.1

### Community Safety

No

### Data Protection

No

### Equalities

No

### Environmental Sustainability

No

## **Financial**

Contained within the body of the report

## **Health and Safety**

No

## **Human Resources**

No

## **Human Rights**

No

## **Legal**

No

## **Specific Wards**

No

## **7.0 Background papers, appendices and other relevant material**

7.1 Appendix A – Use of Reserves 2019/20

7.2 Appendix B – 2019/20 Capital Outturn

## **Contact Member**

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## **Report Author**

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2019/20	Funding NCS			Funding MTFP			2019/20
Opening balance	Cont. to reserve	Cont. From Reserve	Net	Cont. to reserve	Cont. From Reserve	Net	Closing balance
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000

<b>General Reserve</b>	<b>852</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16</b>	<b>(96)</b>	<b>(80)</b>	<b>772</b>
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**Earmarked Reserves**

Interest Equalisation Reserve	<b>1,636</b>	-	-	-	149	-	<b>149</b>	<b>1,785</b>
Insurance Fund	<b>943</b>	-	(9)	<b>(9)</b>	-	-	-	<b>934</b>
Provision for future whole Council elections	<b>73</b>	-	(100)	<b>(100)</b>	27	-	<b>27</b>	-
New Homes Bonus Priority Spend	<b>4,692</b>	-	(753)	<b>(753)</b>	654	-	<b>654</b>	<b>4,593</b>
Collection Fund Reserve	-	-	-	-	2,555	-	<b>2,555</b>	<b>2,555</b>
Neighbourhood Planning Grant	<b>14</b>	50	-	<b>50</b>	-	-	-	<b>64</b>
IER Grant	<b>55</b>	51	-	<b>51</b>	-	-	-	<b>106</b>
MTFP Transition Funding Reserve	<b>730</b>	-	(57)	<b>(57)</b>	-	-	-	<b>673</b>
Flexible Homelessness Grant	<b>230</b>	124	-	<b>124</b>	-	-	-	<b>354</b>
HB Subsidy Volatility Reserve	<b>60</b>	-	(60)	<b>(60)</b>	-	-	-	<b>0</b>
Emergency Planning Reserve	<b>36</b>	-	-	-	-	-	-	<b>36</b>
LDF - Public Exam / Green Belt Review	<b>62</b>	-	-	-	-	-	-	<b>62</b>
Housing Condition Survey	<b>90</b>	-	-	-	-	-	-	<b>90</b>
Sinking Fund - Leisure utilities / pension	<b>228</b>	-	-	-	-	-	-	<b>228</b>
Performance reward grant	<b>10</b>	-	-	-	-	-	-	<b>10</b>
Waste recycling income volatility reserve	<b>103</b>	-	-	-	-	-	-	<b>103</b>
Footbridge over the River Stort	<b>150</b>	-	-	-	-	-	-	<b>150</b>
DCLG Preventing Repossessions	<b>18</b>	-	-	-	-	-	-	<b>18</b>
DEFRA Flood Support for Local Businesses Grant Reserve	<b>4</b>	-	-	-	-	-	-	<b>4</b>
Preventing Homelessness New Burdens Reserve	<b>31</b>	-	-	-	-	-	-	<b>31</b>
Healthy Lifestyle Promotions Reserve	<b>33</b>	-	-	-	-	-	-	<b>33</b>
Land Charges New Burdens	<b>30</b>	-	-	-	-	-	-	<b>30</b>
<b>Total Earmarked Reserves</b>	<b>9,228</b>	<b>225</b>	<b>(979)</b>	<b>(754)</b>	<b>3,385</b>	<b>-</b>	<b>3,385</b>	<b>11,859</b>

<b>Total Reserves</b>	<b>10,080</b>	<b>225</b>	<b>(979)</b>	<b>(754)</b>	<b>3,401</b>	<b>(96)</b>	<b>3,305</b>	<b>12,631</b>
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**CAPITAL EXPENDITURE OUTTURN 2019/20**

	2019/20 Revised Budget	2019/20 Outturn	Variance	Carry Forward to 2020/21
	£	£	£	£
<b>Strategic Finance &amp; Property</b>				
Investment in operational assets	99,316	0	(99,316)	0
Ward Freman - Pool Circulation Pipework	25,000	550	(24,450)	24,450
Ware Arts Centre	60,000	59,598	(402)	0
Street Lighting LED conversion	80,000	0	(80,000)	80,000
Charringtons Investment	66,917	0	(66,917)	0
Accommodation update Wallfields	205,014	208,653	3,639	0
Improve & renew structures along rivers and	80,500	46,847	(33,653)	33,653
Land Management Asset Register & Associated	50,000	0	(50,000)	0
Riverbank Retaining Wall - St Andrews Street Car	68,650	63,497	(5,153)	0
Solar Panels - Wallfields	45,000	0	(45,000)	45,000
ORL - LEP	6,548,580	467,711	(6,080,869)	6,080,869
ORL - The Meeting Hall, Water Lane, BS - LEP Funded	1,013,520	1,013,520	0	0
HCC Land Purchase (Northgate End)- LEP Funded	837,900	837,900	0	0
Northgate End	19,033,000	0	(19,033,000)	19,033,000
Financial Sustainability	3,000,000	1,879,616	(1,120,384)	1,120,384
<b>Total Strategic Finance &amp; Property</b>	<b>31,213,397</b>	<b>4,577,892</b>	<b>(26,635,506)</b>	<b>26,417,356</b>

<b>Shared Business &amp; Technology Services</b>				
Storage Servers	134,400	175,397	40,997	0
Microwave Link	32,490	43,833	11,343	0
Members Laptops	17,563	17,563	0	0
HOS Laptops	9,824	0	(9,824)	9,824
HR & Payroll System	1,850	1,850	0	0
Council Chamber Upgrade	12,113	12,113	0	0
VMWare ESX and Horizon Upgrade	250,000	195,978	(54,022)	54,022
Hosted Desktop Refresh	40,000	0	(40,000)	40,000
Intune Implementation	20,000	29,025	9,025	0
OS/Database Upgrades (Windows 2008 and 2008 SQL)	75,000	0	(75,000)	75,000
Web and email filtering software	6,000	1,688	(4,313)	4,313
Microsoft Office 365 On-boarding	51,875	9,661	(42,214)	42,214
Microsoft Office 365 Productivity Governance and Compliance	63,000	0	(63,000)	63,000
Microsoft Office 365 Modern Work Place Security Essentials	65,000	0	(65,000)	65,000
Next Generation Telephony	8,215	0	(8,215)	8,215
Civica Icon Upgrade	0	19,000	19,000	0
Ongoing hardware devices - for staff and Members and organisation	10,176	10,176	0	0
Azure AD	0	29,956	29,956	0
<b>Total Shared Business &amp; Technology Services</b>	<b>797,506</b>	<b>546,241</b>	<b>(251,265)</b>	<b>361,587</b>

<b>2019/20 Revised Budget</b>	<b>2019/20 Outturn</b>	<b>Variance</b>	<b>Carry Forward to 2020/21</b>
<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>

<b>Operations</b>				
Grange Paddocks Leisure Centre	2,719,041	1,710,542	(1,008,499)	1,008,499
Hartham Leisure Centre	2,040,627	709,785	(1,330,842)	1,330,842
Hertford Theatre - Consultants	733,700	668,152	(65,548)	65,548
Hertford & Beyond	11,000	2,567	(8,433)	8,433
Bell Street, Sawbridgeworth - Public convenience	67,400	67,417	17	0
Parsonage Lane play area	69,500	69,500	0	0
Play Area and other projects, Hartham Common, Hertford	325,000	45,008	(279,992)	279,992
Castle Park - HLF - Development Phase	119,470	65,206	(54,264)	54,264
Castle Park - HLF - Delivery Phase	60,000	4,725	(55,275)	55,275
Phisiobury Park - HLF	25,000	25,945	945	0
Trinity Close - Open Space Project	100,000	0	(100,000)	100,000
Buntingford Depot site works for Residual Waste	225,000	17,300	(207,700)	207,700
Heat Detection Unit at Buntingford Depot	310,360	5,040	(305,320)	305,320
<b>Total Head of Operations</b>	<b>6,806,098</b>	<b>3,391,187</b>	<b>(3,414,911)</b>	<b>3,415,873</b>

<b>Housing &amp; Health</b>				
Disabled Facilities - Discretionary	60,000	0	(60,000)	0
Decent Home Grants	120,000	0	(120,000)	0
Future Housing Schemes (6 Water Lane, Hertford)	129,650	124,283	(5,367)	5,367
Future Housing Schemes (Disabled Access Works to Hillcrest Hostel)	34,255	34,255	0	0
Colebrook Court (Network Housing)	65,000	32,500	(32,500)	32,500
Energy Grants	20,000	1,584	(18,416)	0
DEFRA Air Quality Scheme	13,955	17,448	3,493	0
Community Capital Grants	120,000	108,028	(11,972)	74,922
Castle Weir Micro Hydro Scheme	7,922	7,922	0	0
160 South Street, BS (CPO)	0	255,000	255,000	0
<b>Total Housing &amp; Health</b>	<b>570,782</b>	<b>581,020</b>	<b>10,238</b>	<b>112,788</b>

<b>Planning</b>				
Historic Building Grants	55,000	26,080	(28,920)	0
Improvements to The Wash, Maidenhead Street & Bull Plain, Hertford	138,325	136,633	(1,692)	1,692
<b>Total Planning</b>	<b>193,325</b>	<b>162,713</b>	<b>(30,612)</b>	<b>1,692</b>

<b>Communications, Strategy &amp; Policy</b>				
Website Build / Upgrade	51,200	51,741	541	0
Launch Pad 2	201,500	0	(201,500)	201,500
<b>Total Communications, Strategy &amp; pollicy</b>	<b>252,700</b>	<b>51,741</b>	<b>(200,959)</b>	<b>201,500</b>

	2019/20 Revised Budget	2019/20 Outturn	Variance	Carry Forward to 2020/21
	£	£	£	£
<b>Millstream Loans</b>				
Millstream - Loans	1,838,000	1,450,563	(387,437)	387,437
<b>Total Millstream Loans</b>	<b>1,838,000</b>	<b>1,450,563</b>	<b>(387,437)</b>	<b>387,437</b>
<b>TOTAL</b>	<b>41,671,808</b>	<b>10,761,357</b>	<b>(30,910,452)</b>	<b>30,898,234</b>

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## **East Herts Council Report**

### **Audit and Governance Committee**

**Date of Meeting:** 28 July 2020

**Report by:** Bob Palmer, Head of Strategic Finance and Property

**Report title:** Draft Statement of Accounts 2019/20

**Ward(s) affected:** All

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### **Summary**

The Council is required to prepare, and have audited, an annual Statement of Accounts. Due to the current pandemic, the timetable that the Council has to comply with has been amended.

### **RECOMMENDATIONS FOR AUDIT AND GOVERNANCE COMMITTEE:**

- (a) That Members note the amended timetable for the production and auditing of the annual Statement of Accounts.**
- (b) That Members scrutinise the following report and the draft Statement of Accounts.**

#### **1.0 Proposal(s)**

- 1.1 This report proposes that the Committee should scrutinise the draft Statement of Accounts for 2019/20.

#### **2.0 Background**

- 2.1 Under the Accounts and Audit Regulations 2015, the Council was required to publish draft accounts by 31 May and audited

accounts by 31 July. The accounts have to include an Annual Governance Statement, which summarises the annual review of internal controls.

2.2 Those regulations have been amended and now require that:

- (a) The draft statement of accounts is approved by 31 August 2020.
- (b) The Council publishes the audited accounts by 30 November 2020.

2.3 The requirement to publish draft accounts has been satisfied by their inclusion on this agenda. The external audit is now underway and is being conducted remotely. Assuming the audit is concluded as planned, the audited version of the Statement of Accounts will be presented to the next meeting of the Committee on 22 September.

2.4 The Council's Annual Governance Statement is submitted for consideration and approval as part of this agenda and is included in the Council's draft accounts.

2.5 The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting 2019/20 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.6 The presentation of the Statement of Accounts is determined by the CIPFA Code of Practice which is based on International Financial Reporting Standards (IFRS). In scrutinising the draft Statement of Accounts, Members should include as part of their considerations:

- (a) Critical accounting policies and practices and any changes to them;
- (b) Decisions requiring a major element of judgement; and
- (c) The extent to which the financial statements are affected by

any unusual transactions in the year and how they are disclosed.

Critical accounting policies and practices and any changes to them

- 2.7 It had been anticipated that these accounts would have been prepared to include the requirements of IFRS 16 on leases. However, as part of easing the burden on local authority finance teams, the implementation of this accounting standard has been moved back a year. This delay means there have been no changes to critical accounting policies.
- 2.8 There has been a significant change to one accounting practice. Millstream Property Investments Limited (MPIL) has been included in the Council's accounts for the first time, requiring the preparation of group accounts.
- 2.9 Last year MPIL was still establishing itself and operating at a level that meant it was not material to the Council's accounts. As MPIL has expanded during 2019/20 and now has property assets with a value exceeding £2.3 million it is appropriate to include it within the Council's accounts. The audit of MPIL has been conducted by Ensors Accountants LLP and is close to conclusion.
- 2.10 In preparing group accounts, you are required to show the combined position of the entities and eliminate any balances between them. This means that the long term debtor for loans to MPIL shown on the Council's own balance sheet is replaced with the assets and liabilities (excluding that borrowing from the Council) of MPIL. It is necessary to produce a full set of statements for the group and these are presented after the Council's own accounts.

## Decisions requiring a major element of judgement

- 2.11 In preparing a set of accounts at a point in time it is inevitable that some of the information required will not yet be available. If an actual amount is uncertain an estimate is used. The estimate will be based on the assessment of information available at the time the accounts are closed. When the actual figures are determined any difference is usually accounted for in the following year. If the estimate was wrong by a material amount it would be necessary to consider re-stating the figures, this does not happen often.
- 2.12 The first issue requiring a major element of judgement is determining whether the accounts should be prepared on a going concern basis. As set out on page 9 of the draft accounts, management have a reasonable expectation that the Council has adequate resources to continue in operational existence for the foreseeable future. Therefore, it is appropriate to use the going concern basis in preparing the accounts. If this were not the case it would be necessary to consider any assets that would be affected and any consequent impairment of their values.
- 2.13 Most of the other items involving a major element of judgement are set out in note 4 "Assumptions made about the future and other major sources of estimation uncertainty", starting on page 32 of the draft accounts. This note provides information about the pension liability, the valuation of fixed assets and the provisions made for appeals against non-domestic rate bills.
- 2.14 It is evident from the substantial annual fluctuations in the Council's pension liability that the actuary exercises a significant element of judgement in calculating the pension figures. The largest creditor on the Balance Sheet is the Council's liability to the pension fund. The Balance Sheet shows that the pension liability for the Council has decreased in the year from £34.562 million to £23.546 million. This reduced deficit is due to the

reduction in projected liabilities of £14.440 million being greater than the £3.424 million reduction in scheme assets.

- 2.15 One of the key factors in calculating the projected liabilities is the rate of inflation (CPI), as this determines the rate of increase in individual's pensions. The higher the anticipated rate of inflation, the more pensions increase and so the greater the projected liabilities of the fund become. In this instance we have a reduction in the anticipated rate of inflation from 2.5% last year to 1.9% this year, and this is the primary cause of the almost 10% reduction in the projected liabilities.
- 2.16 The figures shown in the table below illustrate how the overall deficit has changed over time.

	2019/20 £m	2018/19 £m	2017/18 £m	2016/17 £m	2015/16 £m
Liabilities	(131.676)	(146.116)	(134.640)	(133.496)	(117.750)
Assets	108.130	111.554	105.250	100.787	88.954
Deficit	(23.546)	(34.562)	(29.390)	(32.709)	(28.796)

- 2.17 The inclusion of this amount in the Balance Sheet shows the extent of the Council's liability if the pension fund had closed on 31 March 2020. It does not mean that this full liability will have to be paid over to the pension fund in the near future.
- 2.18 The second area covered by note 4 is asset valuations, Property, Plant and Equipment (PPE) dominates the Balance Sheet with a value of £63.315 million and Investment Properties adding another £15.486 million.
- 2.19 The Council's assets are shown in the accounts at either fair value or market value, depending on the class of asset. The valuations are carried out by the internal property team in accordance with the Royal Institution of Chartered Surveyors (RICS) valuation professional standards and International Financial Reporting Standards (IFRS). Note 4 provides an

illustration of a 5% movement in valuation which would change the value of PPE by £5.7 million and the associated annual depreciation charge by £80,000.

- 2.20 The final area covered by note 4 is the provision for business rate appeals. Historically the rateable values for non-domestic property have been updated every five years. If an occupier is unhappy with the valuation set by the Valuation Office Agency (VOA) they can appeal. The VOA have been unable to keep up with the number of appeals, despite changing the system for checking and challenging bills to discourage speculative appeals.
- 2.21 The Collection Fund includes a provision for appeals of £7.1 million, down from £8.9 million. This provision was calculated with the help of an external firm of rating experts who analysed each outstanding appeal and gave a projected value for settlement. The VOA has made some progress during the year in settling appeals but we still have several hundred outstanding. To date the appeals that have been settled are similar in total to the provisions that were held against them and it appears the provision is not materially misstated.
- 2.22 Where it has been necessary to exercise judgement in the interpretation of the Code of Practice, advice has been sought from CIPFA and colleagues have liaised closely with other Hertfordshire authorities.

#### Unusual transactions and their disclosure

- 2.23 The financial statements for the Council have not been affected by any unusual transactions in the year. There have been no extraordinary items and no prior year adjustments.
- 2.24 The financial statements for MPIL include a prior year adjustment. The audit of the accounts for 2019/20 highlighted that the assets had not been correctly valued as at 31 March

2019 and so this value was re-stated. The unrealised gain in value in 2018/19 created a deferred tax liability which will only become payable if a property is disposed of and a gain realised. The external auditors of MPIL (Ensors Accountants LLP) have confirmed that the valuations are now correct and that the prior year adjustment has been properly disclosed and accounted for.

### **3.0 Reason(s)**

- 3.1 This meeting of the Committee would normally receive the audited Statement of Accounts. The audit is underway but not yet complete as the timetable has been extended for this year. The report sets out the changes to the timetable.
- 3.2 One of the key functions of the Committee is to scrutinise financial information and documents, including the Statement of Accounts.

### **4.0 Options**

- 4.1 The Committee can ask for any clarifications or explanations necessary to assist with the scrutiny of the draft Statement of Accounts.

### **5.0 Risks**

- 5.1 The scrutiny of the accounts should reduce the risk of there being a material misstatement or insufficient information about a key transaction or activity.

### **6.0 Implications/Consultations**

- 6.1 It would not be appropriate to consult Leadership Team on the draft Statement of Accounts.

**Community Safety**

No

**Data Protection**

No

**Equalities**

No

**Environmental Sustainability**

No

**Financial**

The draft Statement of Accounts sets out the Council's financial position as at 31 March 2020 and it's financial performance for the year then ended.

**Health and Safety**

No

**Human Resources**

No

**Human Rights**

No

**Legal**

The Accounts and Audit Regulations 2015 require the construction of an annual Statement of Accounts and set out the associated timetable for their production and auditing.

**Specific Wards**

No

**7.0 Background papers, appendices and other relevant matters**

None



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# DRAFT STATEMENT OF ACCOUNTS 2019-20



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# Narrative Statement 2019/20

## INTRODUCTION TO THE STATEMENT OF ACCOUNTS

By Councillor Geoffrey Williamson,  
Executive Member for Financial Sustainability



I am very pleased to introduce you to East Herts Council's Statement of Accounts for the year 2019/20, which again demonstrates the Council's excellent management of its financial resources.

Needless to say, setting the Council's budget for this year was immensely challenging. With government funding cut hard in recent years, when we started the budget planning process we were facing a substantial budget gap over the lifespan of our medium term financial plan, and specifically for the year, despite the savings we have made since 2010.

Our approach to producing integrated strategic and financial plans designed to ensure that our resources are best targeted at our priorities is now well established, and we have a rolling programme which puts delivery of our Corporate Priorities through our Service Plans at the centre of our budget-setting each year.

Our Members and Officers directly engage in this process, proposing possible savings either through reductions in expenditure or increases in income. In addition to short-term outcomes, in order to take forward ideas that will take longer to consider and implement we put a sum aside as an "Invest to Save" fund to allow us to investigate these suggestions in more detail.

At the same time it has been open for the Council to look further afield for additional sources of revenue. One of the outcomes of the Finance & Business Planning process is a clear desire from Members for the Council to pursue more commercial opportunities, and using powers granted to us under the Localism Act of 2011, we have explored ways we can invest directly into projects and undertake more commercial ventures, looking at how we can get the best financial returns, but at a considered and acceptable degree of risk.

This year is the second full trading year for our property investment company, Millstream Property Investments Ltd. The company generates income through financing property lettings for its shareholder the Council, and the company's property portfolio continued to expand over the course of the year thereby increasing this revenue source.

An innovation for this year has been the establishment of our Financial Sustainability Committee, whose role is to implement the Council's Financial Sustainability Strategy, designed to bring in a number of income-generating schemes. A particular focus is the investment in commercial property, and the first purchase, Rapier House in Ware, was completed in December 2019.

Despite these initiatives, this year we were compelled again to increase Council Tax by the maximum we are allowed without a referendum which is £5 on a Band D property, which equates to a 3.1% increase, in order to produce a balanced budget. To give this a perspective, this increase is less than 10p per week, and represents only 0.3% of a typical total Council Tax bill.

The Council along with the other nine Hertfordshire authorities and the County Council was part of one of the 2019/20 Business Rates retention pilot projects. These have been taking place in areas of the UK across the last two years, where business rates are pooled across all the member authorities within each pilot area. These work on the basis of 75% of any rates growth being retained. Nonetheless the additional income for East Herts has been welcome. The pilots are not continuing however, and we await the outcome of the government's various local authority funding reviews to learn whether these schemes will be rolled out at some point.

Meantime our Capital Programme is also funding expenditure across our operational and community facilities, and of particular note is our leisure investment strategy which within the next four years will see us start to deliver our major projects at Grange Paddocks in Bishop's Stortford and Hartham in Hertford at a cost of £30m, and the expansion of Hertford Theatre .

With regard to our Old River Lane project, we have been further developing our scheme to regenerate this quarter of Bishop's Stortford. This is a multi-million pound scheme which includes a new arts centre, a new multi-storey car park in Northgate End, plus a mix of residential and commercial development. It therefore represents a substantial investment in our district, as well as offering the potential for a significant income stream.

Finally, I would like to take this opportunity to thank all the officers across all services who have played their part over the year managing the Council's finances so effectively and who have been engaged in formulating our business and financial plans for next year and beyond, and I extend my thanks also to our Accountancy Team, Internal Audit Service, the Audit & Governance Committee and our External Auditors for their respective roles in preparing and closing these accounts.

A handwritten signature in blue ink that reads "G. A. Williamson". The signature is written in a cursive style, with the first letters of each word being capitalized. A horizontal line is drawn underneath the signature.

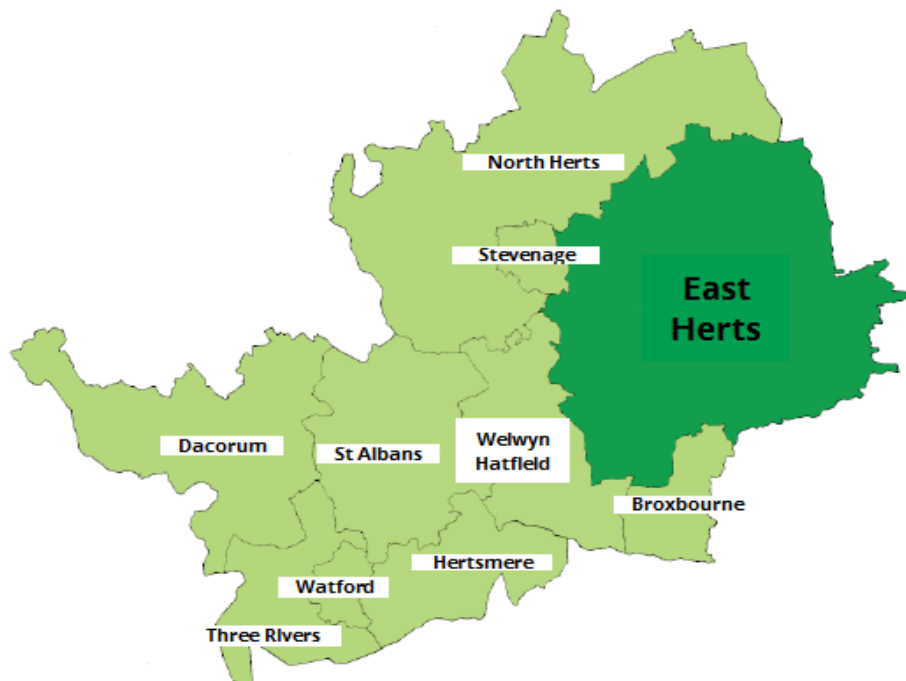
Councillor Geoffrey Williamson, Executive Member for Financial Sustainability



# AN INTRODUCTION TO EAST HERTS

East Herts is a vibrant district, the largest of the 10 districts in Hertfordshire, with a unique mix of rural and urban communities and is a great place to live and work.

East Herts is home to the historic County town of Hertford, four other market towns and over 100 villages or hamlets scattered across the district with over 147,000 residents in total.



Almost 91% of East Herts is green space and there are a number of heritage parks and gardens. The district is also steeped in history, boasting more than 10 museums and heritage centres spread across the district, in its rural villages as well as its town centres.

The vision of the Council is to provide East Herts residents and businesses with a future that is prosperous and sustainable. To achieve this, a number of strategic objectives have been developed which allow the Council, in conjunction with its many partners, to focus on the key issues that concern the residents of East Herts.

## EAST HERTS COUNCIL PERFORMANCE

The summary below shows how the Council has performed against its corporate themes, further information can be found in the Annual Report published on the Council's website.

### Improving and sustaining our environment

**Climate Change declaration:** In July 2019, members voted in a motion that set out the council's commitment to tackling climate change. This focuses on reducing greenhouse gas emissions and planning for the unavoidable local impacts of climate change in East Herts.

**Charging points for e-vehicles:** the council is committed to improving air quality and tackling air pollution, particularly at Hockerill Junction in Bishop's Stortford. The council has declared this an Air Quality Management Area to coordinate everyone's efforts on tackling the issue. In June 2019, four new charging points for electric vehicles were installed in East Herts Council's car park on The Causeway, Bishop's Stortford.

**Environment and Climate Forum:** In January 2020 more than 120 people took part in the council's climate change event, exploring the challenge of becoming a carbon-neutral district. Residents, local groups, businesses and councillors came together to take the next steps in achieving our carbon-neutral goal. The forum demonstrates our commitment to ensuring our residents, people working in academia, business and retailers to join us on our ecojourney.

### Supporting and enabling our communities

**Chatter Tables:** Organised by East Herts Council in partnership with Hertfordshire County Council, our Chatter Tables, which launched in June, have provided many residents with a friendly opportunity to spend some time with other people while enjoying a drink and a cake.

**Hartham Play Area:** Hertford Playground Alliance (HPA) raised an impressive £28,505 through their crowdfunding mission to improve Hartham Common play area. In addition, McMullen's put £5,000 towards the crowdfunded project. This crowdfunder project for a bespoke piece of equipment is running alongside East Herts Council's wider project to redevelop the rest of the play area at Hartham.

**Support for victims of domestic abuse:** a groundbreaking domestic abuse service launched in East Herts in February 2020 based on the Stevenage Against Domestic Abuse (SADA) model, this initiative is now available in East Herts to help domestic abuse victims across the district. The service offers one-to-one support for victims, survivors and their families by working co-operatively with partners, including East Herts Council, police, various housing associations and children's services.

### Supporting healthy lifestyles

**Investment in our leisure facilities:** In January 2020 the council awarded a new leisure contract for its pools and gyms to Everyone Active. The council is also planning to invest £33 million to improve the facilities at Grange Paddocks, Hartham and Ward Freman. These projects aim to support the Council's vision for leisure across East Herts by providing attractive facilities available to the whole community and contributing fully to the health and wellbeing objectives of the Council. Grange Paddocks construction work has begun and we anticipate will be completed in Summer 2021.

**Award-winning Public Health projects:** a groundbreaking project to help people in East Herts out of loneliness, anxiety and isolation scooped Hertfordshire County Council's Dr Joan Crawley Award 2019 for Public Health Excellence. The highly respected recognition was presented to Kathrine Foy for the Social Prescribing Service (SPS).

**Healthy Hubs:** in March 2020, the council launched its new Healthy Hubs, which offer information and group sessions on a wide range of topics, including stopping smoking, nutrition advice and opportunities to be more physically active; mental health; specific wellbeing support; referrals to training and skills opportunities with local providers.

### Creating vibrant places and supporting the local economy

**Old River Lane development:** a vibrant arts centre with cinema and performance space, alongside a multistorey car park and an attractive public square are set to transform part of Bishop's Stortford as the Old River Lane (ORL) scheme moves forward. The site will also see a mixed development of around 150 new homes alongside retail and commercial space. The scheme is supported by a £9.6m injection Local Growth Fund investment from Hertfordshire Local Enterprise Partnership (LEP).

**Charter for the Gilston area:** in February 2020 the council published a draft Charter for the Gilston Area – part of Harlow and Gilston Garden Town – setting out guidance on how masterplans for the villages and the important network of green spaces that will surround them should be approached when they come forward as planning applications.

**Ware Launchpad:** following the success of East Herts' Launchpad business centre in Bishop's Stortford, July 2019 saw the opening of our second facility. The new centre is designed specifically to offer start-ups and small businesses in Ware, and the surrounding areas, a place to work, collaborate and network from.

## FINANCIAL PERFORMANCE IN 2019/20

The 2019/20 budget was set by Full Council in March 2019 as part of the budget report and Medium Term Financial Plan for 2019/20 to 2022/23. There are five major 'building blocks' to the Council's revenue budget. These are shown below:

<b>Net Costs of Services -</b> Direct costs incurred by the Council in delivering services less any specific income generated	<b>Use of Reserves -</b> Funding within the revenue budget from earmarked reserves. The impact of the use of reserves is a reduction in the income demand on Council Tax payers, however this is a finite source of funding and should represent value for money	<b>Corporate Budgets -</b> Costs incurred and income received that are not service specific. For example Pension Fund deficit contributions, interest income and payments
<b>Sources of Funding -</b> These are income budgets that are general and non-service specific income sources. These include the Revenue Support Grant, Non Domestic Rate income, New Homes Bonus and other general grants	<b>Council Tax -</b> A local taxation on domestic properties which the Council collects for itself and on behalf of Hertfordshire County Council, the Police & Crime Commissioner for Hertfordshire and Town & Parish Councils to support the services provided	

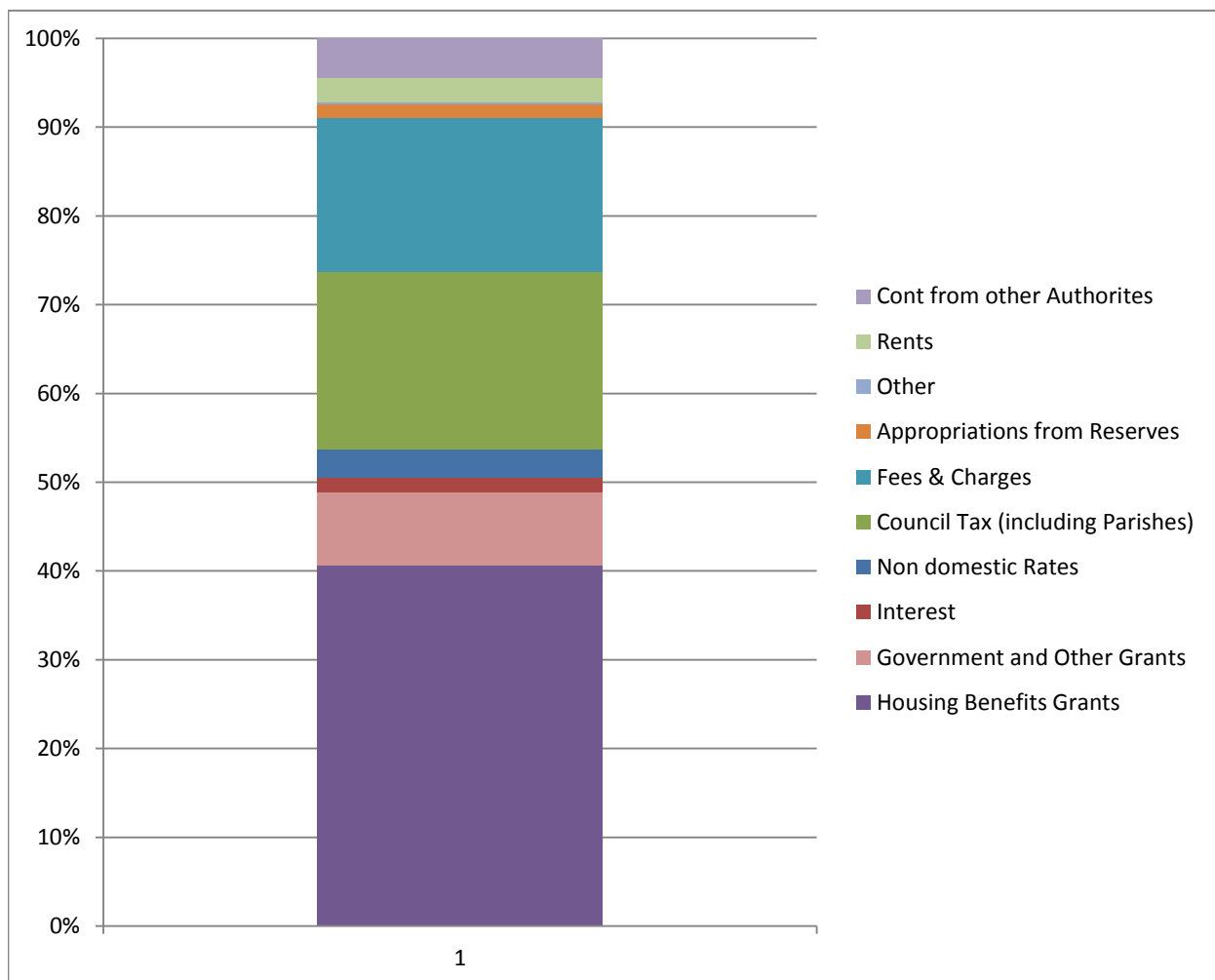
The table below details the Council's performance against the five major 'building blocks'. There was a £16k underspend in 2019/20, this has been transferred to the General Fund.

	Original Budget 2019/20	2019/20 Outturn	Variance
	£'000	£'000	£'000
Total Net Cost of Services	14,201	14,168	(33)
Corporate Budgets Total	972	773	(199)
Net Use of Reserves	558	3,289	2,731
Funding	(5,463)	(7,978)	(2,515)
Council Tax	(10,268)	(10,268)	0
<b>Underspend</b>	<b>-</b>	<b>(16)</b>	<b>(16)</b>

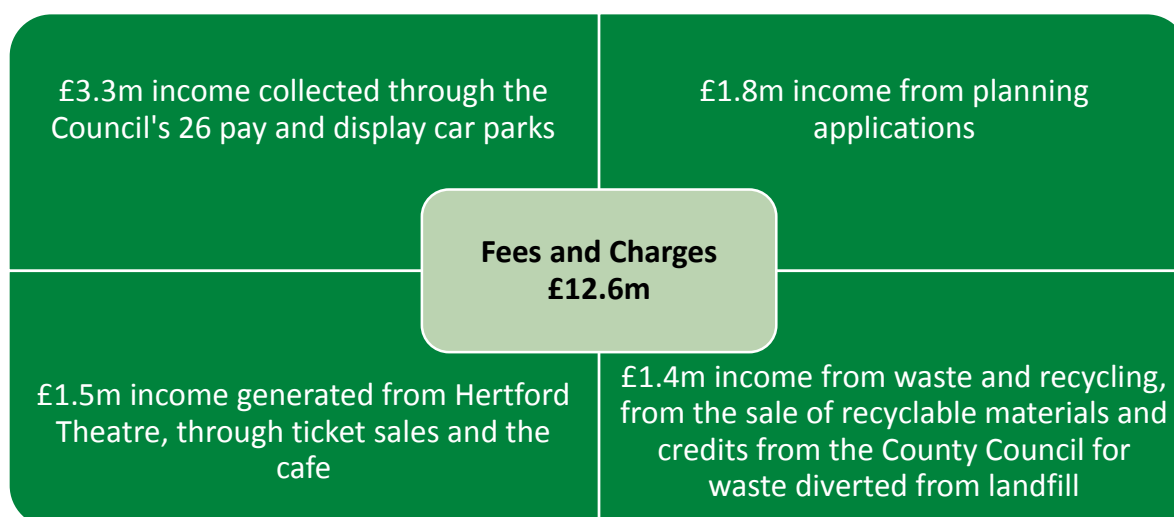
The Council's budget is monitored monthly by senior management and reported quarterly to the Executive. The outturn above includes £783k net use of reserves to fund services, this amount is included within the net cost of services figure.

## 2019/20 Income streams

The chart below shows the £72.6m of income that the Council received in 2019/20. The largest source of income was Housing Benefits subsidy (from Central Government) which is used to fund the payment of Housing Benefits to claimants.



Fees and charges are the second largest source of funding for the Council, highlighted below are some of the largest income generating activities of the Council;



Included in the £6m of Government and other grants received are:

- £2.6m of New Homes Bonus, which is a Government scheme aimed at encouraging local authorities to grant planning permission in return for additional revenue.
- £2.8m of grant from central government to fund mandatory reliefs given in respect of Non Domestic Rates.

East Herts Council is the billing authority for Non Domestic Rates (Business Rates) collected from businesses across the district. This is then distributed to Central Government, East Herts Council and Hertfordshire County Council. After distribution the income attributable to East Herts totalled £1.6m in 2019/20. In 2019/20 EHC took part in a 75% Business rate retention pilot, this generated additional income of £731k. This pilot was only in operation for one year.

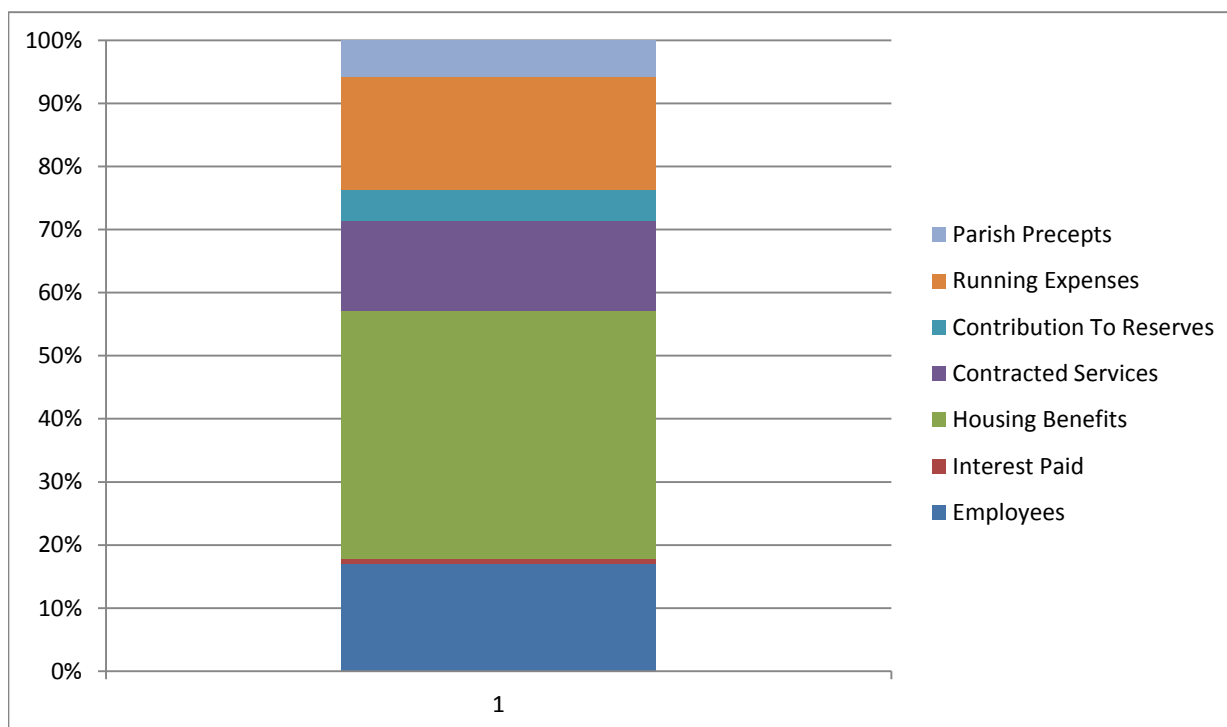
As the billing authority, East Herts Council collects Council Tax income from residents of the district; this is then distributed between Hertfordshire County Council, East Herts Council and the Police and Crime Commissioner. Of the income collected the Council's share in 2019/20 was £14.4m; £4.2m of which was distributed to Town and Parish Councils across the district. The remaining Council Tax income is used to fund services in the year.

The Council holds funds in reserves, this is money that has been put aside to manage cash flows, provide a contingency for unforeseeable events and to meet known or predicted future liabilities. In 2019/20 £1.1m of reserve funding was utilised and £3.6m was transferred into reserves.

The Council earned Interest and Investment income of £1.3m in 2019/20 on its portfolio of investments and holdings in property funds.

## 2019/20 Expenditure

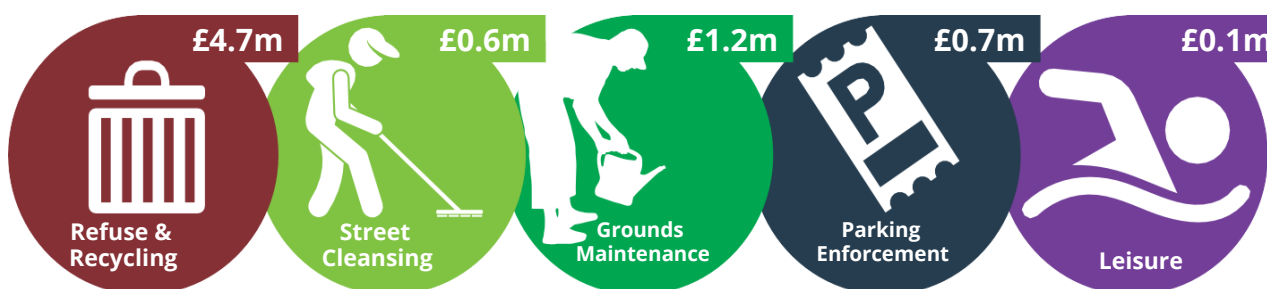
The chart below shows the £72.6m that the the Council spent in 2019/20. Housing benefits make up the largest outgoing of the Council.



Included in the Council's running expenses figure of £12.9m is the following expenditure:

- £2.9m of premises related costs, including ongoing maintenance of the Council's operational buildings, business rates, insurance and utilities costs for all the Council's buildings, car parks, theatre and leisure facilities;
- £7.5m direct costs of providing Council services throughout the year including, public and environmental health, planning, sports, leisure and parks;

The cost of the Council's main contracts are included in the contracted services figure (£10.4m) are as follows:



# FINANCIAL MANAGEMENT

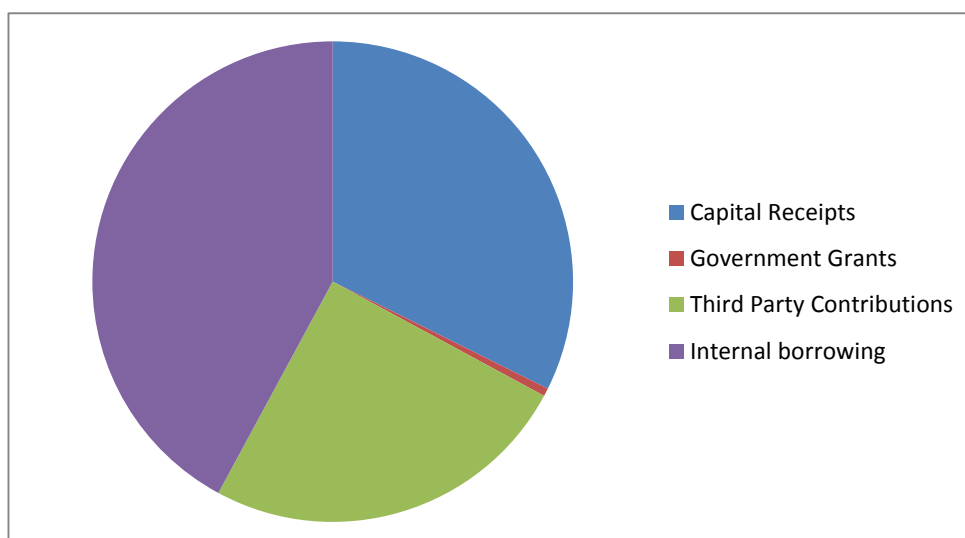
## Capital

Capital expenditure relates to the acquisition or enhancement of assets which generates a benefit for a period greater than one year. This differs to the Revenue expenditure, discussed over the previous pages, which is defined as money that the authority spends or receives in the same year that the services are delivered.

During 2019/20 the Council incurred expenditure of £10.76m on capital projects, compared with a capital programme budget of £41.67m. A total budget of £30.9m has been carried forward to 2020/21 to fund ongoing schemes which didn't commence in 2019/20. A selection of the capital schemes undertaken this year are shown below:

£2.4m - improvements to our Leisure facilities	£0.5m - improvements to Information, Communication and Technology infrastructure	£1.9m - purchase of Rapier House in line with Financial sustainability strategy
£0.7m - ongoing build costs for Hertford Theatre	£1.5m - loans to our Property management company , Millstream	£2.3m - purchase of land and property to form part of the Old River Lane development site

A combination of capital grant income, receipts from disposal of assets, third party contributions and revenue contributions were used to fund the 2019/20 capital programme. The split is shown in the following pie chart:



## MEDIUM TERM FINANCIAL PLAN

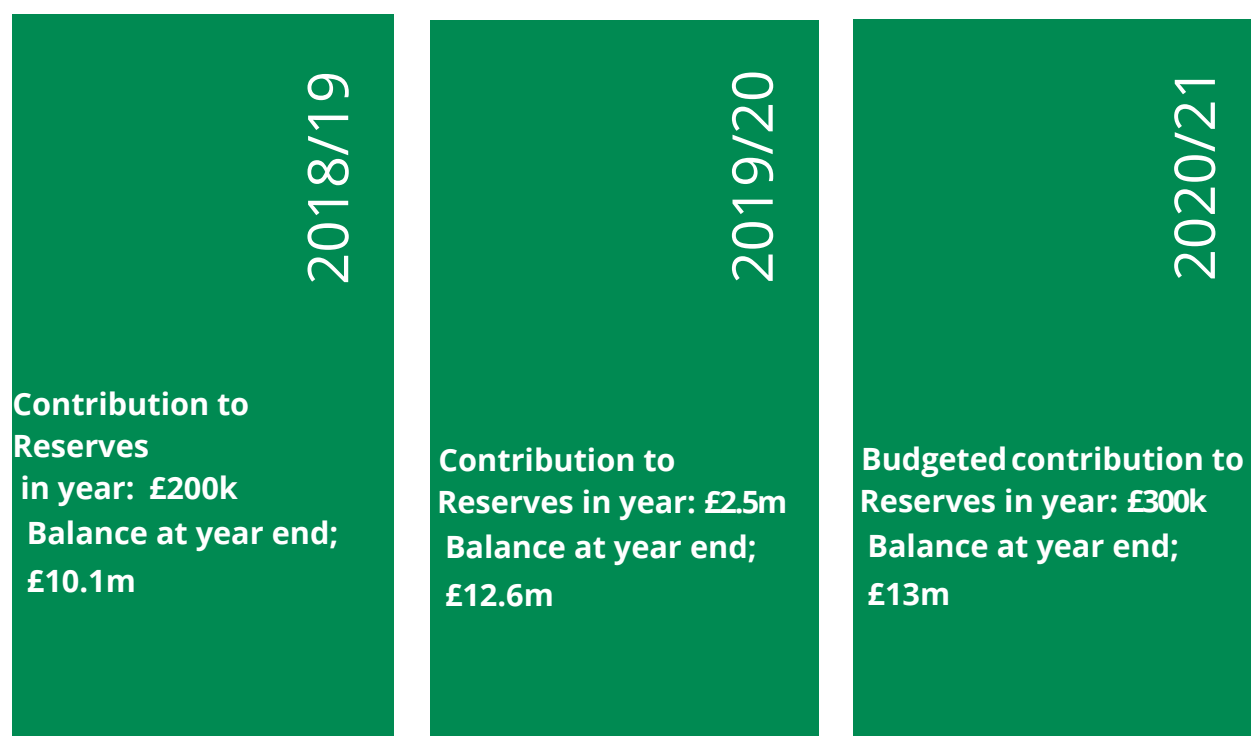
East Herts' approach to setting the revenue and capital budget for the four years commencing 2020/21 was to improve the organisational financial sustainability and resilience in the forthcoming years.

The budget report sets out the proposals and outcomes that Officers and Members had arrived at to ensure that the Council maintains a sustainable budget position for the future.

A number of proposals were agreed to deliver future years savings and officers were tasked with areas that needed review and consideration for different delivery models.

The MTFP provides the framework for the development of annual budgets in line with the aims of the Council's Corporate Strategy.

Reserves are an essential part of good financial management. They help councils cope with unpredictable financial pressures, help them smooth the impact of known spending requirements over time, and help to fund any in-year overspending. In 2019/20 the Council contributed a net £2.5m to reserves; the balance held in the general and earmarked at the end of the year is £12.63m. The following table shows the use of reserves over the past 2 years and the projected use in 2020/21, this highlights the overall increase in the level of reserves held by the Council.





Details of the Council's earmarked reserves (set aside for a defined purpose to meet known or predicted future liabilities) and General Reserve (to manage cash flows and limit the need for temporary borrowing and to provide a contingency for unforeseeable events and emergency spending) can be found within the Statement of Accounts.

## **PENSION FUND**

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. Under current accounting standards the impact of any pension liability must be shown in the balance sheet.

The Council's liability at 31 March 2020 was £23.546m which is an decrease of £11.2m compared to the position at 31 March 2019.

Further information is given in note 33, on page 72.

# EXPLANATION OF ACCOUNTING STATEMENTS

Statement	Explanation
Movement in Reserves Statement	Shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves
Comprehensive Income & Expenditure Statement	A summary of the resources generated and consumed by the Council in the year
Balance Sheet	Sets out the financial position of the Council on 31 March 2020
Cash Flow Statement	Summarises the Council's inflows and outflows of cash for the year 2019/20
Notes to the Accounts	Provides support to the core financial statements, which informs and gives sufficient information to present a good understanding of the Council's activities. The notes include a Statement of Accounting Policies which details the legislation and principles on which the Statement of Accounts have been prepared. The purpose is to explain the basis for recognition, measurement and disclosure of transactions and other events in the Statement of Accounts
Supplementary Financial Statements – The Collection Fund	Shows the level of Non Domestic Rates and Council Tax that has been received by the Council, as billing authority, during the period
Glossary of Financial Terms	Explains some of the key terms used in the Statement of Accounts
Statement of Responsibilities for the Statement of Accounts	Identifies the officer who is responsible for the proper administration of the Council's financial affairs. The purpose is for the Chief Finance Officer to sign under a statement that the Statement of Accounts present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2020

# The Core Accounting Statements

## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the economic cost of providing the Council's services with more details 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. 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	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	General Reserve	Total Usable Reserves	Total Unusable Reserves	Total Reserves
		£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2019</b>		<b>3,854</b>	<b>9,228</b>	<b>1,892</b>	<b>349</b>	<b>852</b>	<b>16,175</b>	<b>68,098</b>	<b>84,273</b>
<b>Movement in reserves during 2019/20</b>									
<b>Total Comprehensive Income and Expenditure</b>		<b>340</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>340</b>	<b>12,773</b>	<b>13,113</b>
Adjustments between accounting basis and funding basis under regulations	Note 5	2,211	-	(1,892)	(49)	-	270	(270)	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		<b>2,551</b>	<b>-</b>	<b>(1,892)</b>	<b>(49)</b>	<b>-</b>	<b>610</b>	<b>12,503</b>	<b>13,113</b>
Transfers to/(from) Earmarked Reserves	Note 6	(2,551)	2,631	-	-	(80)	-	-	-
<b>Increase/Decrease in Year</b>		<b>0</b>	<b>2,631</b>	<b>(1,892)</b>	<b>(49)</b>	<b>(80)</b>	<b>610</b>	<b>12,503</b>	<b>13,113</b>
<b>Balance as at 31 March 2020 carried forward</b>		<b>3,854</b>	<b>11,859</b>	<b>0</b>	<b>300</b>	<b>772</b>	<b>16,785</b>	<b>80,601</b>	<b>97,386</b>

		General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	General Reserve	Total Usable Reserves	Total Unusable Reserves	Total Reserves
		£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2018</b>		<b>3,854</b>	<b>8,955</b>	<b>2,994</b>	<b>530</b>	<b>934</b>	<b>17,267</b>	<b>74,576</b>	<b>91,843</b>
<b>Movement in reserves during 2018/19</b>									
<b>Total Comprehensive Income and Expenditure</b>		<b>(3,227)</b>	<b>-</b>	<b>-</b>	<b>(66)</b>	<b>-</b>	<b>(3,293)</b>	<b>(4,277)</b>	<b>(7,570)</b>
Adjustments between accounting basis and funding basis under regulations	Note 5	3,418	-	(1,102)	(115)	-	2,201	(2,201)	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		<b>191</b>	<b>-</b>	<b>(1,102)</b>	<b>(181)</b>	<b>-</b>	<b>(1,092)</b>	<b>(6,478)</b>	<b>(7,570)</b>
Transfers to/(from) Earmarked Reserves	Note 6	(191)	273	-	-	(82)	-	-	-
<b>Increase/Decrease in Year</b>		<b>-</b>	<b>273</b>	<b>(1,102)</b>	<b>(181)</b>	<b>(82)</b>	<b>(1,092)</b>	<b>(6,478)</b>	<b>(7,570)</b>
<b>Balance as at 31 March 2019 carried forward</b>		<b>3,854</b>	<b>9,228</b>	<b>1,892</b>	<b>349</b>	<b>852</b>	<b>16,175</b>	<b>68,098</b>	<b>84,273</b>

## 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, generally this will be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

	2019/20		2018/19
	Gross Expenditure	Gross Income	Net Expenditure
	£000	£000	£000
Chief Executive, PA's & Directors	594	-	594
Communications, Strategy & Policy	1,615	(140)	1,475
Human Resources & Organisation Development	651	(30)	621
Strategic Finance & Property	5,729	(1,301)	4,428
Democratic & Legal Services	1,993	(450)	1,543
Housing & Health	4,060	(1,236)	2,824
Planning & Building Control	3,558	(1,924)	1,634
Operations	15,692	(10,095)	5,597
Shared Revenues & Benefits Service	32,837	(31,602)	1,235
Shared Business & Technology Services	2,113	(81)	2,032
<b>NET COST OF SERVICES</b>			<b>21,983</b>
Payments of precepts to parishes			4,182
Gain on disposal of non current (fixed) assets			(1,371)
<b>OTHER OPERATING EXPENDITURE</b>			<b>2,811</b>
Interest payable and similar charges			662
Net Interest on the net defined benefit liability & remeasurements of the defined benefit liability for long term employee benefits			851
Interest receivable and similar income			(1,239)
Income from investment properties ( Note 10)			(956)
Direct expenditure incurred on investment properties ( Note 10)			179
Changes in Fair Value of Investment Properties			1,003
<b>FINANCING AND INVESTMENT EXPENDITURE</b>			<b>500</b>
Recognised capital grants and contributions			(2,700)
Council tax income			(14,465)
Non domestic rates			(2,937)
Non service related government grants			(5,532)
<b>TAXATION AND NON-SPECIFIC GRANT INCOME (Note 29)</b>			<b>(25,634)</b>
<b>(SURPLUS) / DEFICIT ON PROVISION OF SERVICES</b>			<b>(340)</b>
(Surplus) or Deficit on revaluation of Fixed assets			203
Reclassification of Grant			-
Remeasurements of the net defined benefit liability (Note 33)			(13,503)
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES</b>			<b>(13,300)</b>
(Surplus) / Deficit on revaluation of financial instruments (Note 12)			527
<b>ITEMS THAT MAY BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES</b>			<b>527</b>
<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(12,773)</b>
<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(13,113)</b>

All operations arise from continuing activities.

## BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council.

		31 March '20	31 March '19
		£000	£000
Property, Plant & Equipment	Note 7		
- Other land and buildings		47,893	49,476
- Vehicles, plant, furniture and equipment		2,151	2,349
- Infrastructure assets		1,995	2,241
- Community assets		2,965	2,752
- Surplus assets		2,571	2,546
- Assets under Construction		5,740	1,345
		63,315	
Investment Properties	Note 10	15,486	13,596
Intangible Assets	Note 11	785	865
		<b>79,586</b>	<b>75,170</b>
Long Term Investments	Note 12	21,408	22,118
Long Term Debtors	Note 15	2,483	1,034
<b>TOTAL LONG TERM ASSETS</b>		<b>103,477</b>	<b>98,322</b>
Assets Held For Sale	Note 17	255	0
Short Term Investments	Note 12	21,921	26,002
Short Term Debtors	Note 15	10,098	9,606
Cash and Cash Equivalents	Note 16	15,688	14,977
<b>CURRENT ASSETS</b>		<b>47,962</b>	<b>50,585</b>
Provisions	Note 19	(401)	(1,493)
Short Term Creditors	Note 18	(20,414)	(14,078)
<b>CURRENT LIABILITIES</b>		<b>(20,815)</b>	<b>(15,571)</b>
Provisions	Note 19	(2,115)	(2,140)
Long Term Borrowing	Note 12	(1,522)	(7,711)
Net Pension Liability	Note 21	(23,546)	(34,568)
Grant Receipts in Advance - Capital	Note 29	(1,997)	(1,957)
- Revenue		(4,058)	(2,687)
<b>LONG TERM LIABILITIES</b>		<b>(33,238)</b>	<b>(49,063)</b>
<b>NET ASSETS</b>		<b>97,386</b>	<b>84,273</b>
<b>USABLE RESERVES</b>			
- General Fund	Note 20	3,854	3,854
- General Reserve	Note 20	772	852
- Earmarked Reserves	Note 6	11,859	9,228
- Capital Receipts Reserve	Note 20	0	1,892
- Capital grants Unapplied	Note 20	300	349
		<b>16,785</b>	<b>16,175</b>
<b>UNUSABLE RESERVES</b>			
- Revaluation Reserve	Note 21	22,474	23,142
- Financial Instrument Revaluation Reserve	Note 21	1,403	1,929
- Pensions Reserve	Note 21	(23,546)	(34,568)
- Capital Adjustment Account	Note 21	79,327	77,069
- Deferred Capital Receipts	Note 21	148	150
- Collection Fund Adjustment Account	Note 21	997	502
- Short-term Accumulating Compensated Absences Account	Note 21	(202)	(126)
		<b>80,601</b>	<b>68,098</b>
<b>TOTAL RESERVES</b>		<b>97,386</b>	<b>84,273</b>

# THE CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period.

	2019/20		2018/19
	£000	£000	£000
<b>OPERATING ACTIVITIES</b>			
<b>Cash Inflows</b>			
Council Tax receipts	(10,706)		(10,188)
NNDR Receipts	(14,687)		(17,605)
DWP grants for benefits	(28,483)		(31,723)
Other Government grants	(8,365)		(5,559)
Cash received for goods and services	(15,940)		(15,441)
Interest received	(1,260)		(1,267)
<b>Cash inflows generated from operating activities</b>	<b>(79,441)</b>		<b>(81,783)</b>
<b>Cash Out Flows</b>			
Cash paid to and on behalf of employees	14,647		14,359
Housing Benefit paid out	28,499		33,324
Other operating cash payments	18,649		22,410
Precepts paid to other authorities	4,182		3,980
Interest paid	660		660
<b>Cash outflows generated from operating activities</b>	<b>66,637</b>		<b>74,733</b>
<b>Net Cash Inflow from operating activities</b>		<b>(12,804)</b>	<b>(7,050)</b>
<b>INVESTING ACTIVITIES</b>			
- Purchase of property plant and equipment, investment property and intangible assets	10,280		2,829
- Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,588)		(1,599)
- Capital grants	(2,495)		(2,727)
- Proceeds from short-term and long-term investments	(4,791)		(13,318)
<b>Net cash outflow/(inflow) from investing activities</b>		<b>1,406</b>	<b>(14,815)</b>
<b>FINANCING ACTIVITIES</b>			
- Cash Payments for the reduction of the outstanding liabilities relating to finance leases (Principal)	302		302
- Other payments for financing activities	10,385		12,901
<b>Net cash outflow from financing activities</b>		<b>10,687</b>	<b>13,203</b>
Net increase in cash and cash equivalents		(711)	(8,662)
Cash and cash equivalents at the beginning of the reporting period		(14,977)	(6,315)
<b>Cash and cash equivalents at the end of the reporting period</b>		<b>(15,688)</b>	<b>(14,977)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies

- i. The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Accounts and Audit Regulations 2015 require the Council to prepare the Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2019/20 and the Service Reporting Code of Practice (SeRCOP) 2019/20, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. 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.
- ii. Management have reasonable expectation that the Council has adequate resources to continue in operational existence for the foreseeable future. Therefore the going concern basis of accounting has been adopted in preparing the Statement of Accounts.

### iii. Accruals of Income & Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Income from the provision of services in the form of sales, fees, charges and rents is recognised and accounted for in the period to which they relate.
- Expenses in relation to services received (including services provided by employees, transport related, premises related and supplies and services related expenditure) are recorded as expenditure when the services are received rather than when payments are made, with the exception of quarterly utility payments where no actual apportionment is made for bills spanning two financial years.
- 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.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Provision is made for doubtful debts and known uncollectable debts are written off in accordance with the Council's agreed policy.

### iv. Cash and cash equivalents

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 no more than three weeks or less that are readily convertible to known amounts of cash with insignificant risk of change in value, and are used to meet short term liquidity requirements.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

**v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies 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.

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 Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

**vi. Charges to Revenue for Non - Current Assets  
(Property, Plant and Equipment and Intangible Assets)**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

Depreciation attributable to the assets used by the relevant service revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Depreciation, revaluation, impairment losses and amortisations are therefore transferred to the Capital Adjustment Account in the Movement in Reserves Statement.

**vii. Employee Benefits**

**Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year- end. They include such benefits as salaries, paid annual leave and paid sick leave, and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements and flexi time 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 salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the 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.



## **Post Employment Benefits (Pensions)**

The Council participates in one scheme, the Local Government Pension Scheme, which is a defined benefit final salary scheme administered by Hertfordshire County Council.

The liabilities of the Hertfordshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit credit 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 future earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.5%. The discount rate has been determined as the long term government bond yield plus an allowance for the average difference between the yield on corporate bonds and government bonds. This difference in yields is a result of the difference in the risk of default. This approach has been adopted as government bonds have a long enough term to match the term of the liabilities whereas corporate bonds have shorter terms.

The assets of Hertfordshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price;
- unquoted securities – professional estimate;
- unit trust and managed fund investments (including property) – current bid price and disclosed in line with the requirements of IAS19.

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year
- allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost / gain – the increase / decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited / credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- expected return on assets – the annual investment return on the pension fund assets attributable to the Council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees
- debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- 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 – debited to the Pensions Reserve;
- contributions paid to the pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council 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 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.

In line with the requirements of the Code the past service contribution is no longer a current revenue item but is included as part of the payments to the pension fund (in accordance with pension scheme regulations) and is treated as a cash flow item which reduces the pensions liability. This is also in line with the requirements of the Code.

Further information can be found in Hertfordshire County Council’s Pension Fund’s Annual Report which is available upon request from LPP, Hertfordshire County Council, Post point CHO 033, County Hall, Pegs Lane, Hertford, SG13 8DQ.

### **viii. Events after the Balance Sheet Date**

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 where material 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.
- Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### **ix. Government grants and contributions - revenue and capital**

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised in the accounts when there is reasonable assurance that the Council will comply with any conditions attached to the payments, and the grants or contributions will be received.

The grant or contribution is recognised immediately within the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition relating to the initial recognition that the Council has not satisfied.

Monies received as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as a liability within the Grants Receipts in Advance Account. 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 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 expenditure.

Revenue grants specific to service provision are shown against the relevant service in the Comprehensive Income and Expenditure Statement. General grants allocated by central government directly to local authorities as additional revenue funding which are non-ring fenced are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

**x. Minimum revenue provision**

In accordance with current legislation the minimum revenue provision (MRP) for the redemption of debt is required to be calculated on a prudent basis having regard to guidelines set out for application of the prudential code. Following the disposal of the Council’s Housing stock the Council has a negative capital financing requirement and so the calculated MRP is nil.

**xi. Overheads and support services**

As the Council does not include the recharge of overheads and support services in how they monitor and manage financial performance they are no longer included in the year end accounts.

**xii. Provision for bad debt**

The value of receivables (debtors) shown on the Balance Sheet is adjusted for doubtful debts. The level of bad debt provision is reviewed annually. Uncollectable debts are written off against the provision. The following methods are used:

Trade Accounts Receivable	- Age and Collectability
Housing Benefits Overpayments	- Age and Collectability
National Non Domestic Rates	- 1.0% against the net debit due reviewed against sums written off and opening yearly balances and collectability
Council Tax	- 0.34% against the net debit due reviewed against sums written off and opening yearly balances

### **xiii. Revenue expenditure funded from Capital under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council 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 is made which reverses out the amounts charged so that there is no impact on the level of council tax.

### **xiv. Capital receipts**

Capital Receipts arise from the sale of non-current assets (Property, Plant and Equipment and Investment Properties). Further to the introduction of the Prudential Capital Finance System on 1 April 2004, capital receipts are all deemed to be “usable” and are held within the Capital Receipts Reserve.

Prior to this date, in accordance with Government legislation, a proportion of certain receipts had to be “set aside” and are retained within the Capital Adjustment Account as provision for the repayment of debt.

### **xv. VAT**

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenues & Customs and in most circumstances all VAT paid is recoverable from them. VAT has been included in the income and expenditure accounts only to the extent that it is irrecoverable.

### **xvi. Tax Income (Council Tax, Non-Domestic Rates (NDR) Non Domestic Rates (NDR)**

The Council collects, administers and distributes Non Domestic Rates (NDR) for its area based on local rateable values determined by the Valuation Office Agency (VOA). The tax liability is then calculated applying a business rate which is set and uniformly applied on a national basis. In 2013/14, the administration of NDR changed following the introduction of a Business Rates Retention Scheme which aims to give Councils greater incentive to grow businesses in their locality. This regime also increased the financial risk and opportunities for local authorities, with income becoming more volatile and difficult to predict.

The regime provides for local authorities to retain a proportion of the total collectable rates due in proportion of their relevant statutory share. In order to increase the proportion retained locally in 2019/20 the council entered into a 75% business rate retention pilot pool with other Hertfordshire authorities. The pool proportion for East Hert is 35%, the remainder being distributed to Hertfordshire County Council (40%) and Central Government (25%).

As part of the regime the Government set up a system of 'Top ups', 'Tariffs' and 'Safety Nets' that were introduced to ensure that Councils were guaranteed a minimum level of retained NDR income, thus providing some financial certainty under the new scheme. In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and the financial impact of uncollected business rate income as at 31 March 2020 Authorities are required to make a provision for these assets and liabilities in their accounts.

The accounting arrangements for the Non Domestic Rates are summarised as follows:

- the Council's element of Retained Business Rate income, Tariffs, Top Up and Safety net is included in the CI&E Statement based on the relevant regulations.
- the NDR Collection Fund is prepared on an agency arrangement basis. Relevant proportions of the accounts Surplus/Deficit/taxpayer's Arrears and Provisions are allocated to the relevant Preceptors and Government and accounted for as Debtors/ Creditors in the Billing Authority's Accounts
- the council's cashflow statement only includes the council's share of council tax, net cash collected and precepts paid.

### **Council Tax**

The Council as billing authority acts as agent with regards to the collection and distribution of Council Tax on behalf of itself, Hertfordshire County Council, Hertfordshire Police and Town and Parish Councils. In line with these agency arrangements, and in order to reflect the risks and rewards within the Council, the following transactions are included:

- the Council's Comprehensive Income & Expenditure Statement includes only the statutory precept under regulation.
- a debtor/creditor to reflect the difference between the various preceptors share of cash collected in the year and cash paid to the preceptors on account in line with the appropriate regulations will be included in the Council's balance sheet.
- the council's cashflow statement only includes the council's share of council tax, net cash collected and precepts paid

## **xvii. Interests in Other Entities**

The Council has set up a wholly owned subsidiary called Millstream Property Investments Ltd, which has the principal activity of acquiring, developing and refurbishing properties. The Company's accounts are consolidated into the Council's accounts and the consolidated accounts are included in the Council's Statement of Accounts.

Additionally, the Council also has an interest in Hertfordshire Building Control Limited, a company which is equally owned by seven Hertfordshire authorities.

## 2. Expenditure and Funding Analysis

The object of the Expenditure and Funding Analysis is to demonstrate to Council Taxpayers how the funding available to the authority (ie government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with general accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2019/20	Net Expenditure chargeable to the General Fund balance £000	Adjustments between Funding & Accounting basis £000	Net Expenditure in CIES £000
Chief Executive, PA's & Directors	388	206	594
Communications, Strategy & Policy	1,024	451	1,475
Human Resources & Organisation Development	514	107	621
Strategic Finance & Property	3,474	954	4,428
Legal & Democratic Services	1,381	162	1,543
Housing & Health	2,301	523	2,824
Planning & Building Control	1,269	365	1,634
Operations	3,413	2,184	5,597
Shared revenues & Benefits Service	573	662	1,235
Shared Business & Technology Services	2,029	3	2,032
<b>Net cost of services</b>	<b>16,366</b>	<b>5,617</b>	<b>21,983</b>
Other income and Expenditure	(16,976)	(5,347)	(22,323)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(610)</b>	<b>270</b>	<b>(340)</b>
<b>Operating General Fund balance at 1 April 2019</b>	<b>16,175</b>		
Transfers to/(from) Earmarked Reserves	610		
<b>Closing General Fund Balance at 31 March 2020</b>	<b>16,785</b>		

2018/19	Net Expenditure chargeable to the General Fund balance £000	Adjustments between Funding & Accounting basis £000	Net Expenditure in CIES £000
Chief Executive, PA's & Directors	378	159	537
Communications, Strategy & Policy	1,291	1,178	2,469
Human Resources & Organisation Development	489	100	589
Strategic Finance & Property	3,856	595	4,451
Legal & Democratic Services	1,159	159	1,318
Housing & Health	2,016	2,004	4,020
Planning & Building Control	720	364	1,084
Operations	3,917	2,143	6,060
Shared revenues & Benefits Service	598	642	1,240
Shared Business & Technology Services	1,591	4	1,595
<b>Net cost of services</b>	<b>16,015</b>	<b>7,348</b>	<b>23,363</b>
Other income and Expenditure	(14,989)	(5,147)	(20,136)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>1,026</b>	<b>2,201</b>	<b>3,227</b>
<b>Operating General Fund balance at 1 April 2018</b>	<b>17,267</b>		
Transfers to/(from) Earmarked Reserves	(1,026)		
Reclassification of grant	(66)		
<b>Closing General Fund Balance at 31 March 2019</b>	<b>16,175</b>		

# Note to the Expenditure and Funding Analysis - Adjustments between Funding and Accounting Basis

2019/20

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

	Adjustments for Capital Purposes (Note 1) £000	Net change for the Pensions Adjustments (Note2) £000	Other Differences (Note 3) £000	Total Adjustments £000
Chief Executive, PA's & Directors	134	69	3	206
Communications, Strategy & Policy	177	267	7	451
Human Resources & Organisation Development	22	84	1	107
Strategic Finance & Property	666	278	10	954
Legal & Democratic Services	24	133	5	162
Housing & Health	207	302	14	523
Planning & Building Control	47	306	12	365
Operations	1,881	295	8	2,184
Shared Revenues & Benefits Service	53	593	16	662
Shared Business & Technology Services	3	-	0	3
<b>Net cost of services</b>	<b>3,214</b>	<b>2,327</b>	<b>76</b>	<b>5,617</b>
Other income and expenditure from the Funding Analysis	(5,008)	156	(495)	(5,347)
<b>Difference between General Fund (surplus) or deficit and Comprehensive Income &amp; Expenditure Statement (surplus) or deficit</b>	<b>(1,794)</b>	<b>2,483</b>	<b>(419)</b>	<b>270</b>

2018/19

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

	Adjustments for Capital Purposes (Note 1) £000	Net change for the Pensions Adjustments (Note2) £000	Other Differences (Note 3) £000	Total Adjustments £000
Chief Executive, PA's & Directors	95	64	-	159
Communications, Strategy & Policy	992	186	-	1,178
Human Resources & Organisation Development	24	76	-	100
Strategic Finance & Property	344	251	-	595
Legal & Democratic Services	33	126	-	159
Housing & Health	1,656	348	-	2,004
Planning & Building Control	91	273	-	364
Operations	1,871	272	-	2,143
Shared Revenues & Benefits Service	72	570	-	642
Shared Business & Technology Services	4	-	-	4
<b>Net cost of services</b>	<b>5,182</b>	<b>2,166</b>	<b>-</b>	<b>7,348</b>
Other income and expenditure from the Funding Analysis	(5,326)	84	95	(5,147)
<b>Difference between General Fund (surplus) or deficit and Comprehensive Income &amp; Expenditure Statement (surplus) or deficit</b>	<b>(144)</b>	<b>2,250</b>	<b>95</b>	<b>2,201</b>



## **Note 1 – Adjustments for Capital Purposes**

Adjustments for capital purposes for this column add in depreciation and impairment and revaluation gains and losses in the services line and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those asset;
- 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 received in the year to those receivable without conditions or for which 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 were satisfied in the year.

## **Note 2 – Net change for the pensions' adjustments**

Net change for the removal of pension contributions and the addition of IAS19 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 services costs;
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

## **Note 3 – Other Differences**

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

- 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 NDR 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.

### 3. Accounting Standards Issued not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the Council to disclose information relating to accounting standards that have been issued but have not yet been adopted that could have a material impact on the accounts.

For this disclosure the standards introduced by the 2020/21 Code are:

- Amendments to IAS19 Employee benefits, Plan amendment, curtailment or settlement
- IFRS 16 Leases (implementation of this standard is delayed until April 2021).

The Code requires implementation from 1 April 2020 and therefore there is no impact on the 2019/20 Statement of Accounts.

### 4. 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 Council about the future that are otherwise uncertain. Estimates are made taking into account professional advice (e.g. actuarial advice), historical experience, current trends and other relevant information. Items included within the Council's Balance Sheet at 31 March 2020 for which there is a risk of material adjustment in the forthcoming year are as follows:

#### Pension Liability

The value of the pension liability as at 31st March 2020 is £23.546m. This liability depends on a number of factors, including discount rates, changes in retirement age, mortality rates and expected return on pension's assets. These are determined on an actuarial basis by Hymans Robertson, the actuaries for the Hertfordshire pension fund.

Change in assumptions at 31 March 2020	Approximate % increase to Employer liability	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	9%	11,622
0.5% increase in the Salary Increase Rate	1%	1,011
0.5% increase in the Pension Increase Rate	8%	10,524

The figures in the table above give an indication of the potential impact that a change in assumptions could represent to the value of the pension liability. The figures represent key factors taken in isolation and are only indicative of the estimated impact as the assumptions interact in complex ways. The approach taken is consistent with that adopted to derive the IAS19 figures as per note 33.

## Property, Plant and Equipment

The Councils assets are shown in the accounts at either Fair Value, Fair Value (Existing Use) or Market Value (dependent on the class of asset. Further information can be found in Note 7). The valuations are carried out by our internal asset management team in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation professional standards and International Financial Reporting Standards (IFRS). These valuations are arrived at using recent comparable transactions and for specialised properties using depreciated replacement cost methodology.

The tables below show the 31 March 2020 value of the assets in the Statement of Accounts, the impact a 5% increase or decrease in asset value would have on the Balance Sheet and the depreciation charged to the Comprehensive Income and Expenditure statement.

	31/03/2020	-5% Value	Movement	5% Value	Movement
	£000	£000	£000	£000	£000
Other Land & Buildings	78,792	74,852	(3,940)	82,732	3,940
Vehicles, Plant, Furniture & Equip.	20,381	19,362	(1,019)	21,400	1,019
Infrastructure	8,540	8,114	(426)	8,968	428
Community Assets	3,056	2,903	(153)	3,209	153
Surplus Assets	2,571	2,442	(129)	2,700	129
	<b>113,340</b>	<b>107,673</b>	<b>(5,667)</b>	<b>119,009</b>	<b>5,669</b>

## Depreciation

	31/03/2020	-5% Value	Movement	5% Value	Movement
	£000	£000	£000	£000	£000
Other Land & Buildings	774	735	(39)	813	39
Vehicles, Plant, Furniture & Equip.	564	536	(28)	592	28
Infrastructure	266	253	(13)	279	13
	<b>1,604</b>	<b>1,524</b>	<b>(80)</b>	<b>1,684</b>	<b>80</b>

## Non Domestic Rates – Provision for outstanding appeals

Since the Retained Business Rate scheme was introduced on 1st April 2013 Local Authorities have assumed the liability for refunding business rate payers who successfully appeal against the rateable value of their property.

Appeals against the rateable value of a property are lodged by the rate payer with the Valuation Office Agency, who provides information of all the appeals that have been lodged to the Council.

An estimate of the potential impact of successful appeals has been calculated using analysis provided from Inform (a member of the Institute of Rating, Revenues and Valuation) and local knowledge.

The carrying amount of the provision at 31 March 2020 is £7.1m, of which the Council's share of £2.479 is reflected in the accounts. Higher success rates of appeals could result in a need for a larger provision. An increase of 5% would change the required provision by £355k affecting the surplus/deficit distribution to the Council, Hertfordshire County Council and Central Government.

## 5. Adjustments between Accounting Basis and Funding Basis under Regulations

2019/20

### Adjustments involving the Capital Adjustment Account:

Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:

Charges for depreciation of non current assets	1,558	-	-	(1,558)
Revaluation / Impairment on Property Plant and Equipment	885	-	-	(885)
Movements in the market value of Investment Properties	1,003	-	-	(1,003)
Amortisation of intangible assets	419	-	-	(419)
Capital grants and contributions applied	(2,700)	-	-	2,700
Revenue expenditure funded from capital under statute	351	-	-	(351)
Revenue grants written down to the Capital Adjustment Account	-	-	-	-
Disposal of non current assets	217	-	-	(217)
Disposal of investment Properties	-	-	-	-

Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:

Statutory adjustment relating to capital element of principal repayment for finance lease  
Capital expenditure charged against the General Fund

### Adjustments involving the Capital Grants Unapplied Account:

Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(49)	49

### Adjustments involving the Capital Receipts Reserve:

Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,588)	1,588	-	-
Use of Capital Receipts Reserve to finance new capital expenditure	-	(3,480)	-	3,480

### Adjustments involving the Deferred Capital Receipts Reserve:

Statutory adjustment relating to capital element of principal payment for finance lease	2	-	-	(2)
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### Adjustments involving the Pensions Reserve:

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 33)	4,939	-	-	(4,939)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,456)	-	-	2,456

### Adjustments involving the Collection Fund Adjustment Account:

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(495)	-	-	495
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### Adjustment involving the Accumulated Absences Account

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	76	-	-	(76)
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<b>Total Adjustments</b>	<b>2,211</b>	<b>(1,892)</b>	<b>(49)</b>	<b>(270)</b>
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## 2018/19 Comparative Figure

	Usable Reserves			
	General Fund balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments involving the Capital Adjustment Account:</b>				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation of non current assets	1,856	-	-	(1,856)
Revaluation / Impairment on Property Plant and Equipment	604	-	-	(604)
Movements in the market value of Investment Properties	279	-	-	(279)
Amortisation of intangible assets	417	-	-	(417)
Capital grants and contributions applied	(2,552)	-	-	2,552
Revenue expenditure funded from capital under statute	2,304	-	-	(2,304)
Revenue grants written down to the Capital Adjustment Account	(75)	-	-	75
Disposal of non current assets	620	-	-	(620)
Disposal of investment Properties	-	-	-	-
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory adjustment relating to capital element of principal repayment for finance lease	1	-	-	(1)
Capital expenditure charged against the General Fund	(5)	-	-	5
<b>Adjustments involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(115)	115
<b>Adjustments involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,377)	2,377	-	-
Use of Capital Receipts Reserve to finance new capital expenditure	-	(3,479)	-	3,479
<b>Adjustments involving the Deferred Capital Receipts Reserve:</b>				
Statutory adjustment relating to capital element of principal payment for finance lease	1	-	-	(1)
<b>Adjustments involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 33)	4,641	-	-	(4,641)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,391)	-	-	2,391
<b>Adjustments involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	98	-	-	(98)
<b>Adjustment involving the Accumulated Absences Account</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(3)	-	-	3
<b>Total Adjustments</b>	<b>3,418</b>	<b>(1,102)</b>	<b>(115)</b>	<b>(2,201)</b>

## 6. Transfers to/from Earmarked Reserves

Amounts appropriated to / from reserves are distinguished from service expenditure disclosed in the Statement of Accounts. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cashflow management.

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide funding for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2019/20.

	Balance 1 April 2018 £000	Transfers Out/(In) 2018/19 £000	Balance 31 March 2019 £000	Transfers Out 2019/20 £000	Transfers In 2019/20 £000	Balance 31 March 2020 £000
Interest Equalisation Reserve	(1,461)	(175)	(1,636)	-	(149)	<b>(1,785)</b>
Insurance Fund	(965)	22	(943)	8	-	<b>(935)</b>
Emergency Planning Reserve	(36)	-	(36)	-	-	<b>(36)</b>
LDF/Green Belt Reserve	(62)	-	(62)	-	-	<b>(62)</b>
Housing Condition Survey Reserve	(90)	-	(90)	-	-	<b>(90)</b>
Council Elections Reserve	(45)	(28)	(73)	100	(27)	-
Sinking fund - Leisure Utilities / Pension Reserve	(228)	-	(228)	-	-	<b>(228)</b>
Performance Reward Grant Reserve	(10)	-	(10)	-	-	<b>(10)</b>
Waste Recycling Income Volatility Reserve	(248)	145	(103)	-	-	<b>(103)</b>
Footbridge Reserve	(150)	-	(150)	-	-	<b>(150)</b>
Transformation Reserve	(278)	278	-	-	-	-
DCLG Preventing Repossessions	(18)	-	(18)	-	-	<b>(18)</b>
New Homes Bonus Priority Spend	(4,867)	175	(4,692)	753	(654)	<b>(4,593)</b>
Collection Fund Reserve	-	-	-	-	(2,554)	<b>(2,554)</b>
DEFRA Flood Support	(4)	-	(4)	-	-	<b>(4)</b>
Commercial Property Fund	(127)	127	-	-	-	-
Neighbourhood Planning	-	(14)	(14)	-	(50)	<b>(64)</b>
IER	-	(55)	(55)	-	(51)	<b>(106)</b>
MTFP Transition Funding Reserve	(230)	(500)	(730)	57	-	<b>(673)</b>
Flexible Homelessness Grant	(105)	(125)	(230)	-	(124)	<b>(354)</b>
Preventing Homelessness New Burdens Reserve	(31)	-	(31)	-	-	<b>(31)</b>
Healthy Lifestyle Promotions Reserve	-	(33)	(33)	-	-	<b>(33)</b>
Land Charges New Burdens	-	(30)	(30)	-	-	<b>(30)</b>
HB Subsidy Volatility Reserve	-	(60)	(60)	60	-	-
		-				
<b>Total</b>	<b>(8,955)</b>	<b>(273)</b>	<b>(9,228)</b>	<b>978</b>	<b>(3,609)</b>	<b>(11,859)</b>

Interest Equalisation Reserve	This reserve was established to assist the Council in managing the financial implications of adverse interest rate fluctuations. £149k has been added to this reserve in 2019/20
Insurance Fund	Its purpose is to support the Council's insurance and risk management process in anticipation of setting up a self-insurance fund in some areas to reduce future insurance premiums. £8k was utilised in 2019/20 to match expenditure.
Emergency Planning Reserve	The reserve was set up to support the work of an Emergency Planning Officer Group that has been established within the Council. There was no call on it in 2019/20.
Local Development Framework / Green Belt Reserve	This reserve was established in 2008/09 to smooth expenditure over the Council's Medium Term Financial Plan (MTFP). There has been no call on the reserve in 2019/20.
Housing Condition Survey Reserve	This reserve was established to fund House Condition Surveys. There has been no movement on the reserve in 2019/20.
Council Elections Reserve	Established to smooth expenditure over the MTFP. This reserve has been fully utilised in 2019/20 to fund the costs of elections in the year.
Sinking Fund – Leisure Utilities and Pension	Further to the Council awarding a new leisure contract to Sports and Leisure Management from January 2009, the Council provided guarantees in respect of utilities and employers pension costs. There was no call on it in 2019/20.
Performance Reward Grant Reserve	The Council received revenue grant funding in respect of the Local Area Agreement (Performance Reward Grant) in 2009/10. There was no call on the reserve in 2019/20.
Waste Recycling Income Volatility Reserve	The reserve has been established to manage income volatility in recycling income. There has been no movement on this reserve in 2019/20.
Footbridge Reserve	The Council's MTFP included setting aside £50k a year from 2010/11 to 2012/13 in order to meet any potential maintenance costs or liabilities that may arise relating to the footbridge over the River Stort. There was no call on the reserve 2019/20.

Transformation Reserve	The Cost of Change reserve was set up to fund transitional staffing costs, including those arising from implementing planned budget savings through staffing restructurings. This was amalgamated with the Service Improvement Fund and Restructure Fund to form a new Transformation Reserve. This was fully utilised in 2018/19.
DCL Preventing Repossessions	This reserve was established from unspent Government Grant monies. There were no appropriations in 2019/20.
New Homes Bonus Priority Spend	This reserve was established from unspent New Homes Bonus monies received from DCLG and the 2014/15 GF underspend. Over the years, further amounts of New Homes Bonus monies have been transferred to this reserve and £753k was appropriated in 2019/20 to fund various items.
Collection Fund Reserve	As a result of a Council decision in January 2014, a Government Funding Risk Reserve was established to smooth the effect on the Council of income volatility following the new NDR funding regime. This was subsequently renamed the Collection Fund Reserve. £2,554k was added to the reserve in 2019/20 from additional s31 grants and NDR growth to help smooth future fluctuations.
DEFA Flood Support for Local Businesses	This reserve was established from the unspent element of a DEFRA grant received to enable the Council to support local businesses to repair damage following the flooding in 2013/14. There has been no call on this in 2019/20.
Commercial Property Fund	Established in February 2015 to support the development of investment opportunities in commercial property. Appropriations were made in 2018/19 which resulted in the reserve being fully utilised.
Neighbourhood Planning Grant	Created in 2014/15 from unspent Neighbourhood Planning grant received from MHCLG to fund future spend. Unspent grant received in 2019/20 has been added to the reserve.
IER Grant	This reserve was created from unspent grant monies received from the Cabinet Office to fund the costs of additional work involved in the Individual Electoral Registration Scheme. Further unspent grant monies have been added to the reserve in 2019/20.



MTFP Transition Funding Reserve	A new reserve established in 2016/17 from the Transition Grant awarded by MHCLG as part of the 2016/17 financial settlement. £57k has been utilised in 2019/20 to fund expenditure
Flexible Homelessness Grant	Established from unspent Government Grant monies in 2017/18 specifically to prevent and deal with homelessness. Further unspent grant monies have been added in 2019/20.
Preventing Homelessness New Burdens	A new reserve set up in 2017/18 from unspent Government Grant to deal with Homelessness. There was no call on this in 2019/20.
Healthy Lifestyle Promotions	A new reserve created in 2018/19 from unspent grant monies received to promote healthy living. There has been no call on this in 2019/20.
Land Charges New Burdens	This reserve was created from unused government grant received to cover costs of transferring the local land charges register to HM Land Registry. There has been no call on this in 2019/20.
HB Subsidy Volatility Reserve	A new reserve created in 2018/19 to manage the financial implications of fluctuations in Housing Benefit subsidy. This has been fully utilised in 2019/20.

## 7. Property, Plant & Equipment

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

### Recognition

Expenditure 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 Council 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) is charged as an expense when it is incurred.

### Measurement

Assets 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 Council does not capitalise borrowing costs incurred whilst assets are under construction. Assets are then carried in the Balance Sheet using the following measurement bases:

- Operational non-specialised property – fair value based on existing use value. The multi-storey car parks and surface car parks have been valued using the Existing Use Valuation method on the basis of income & expenditure, profit information;
- Operational specialised property (inc leisure centres and Hertford theatre) – depreciated replacement cost (DRC);
- Community assets – nominal value or historical cost;
- Infrastructure and all other assets – depreciated historical cost;
- Surplus assets - fair value, estimated at highest and best use from a market participant's perspective.

In the event of a future disposal the market value at that time may realise more or less than the carrying value. Since April 2016 the Council has revalued its assets on an annual basis (formerly four year rolling basis). Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

The Valuations were carried out by the Council's Estates and Asset Manager, Anna Osborne (MRICS) and Principal Assets and Estates Surveyor Lucy Smith (MRICS) on the basis of standards of professional practice set out in the guidance below:

- Royal Institution of Chartered Surveyors (RICS) Valuation - Professional Standards ('The red Book')
- International Financial Reporting Standards (IFRS)
- Chartered Institute of Public Finance and Accounting Code of Practice on Local Authority Accounting ('The CIPFA Code')

The valuer has arrived at their opinion of Fair Value, Fair Value (Existing Use) and Market Value from referring to recent comparable transactions. For Specialised properties the Fair value (Existing Use) has been derived using Depreciated Replacement Cost methodology.

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.

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. The current asset values used in the accounts are based upon a certificate issued by the Council's Asset & Estates Manager, Anna Osborne MRICS and Lucy Smith MRICS as at 31 March 2020. Property, plant and equipment are classified in the Balance Sheet in line with current Accounting Codes of Practice.

### **Impairment**

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.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

All Property, Plant and Equipment, other than freehold land and Community Asset's (with two exceptions being recreational facilities with a building element) are depreciated on a straight line basis over the period of the assets useful economic life. The following periods are used:

Freehold Land	No depreciation
Hostels	60 years
Other Council Buildings	20 to 60 years
Infrastructure	10 to 20 years
Equipment, Furniture and Fittings	5 to 20 years
Community Assets	No depreciation (30 years for exceptions)
Non-operational assets	40 to 60 years
Enhancement to Leased Properties	10 to 25 years
Plant	20 to 35 years

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

## Componentisation

In line with accounting requirements the Council considers the identification of individual asset components on a prospective basis following either the enhancement of an asset or its revaluation. The Council has determined that it will adopt a de-minimis value of £1m for individual assets.

## Disposals

When an asset is disposed of the carrying amount of the asset in the Balance Sheet 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.

The gain or loss on disposal 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 transferred from the General Fund Balance in the Movement in Reserves Statement to the Capital Adjustment Account (the carrying amount of the asset) and the usable Capital Receipts Reserve (the disposal proceeds).

## Property, Plant & Equipment

### Cost or Valuation

#### 2018/19

	Other Land & Buildings £000	Vehicles, Plant, Furniture & Equip. £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
As at 01/04/2018	79,968	19,928	8,518	2,730	2,744	-	113,888
Additions	336	296	15	113	-	1,350	2,110
Disposals	-	(209)	-	-	-	-	(209)
Reclassifications	(71)	-	-	-	71	-	0
Revaluations	(1,484)	-	-	-	(269)	(5)	(1,758)
<b>Total as at 31/03/2019</b>	<b>78,749</b>	<b>20,015</b>	<b>8,533</b>	<b>2,843</b>	<b>2,546</b>	<b>1,345</b>	<b>114,031</b>

#### 2019/20

As at 01/04/2018	78,749	20,015	8,533	2,843	2,546	1,345	114,031
Additions	366	366	7	213	124	4,395	5,471
Disposals	(217)	-	-	-	-	-	(217)
Reclassifications	-	-	-	-	-	-	0
Revaluations	(106)	-	-	-	(99)	-	(205)
<b>Total as at 31/03/2020</b>	<b>78,792</b>	<b>20,381</b>	<b>8,540</b>	<b>3,056</b>	<b>2,571</b>	<b>5,740</b>	<b>119,080</b>

### Depreciation & Impairment

<b>As at 01/04/2018</b>	27,897	16,753	6,026	91	-	-	50,767
Charge for Year	773	817	266	-	-	-	1,856
Acc depreciation w/o on revaluation	-	-	-	-	-	-	0
Disposals	-	-	-	-	-	-	0
Impairment (reversal) recognised in the service	603	96	-	-	-	-	699
Revaluations	-	-	-	-	-	-	0
<b>Total as at 31/03/2019</b>	<b>29,273</b>	<b>17,666</b>	<b>6,292</b>	<b>91</b>	<b>0</b>	<b>0</b>	<b>53,322</b>

<b>As at 01/04/2019</b>	29,273	17,666	6,292	91	0	0	53,322
Charge for Year	741	564	253	-	-	-	1,558
Acc depreciation w/o on revaluation	-	-	-	-	-	-	0
Disposals	-	-	-	-	-	-	0
Impairment (reversal) recognised in the service	885	-	-	-	-	-	885
Revaluations	-	-	-	-	-	-	0
<b>Total as at 31/03/2020</b>	<b>30,899</b>	<b>18,230</b>	<b>6,545</b>	<b>91</b>	<b>0</b>	<b>0</b>	<b>55,765</b>

### Net Book Value

<b>Balance Sheet as at 31/03/19</b>	<b>49,476</b>	<b>2,349</b>	<b>2,241</b>	<b>2,752</b>	<b>2,546</b>	<b>1,345</b>	<b>60,709</b>
<b>Balance Sheet as at 31/03/20</b>	<b>47,893</b>	<b>2,151</b>	<b>1,995</b>	<b>2,965</b>	<b>2,571</b>	<b>5,740</b>	<b>63,315</b>

### Reconciliation of Additions in the year to Capital Spend

	2019/20 £000	2018/19 £000
Additions in the year (as above)	5,471	2,110
Intangible assets	339	243
Investment Properties	2,893	790
	8,703	3,143
plus REFCUS (not included in note 7)	352	2,305
Third Party Loan (Long Term Debtor)	1,451	778
<b>Total Capital Spend</b>	<b>10,506</b>	<b>6,226</b>

## 8. Analysis of Fixed Assets

	31 March '20 Number	31 March '19 Number
Council Dwellings - Hostels	2	2
- Houses	2	2
Council Offices - Freehold	2	2
- Leasehold	0	0
Service Centre - Leasehold	1	1
Cash Offices	2	2
Off-Street Car Parks ( incl. Leasehold)	35	35
Swimming Pools (including 3 joint-use pools)	5	5
Parks and Recreation Grounds/Open spaces	188 HA	188 HA
Public Halls/Community Centres (incl leasehold)	9	9
Commercial Property Rented Out	56 Units	54 Units
Land Awaiting Development	1 HA	1 HA
Public Convenience	3	3

## 9. Heritage Assets

In line with the 2012 Code and FRS 30, the Council has identified a number of assets that meet the definition of a heritage asset and are being preserved in trust for future generations because of their cultural, environmental or historical associations.

The Council's policy is to maintain Heritage assets in order to preserve them for future generations because of their cultural and historical associations. The Council does not consider that a commercial value can be placed upon these assets and its policy is, therefore, not to disclose on the balance sheet. They continue to be included within community assets with a nominal value. The assets are insured in order to protect the Council's interest in the event of damage or destruction.

The Heritage assets held within Community assets at a nominal sum are as follows; there is no value held for these assets.

- The Castle Wall (ancient flint), Hertford
- Scott's Grotto, Ware
- Monument, remains of Church of St Mary's, Old Cross
- Community land Obelisk, Bishop's Stortford
- Flowing River Sculpture, Bishop's Stortford
- Evolution sculpture at Hartham Common
- Hertford Theatre Wall Bronze Resin Sculpture
- Civic Regalia
- Oil Painting of Wallfields, Hertford
- Chainsaw sculpture Pishiobury Park, Sawbridgeworth

## 10. Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. 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.

Rents 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.

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

	2019/20 £000	2018/19 £000
Rental income from investment property	(956)	(1,035)
Direct operating expenses arising from investment property	179	514
<b>Net gain</b>	<b>(777)</b>	<b>(521)</b>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct, enhance or develop investment property. In some cases, the Council has repairing obligations which are met through revenue expenditure.

Authorities shall account for investment property in accordance with IAS 40 Investment Property and should be valued to 'Fair Value'.

Investment property is recognised at cost, including transaction costs but excluding operational components (PPE) where these can be measured reliably. Following recognition investment property is revalued on a fair value basis reflecting market state and circumstances on a given date.

The objective of this measurement approach is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under the current market conditions.

The following table summarises the movement through additions and re-classification of investment properties over the year:

	2019/20 £000	2018/19 £000
Balance at start of the year	13,596	13,396
Additions: Not transferred through re-classification	2,893	790
Additions: Transferred through re-classification	-	-
Disposals : Transferred through re-classification	-	(340)
Net gains / (losses) from fair value adjustments	(1,003)	(250)
<b>Balance at end of the year</b>	<b>15,486</b>	<b>13,596</b>

In addition to arriving at the fair values for the assets, IFRS 13 seeks to increase consistency and comparability within the valuation process which has been achieved through a 'fair value hierarchy'.

### **Fair Value Hierarchy**

All the Council's investment properties have been value assessed as Level 2 on the fair value hierarchy for valuation purposes.

### **Valuation Techniques Used to Determine Level 2 Values for Investment Property**

The fair value of investment property has been based on the market approach using current market conditions and recent sales prices, existing lease terms and rentals and other relevant information for similar assets in the local authority area. Market conditions for these asset types are such that the level of observable inputs are significant leading to the properties being categorised at Level 2 in the fair value hierarchy.

There has been no change in the valuation techniques used during the year for investment properties.

### **Highest and Best Use**

In estimating the fair value of the Council's investment properties, the highest and best use is their current use.

### **Valuation Process for Investment Properties**

The Council's investment property has been valued as at 31 December 2019 (with a statement of professional opinion given that there has been no material change up to 31 March 2020) by the Council's Estates and Asset Manager, Anna Osborne (MRICS) and Principal Assets and Estates Surveyor Lucy Smith (MRICS) in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.



## 11. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council 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 Council. In addition, the Council has agreed that all software will be treated as intangible assets.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council 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(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation is not permitted to have an impact on the General Fund Balance. This is therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful life assigned to the major software applications used by the Authority is 5 years. The movement on Intangible Asset balances during the year is as follows:

	Software £000	2019/20 Other Intangible £000	Total £000	Software £000	2018/19 Other Intangible £000	Total £000
<b>Balance at start of year:</b>						
Gross carrying amounts	5,328	-	5,328	5,085	-	5,085
Accumulated amortisation	(4,463)	-	(4,463)	(4,046)	-	(4,046)
<b>Net carrying amount at start of year</b>	<b>865</b>	<b>-</b>	<b>865</b>	<b>1,039</b>	<b>-</b>	<b>1,039</b>
Additions:						
Purchases	339	-	339	243	-	243
Amortisation for the period	(419)	-	(419)	(417)	-	(417)
<b>Net carrying amount at end of year</b>	<b>785</b>	<b>-</b>	<b>785</b>	<b>865</b>	<b>-</b>	<b>865</b>
Comprising:						
Gross carrying amounts	5,667	-	5,667	5,328	-	5,328
Accumulated amortisation	(4,882)	-	(4,882)	(4,463)	-	(4,463)
	<b>785</b>	<b>-</b>	<b>785</b>	<b>865</b>	<b>-</b>	<b>865</b>

## 12 Financial Instruments

### Financial Liabilities

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 are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) 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 most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

### Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at: amortised cost, fair value through profit or loss (FVPL), and fair value through other comprehensive income (FVOCI). The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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 (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

### Soft Loans

The Code requires that a discounted interest rate be recognised as a reduction in the fair value of the asset. Potential Council loans falling within this category relate to an assisted car purchase scheme and a cycle scheme. The Council currently has no loans under its assisted car purchase scheme and the amount advanced under the cycle scheme is considered immaterial.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **Expected Credit Loss Model**

The authority recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

## **Financial Assets Measured at Fair Value through Profit or Loss**

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques: instruments with quoted market prices – the market price Other instruments with fixed and determinable payments – discounted cash flow analysis.

## **Financial Assets Measured at Fair Value through Other Comprehensive Income**

These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the Comprehensive Income and Expenditure Statement when the asset is disposed of. The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

## **Financial Guarantees**

Commencing on 1 January 2009 the Council awarded a new 10 year contract for the Management of its Leisure Facilities and Swimming Pools. Under this contract the Council has given two guarantees in respect of pension liabilities and utility costs. The guarantee relating to pension costs relates to increases in employer contributions above 23.4%. Any increase will be in line with future actuarial valuations. Each 1% increase in contribution rate would result in a liability of approximately £3k per year.

The guarantee relating to utility costs relates to above inflationary increases in the tariffs payable. Each 1% increase would represent around £2.4k per year.

The Code includes a requirement for financial guarantees to be recognised at fair value and charged to the Comprehensive Income and Expenditure Statement (amortised over the life of the guarantee). The levels of liability assessed at March 2020 are regarded as non material and therefore the accounting requirement has not been followed in respect of these guarantees. The Council has determined to set aside a reserve against potential liabilities under these guarantees as set out in Note 6 to the Notes to the Core Statements.

No other financial guarantees were identified in 2019/20.

## Financial Instruments Balances

	Non-Current		Current	
	31 March '20	31 March '19	31 March '20	31 March '19
	£000	£000	£000	£000
<b>Financial Assets</b>				
<b>Investments</b>				
At amortised cost - principal amount	-	-	21,850	25,922
- accrued interest	-	-	71	80
Fair Value through other comprehensive income - designated equity instruments	21,241	21,935	-	-
- accrued interest	167	183	-	-
<b>Total Investments</b>	<b>21,408</b>	<b>22,118</b>	<b>21,921</b>	<b>26,002</b>
<b>Cash &amp; Cash Equivalents</b>				
At amortised cost - principal amount	-	-	15,683	14,949
At amortised cost - accrued interest	-	-	5	28
<b>Total Cash &amp; Cash Equivalents</b>	<b>-</b>	<b>-</b>	<b>15,688</b>	<b>14,977</b>
<b>Debtors</b>				
Financial Assets at amortised cost	2,483	1,034	10,098	9,606
Less Non Financial Instruments Assets	-	-	(2,223)	(1,351)
<b>Total Debtors</b>	<b>2,483</b>	<b>1,034</b>	<b>7,875</b>	<b>8,255</b>
<b>Total Financial Assets</b>	<b>23,891</b>	<b>23,152</b>	<b>45,484</b>	<b>49,234</b>
<b>Financial liabilities</b>				
<b>Borrowing</b>				
At amortised cost	(1,500)	(7,500)	(6,000)	-
At amortised cost - accrued interest	(22)	(211)	(191)	-
Creditors	-	-	(14,223)	(14,078)
Non Financial instruments Liabilities	-	-	6,458	7,364
<b>Total Financial liabilities</b>	<b>(1,522)</b>	<b>(7,711)</b>	<b>(13,956)</b>	<b>(6,714)</b>

See also Notes 35 and 36 to the Core Statements. (Investments and Borrowings)

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'current liabilities' or 'current assets'. This would include accrued interest on long term liabilities and investments that are payable/receivable in 2019/20.

Available for Sale Financial Assets are measured at fair value on a recurring basis. The valuation techniques used to measure them maximise the use of relevant observable inputs and minimise the use of unobservable inputs and are categorised as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

<b>Recurring fair value measurements</b>	<b>Input level in fair value hierarchy</b>	<b>Valuation technique used to measure fair value</b>	<b>2019/20 £000</b>	<b>2018/19 £000</b>
Property Funds	Level 1	Unadjusted quoted prices in active markets for identical shares	20,899	21,407
<b>Balance at end of the year</b>			<b>20,899</b>	<b>21,407</b>

#### **Transfers between Levels of the Fair Value Hierarchy**

There were no transfers between input levels 1 and 2 during the year

## The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

- For loans from the PWLB payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures. As the Debt Management Office provides a transparent approach allowing the exit cost to be calculated without undertaking a repayment or transfer it is appropriate to disclose the exit price.
- For non-PWLB loans payable, PWLB premature repayment rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;

### Financial Liabilities - fair value

	Input level in fair value hierarchy	Valuation technique used to measure fair value	2019/20 £000	2018/19 £000
Long Term Borrowing	Level 2	premature repayment rates	5,430	11,245
<b>Balance at end of the year</b>			<b>5,430</b>	<b>11,245</b>

### Financial Instrument Revaluation Reserve

For financial instruments, there is a reserve to help manage the accounting requirements, the Financial Instruments Revaluation Reserve. This records unrealised revaluation gains/losses arising from holding available-for-sale investments and any unrealised losses that have not arisen from impairment of the assets. The table below sets out the transactions for the year:

	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>	1,929	1,526
Upward revaluation of investments	(527)	403
Downward revaluation of investments not charged to the Surplus/Deficit on the provision of Services	-	-
Accumulated Gains on assets sold and maturing assets written out to CI&E as part of Other Investment Income	-	-
	<b>1,402</b>	<b>1,929</b>

### 13. Financial Instruments Gains / Losses

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

2019/20	2019/20		2018/19	
	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
<b>Net (gains) / losses on</b>				
Financial Assets measured at fair value through profit or loss				
Financial assets measured at amortised cost				
Investments in equity instruments designated at fair value through other comprehensive income		527		(403)
Financial liabilities measured at fair value through profit or loss				
Financial liabilities measured at amortised cost				
<b>Total net (gains)/losses</b>	-	527	-	(403)
<b>Interest Revenue</b>				
Financial Assets measured at amortised cost	(391)		(411)	
Other financial assets measured at fair value through other comprehensive income	(770)		(854)	
<b>Total interest revenue</b>	(1,161)	-	(1,265)	-
<b>Interest Expense</b>				
Fee income:				
Financial assets or financial liabilities that are not at fair value through profit or loss	102		130	
Fee expense:				
Financial assets or financial liabilities that are not at fair value through profit or loss	660		660	
<b>Total interest expense</b>	762	-	790	-

### 14. Fair Value of Assets and Liabilities carried at Amortised Cost

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instrument, using the following assumptions:

- Link Asset Services has provided the Fair Value Calculation for the loans and investments.
- No early repayment or impairment is recognised.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount
- Where the instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.

The fair values are calculated as follows:

	31st March 2020		31st March 2019	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Financial Liabilities</b>	15,478	19,573	14,412	18,828

	31st March 2020		31st March 2019	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Loans and Receivables</b>	69,375	68,866	72,387	71,675

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

The fair value is greater than the carrying amount due to the Council's investment in Property Funds. The Fund value per unit, less the exit fee, is higher than price paid.

## 15. Debtors

### Short Term Debtors

31 March '20	31 March '19
£000	£000
Central government bodies	2,748
Other local authorities	585
Bodies external to general government (ie all other bodies)	7,921
Bad debt provision	(1,648)
<b>10,098</b>	<b>9,606</b>

### Long Term Debtors

31 March '20	31 March '19
£000	£000
Bodies external to general government (ie all other bodies)	1,034
<b>2,483</b>	<b>1,034</b>

## 16. Cash and Cash Equivalents

31 March '20	31 March '19
£000	£000
Short-term deposits with banks	14,977
<b>15,688</b>	<b>14,977</b>

**Total Cash and Cash Equivalents**



## 17. Assets Held for Sale

The Council had one asset held for sale as at 31 March 2020, as a result of a compulsory purchase order.

### Assets Held for Sale

	31 March '20	31 March '19
	£000	£000
Additions	255	-
	255	-

## 18. Creditors

### Short Term Creditors

	31 March '20	31 March '19
	£000	£000
Central government bodies	9,535	6,029
Other local authorities	3,482	1,543
Bodies external to general government (ie all other bodies)	7,397	6,506
	20,414	14,078

## 19. Provisions

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. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense 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.

The provisions held for Non Domestic Rate appeals, Council Tax and Non Domestic Rates bad debts are charged as an expense to the relevant collection fund in the first instance. This charge either reduces the Council's surplus or increases the deficit due from the collection fund. These amounts are included in the Taxation and Non-specific Grant income section on the Comprehensive Income and Expenditure Statement.

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 the provision is reversed and credited back to the relevant service.

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 authority settles the obligation.

Proper provision has been made for various liabilities which will be incurred but for which it is uncertain as to the amounts or the dates on which they arise. The provisions required cover a range of activities with the most significant being in respect of Non Domestic Rates Valuation Appeals.

	Short Term		Long Term	
	2019/20 £000	2018/19 £000	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>	1,493	1,915	2,140	1,652
Additions	-	478	-	488
Amounts used	(1,884)	(801)	(25)	-
Transferred	792	(99)	-	-
<b>Balance at 31 March</b>	<b>401</b>	<b>1,493</b>	<b>2,115</b>	<b>2,140</b>

## 20. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement, Note 5 Adjustments between accounting basis and funding basis under regulations and Note 6 Transfers to/from Earmarked Reserves.

## 21. Unusable Reserves

	31 March '20 £000	31 March '19 £000
Revaluation Reserve	22,474	23,142
Financial Instruments Revaluation Reserve	1,403	1,929
Capital Adjustment Account	79,327	77,069
Deferred Capital Receipts Reserve	148	150
Pensions Reserve	(23,546)	(34,568)
Collection Fund Adjustment Account	997	502
Accumulated Absences Account	(202)	(126)
<b>Total Unusable Reserves</b>	<b>80,601</b>	<b>68,098</b>

### Revaluation Reserve

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

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

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

	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>		
2018/19 Adjustment	603	23,142
Downward revaluation of assets	(808)	25,257
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services		(1,150)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(603)
Difference between fair value depreciation and historical cost depreciation		(205)
Amount written off to the capital adjustment account		(1,753)
		(337)
		(126)
		-
<b>Balance at 31 March</b>	<b>22,474</b>	<b>23,142</b>

### Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains/losses made by the Council arising from increases/decreases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>		
Upward revaluation of investments		1,929
Downward revaluation of investments not charged to the Surplus/Deficit on the provision of Services	(526)	1,526
		403
		-
		(526)
		403
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income		-
		-
<b>Balance at 31 March</b>	<b>1,403</b>	<b>1,929</b>

### 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 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 Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties that have yet to be consumed by the Council. 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 5 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>		
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
· Charges for depreciation of non current assets	(1,558)	(1,857)
· Charges for depreciation on revalued assets	337	362
· Movements in the market value of investment properties	(1,003)	(279)
· Revaluation/Impairment on Property, Plant and Equipment	(885)	(604)
· Amortisation of intangible assets	(419)	(417)
· Revenue expenditure funded from capital under statute	(352)	(2,304)
· Revenue grants written down to the Capital Adjustment Account	2,700	2,552
· Disposal of non-current assets	(217)	(545)
· Adjusting amounts written out of Revaluation Reserve	125	-
	<b>(1,272)</b>	<b>(3,092)</b>
Capital financing applied in the year:		
· Use of the Capital Receipts Reserve to finance new capital expenditure	3,481	3,479
· Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	49	116
· Application of grants to capital financing from the Capital Grants Unapplied Account	-	-
· Statutory adjustment for the capital element of finance lease repayments - Refuse trucks	-	-
· Capital expenditure charged against the General Fund	-	5
	<b>3,530</b>	<b>3,600</b>
<b>Balance at 31 March</b>	<b>79,327</b>	<b>77,069</b>

## Pensions Reserve

The Pensions 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 Council 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 Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>	(34,568)	(29,390)
Actuarial gains or (losses) on pensions assets and liabilities	13,503	(2,928)
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	(4,939)	(4,641)
Employer's pensions contributions and direct payments to pensioners payable in the year	2,458	2,391
<b>Balance at 31 March</b>	<b>(23,546)</b>	<b>(34,568)</b>

### Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>	150	151
Transfer to the General Fund for the capital element of finance lease payments	(2)	(1)
<b>Balance at 31 March</b>	<b>148</b>	<b>150</b>

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Non Domestic Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax and Non Domestic tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>	502	600
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and Non Domestic Rate income calculated for the year in accordance with statutory requirements	495	(98)
<b>Balance at 31 March</b>	<b>997</b>	<b>502</b>

## Accumulated Absences Account

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

	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>	(126)	(129)
Settlement or cancellation of accrual made at the end of the preceding year	126	129
Amounts accrued at the end of the current year	(202)	(126)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(76)	3
<b>Balance at 31 March</b>	<b>(202)</b>	<b>(126)</b>

## 22. Nature of Expenses Disclosure

	2019/20 £'000	2018/19 £'000
Employee Benefits Expenses	16,354	15,818
Other Service Expenses	20,941	20,237
Housing Benefits Transfer Payments	28,499	33,324
Depreciation, amortisation and impairment	3,228	5,196
Precepts and levies	4,182	3,980
Interest payments	662	660
Changes in fair value of Investment Properties	1,003	278
Net interest on the net defined benefit liability & remeasurement of the defined benefit liability for long term employee benefits	851	782
<b>Total Expenditure</b>	<b>75,720</b>	<b>80,275</b>
Fees charges and other service income	(17,860)	(16,773)
Government grants	(35,488)	(39,328)
Interest and investment income	(1,239)	(1,265)
Income from council tax and non-domestic rates	(17,402)	(15,371)
Gain on disposal of non current assets	(1,371)	(1,758)
Recognised capital grants and contributions	(2,700)	(2,553)
<b>Total Income</b>	<b>(76,060)</b>	<b>(77,048)</b>
<b>Deficit on Provision of Services</b>	<b>(340)</b>	<b>3,227</b>

## 23. Jointly Controlled Operations

The Council operates four services under a 'Jointly Controlled Operation' arrangement:

- Revenues and Benefits Service, with Stevenage Borough Council which commenced on 1st August 2011
- Business and Technology Services, with Stevenage Borough Council, which commenced on 1 August 2013
- Waste and Street Cleansing Service, with North Herts District Council, which commenced on 8 May 2018 and
- Hertfordshire CCTV partnership, with Stevenage Borough Council, North Hertfordshire Council, East Hertfordshire Council and Hertsmeire Borough Council. Each member of the arrangement accounts for their share of the asset, liabilities and cash flows of the CCTV in their own accounts. This is considered de minimis and not included in the table below.

The Council is lead authority for the Revenues and Benefits shared service and Stevenage is lead for the Business and Technology service and North Herts is lead for the Waste and Street Cleansing service. All three arrangements are governed by separate Joint Partnership Boards comprising of Council officers. Each authority has equal representation on both Boards. These Boards report to each Authority's Executive Committee. The Revenues and Benefits Shared Service also operates a joint Committee with equal numbers of Councillors from both Authorities to scrutinise the operational management of the service.

In line with the Accounting Code of Practice this arrangement is accounted for as a jointly controlled operation. A jointly controlled operation uses the assets and resources of the two partner councils without the establishment of a separate legal entity. Under these arrangements each council accounts separately for its own transactions including use of assets, liabilities, income, expenditure and cash flows.

This note sets out details of the income & expenditure of the joint arrangements and the apportionments between the councils in accordance with the agreement entered into. For information purposes only and where relevant, other notes to the accounts show amounts relating to these arrangements.

	2019/20			2018/19		
	Waste and Street Cleansing Service £000	Business & Technical Service £000	Revenues & Benefits Service £000	Waste and Street Cleansing Service £000	Business & Technical Service £000	Revenues & Benefits Service £000
<b>Expenditure</b>						
Employees	462	1,658	3,222	382	1,368	3,149
Transport Related Expenses	35	25	18	24	12	18
Supplies and Services	15	1,432	215	19	1,323	217
Support Services	-	449	877	-	-	1,172
<b>Total Expenditure</b>	<b>512</b>	<b>3,564</b>	<b>4,332</b>	<b>425</b>	<b>2,703</b>	<b>4,556</b>
<b>Income</b>						
Stevenage Borough Council	-	1,620	1,909	-	1,316	1,691
East Herts District Council	246	1,944	2,423	211	1,387	2,865
North Herts District Council	266	-	-	214	-	-
<b>Total Income</b>	<b>512</b>	<b>3,564</b>	<b>4,332</b>	<b>425</b>	<b>2,703</b>	<b>4,556</b>
<b>Net Expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The contribution made by the Council has been incorporated into the Comprehensive Income and Expenditure Statement in the Net Costs of Service.

Additionally 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. In 2016/17 the Council made a loan to the company of £100k, which is held under Long Term Debtors on the balance sheet.

## 24. External Audit Costs

This note discloses the amounts that East Herts Council has paid to its external auditors for work carried out in performing statutory functions and in providing any additional services.

In 2019/20 East Herts Council incurred the following fees relating to external audit and inspection:

	2019/20 £000	2018/19 £000
Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor	40	40
Rebate from the PSAA in respect of audit fees*	(5)	0
Fees payable to Ernst & Young for the certification of grant claims and returns	6	6
Prior Year additional fees	8	6
	<b>49</b>	<b>52</b>

\*PSAA - Public Sector Audit Appointments

## 25. Members Allowances

The total payments made to elected Members of East Herts Council, under its Members' Allowance Scheme for the year ending 31 March, was as follows:

	2019/20 £000	2018/19
Basic Allowances	267	268
Special Responsibility Allowances	127	119
Travel and Subsistence expenses	17	15
	<b>411</b>	<b>402</b>

A full disclosure of payments is available on the Council's website.



## 26. Officer Emoluments

The number of employees, including senior officers, whose remuneration, was £50,000 or more in bands of £5,000 were:

Remuneration Band	Number of Employees	
	2019/20 Total	2018/19 Total
£50,000 to £54,999	6	3
£55,000 to £59,999	7	1
£60,000 to £64,999	-	3
£65,000 to £69,999	3	1
£70,000 to £74,999	2	2
£75,000 to £79,999	1	2
£80,000 to £84,999	-	1
£85,000 to £89,999	-	-
£90,000 to £94,999	-	-
£95,000 to £99,999	2	1
£100,000 to £104,999	-	-
£105,000 to £109,999	-	-
£110,000 to £114,999	-	1
£115,000 to £119,999	-	-

## 27. Exit Packages

The numbers of exit packages with total cost per band and total cost of the compulsory and other departures are set out in the table below.

Exit package cost band (including special payments)	Number of Redundancies		Number of other departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
£							£	£
0-20,000	2	4	-	-	2	4	9,410	37,060
20,001-40,000	-	2	-	-	-	2	-	69,745
40,001-60,000	-	2	-	-	-	2	-	97,877
60,001-80,000	-	-	-	-	-	-	-	-
80,001-100,000	-	-	-	-	-	-	-	-
100,001-150,000	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>8</b>	<b>9,410</b>	<b>204,682</b>

## 28. Senior Officer Remuneration

An additional disclosure is required for Senior Officer's Remuneration (the Chief Executive and those reporting directly to the Chief Executive) included in Note 26, whose salary is more than £50,000 per year:

	Salary (inc expense allowance)	Benefits in Kind	Compensation for Loss of Office	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration including pension contributions
	£	£	£	£	£	£
<b>Post Holder 2019/20</b>						
Chief Executive (started 03/06/2019)	98,667	-	-	98,941	18,873	117,814
Chief Executive (left 31/05/2019)	25,223	-	-	26,535	3,677	30,212
Deputy Chief Executive	98,098	-	-	98,098	18,473	116,571
Head of Revenues & Benefits Shared Service	77,225	-	-	77,225	14,661	91,886
Head of HR & Organisational Development	73,398	-	-	73,398	13,927	87,325
Interim Head of Strategic Finance & Property (started 01/12/2019)	52,805	-	-	52,805	-	52,805
Head of Strategic Finance & Property (left 31/12/2019)	59,822	-	-	59,822	11,388	71,210
Head of Communications, Strategy & Policy	69,317	-	-	69,317	13,170	82,487
Head of Legal & Democratic Services (started 03/02/2020)	11,813	-	-	11,813	2,245	14,058
Head of Legal & Democratic Services (left 17/11/2019)	55,286	-	-	55,286	10,255	65,541
Head of Housing & Health	68,864	-	-	68,864	13,004	81,868
Head of Operations (returned from maternity leave 02/09/2019)	39,683	-	-	39,683	-	39,683
Head of Planning & Building Control	51,747	-	-	51,747	9,769	61,516
<b>2018/19</b>						
Chief Executive	110,510	-	-	110,510	20,720	131,230
Director	95,738	-	-	95,738	17,998	113,736
Head of Revenues & Benefits Shared Service	73,216	-	-	73,216	13,906	87,122
Head of HR & Organisational Development (left 03/03/2019)	48,239	-	-	48,239	9,456	57,695
Head of Planning & Building Control (seconded 01/03/19)	63,175	-	-	63,175	11,918	75,093
Head of Strategic Finance & Property	71,558	-	-	71,558	13,452	85,010
Head of Communications, Strategy & Policy	67,630	-	-	67,630	12,813	80,443
Head of Legal & Democratic Services	77,546	-	-	77,546	14,636	92,182
Head of Housing & Health	62,526	-	-	62,526	11,812	74,338
Head of Operations	45,240	-	-	45,240	-	45,240
Head of HR & Organisational Development (started 28/01/19)	12,211	-	-	12,211	2,320	14,531
Head of Planning & Building Control (started 01/03/19)	3,992	-	-	3,992	759	4,751

## 29. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20:

	2019/20 £000	2018/19 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Council Tax	14,465	13,816
Non-Domestic Rates	2,937	1,555
Revenue Support Grant	-	-
New Homes Bonus	2,616	2,645
Other Capital Grants	2,700	2,552
Sec 31 Business Rate Support	2,899	1,675
Other Revenue Grants	17	49
	<b>25,634</b>	<b>22,292</b>
<b>Credited to Services</b>		
<u>Grants</u>		
DWP	29,068	34,045
DCLG	775	735
LAA	16	25
Cabinet Office	51	55
DEFRA	20	7
Sports England	-	80
Department of Education	26	13
	<b>29,956</b>	<b>34,960</b>
<u>Other Contributions</u>		
Contributions from Other Authorities*	3,129	2,872
Income from Other Bodies	699	694
	<b>3,828</b>	<b>3,566</b>

\* includes the contribution from Stevenage Borough Council for the Shared Revenues and Benefits Service

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the funding body if not used for the purpose provided. The balances at year end are as follows:

	2019/20 £000	2018/19 £000
<b>Grants Receipts in Advance</b>		
<b>Capital</b>		
Other Capital Grants	47	47
Developer Contributions	1,950	1,910
	<b>1,997</b>	<b>1,957</b>
<b>Revenue</b>		
Developer Contributions	3,929	2,590
Other Revenue Grants	129	97
	<b>4,058</b>	<b>2,687</b>

## 30. Related Party Transactions

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.

Related parties to this authority would include:

Central government; local authorities and other bodies precepting or levying demands on the Council Tax; its members; its chief officers; and its pension fund. Members of close family, or the same household of an individual identified as a related party are also assumed to be related parties.

All significant material transactions with related parties, such as government grants, parish precepts, precepts, pension fund contributions etc, have been disclosed in the Comprehensive Income and Expenditure Statement.

Three members of the Council held a position of director at Wodson Park Trust. The Council paid this company £15k.

Three senior officers of the Council held a position of director at Millstream Property Investments Ltd. The Council advanced loans to this company totalling £1.451m.

A senior officer of the Council held a position of Director at Hertfordshire CCTV Partnership Ltd. The Council paid this company £30k.

A number of District Council members are also members of Town and Parish Councils that receive funding from this Council. Precept payments are disclosed in the Comprehensive Income and Expenditure Statement. Any grants made to these bodies were made with proper consideration of declarations of interest.

Hertfordshire County Council is a related party in respect of various transactions including pension's contributions and precepts. Additionally they act as the "accountable body" for the Hertfordshire Local Area agreement.

Shown in the Balance Sheet are totals for debtors and creditors which represent amounts due to or from related parties. The principal year end balances with related parties included in these totals are shown within Notes 15 & 18.

## 31. Capital Expenditure and Capital Financing

	2019/20 £000	2018/19 £000
<b>Opening Capital Financing Requirement</b>	<b>(23,079)</b>	<b>(23,079)</b>
<b>Capital investment</b>		
Property, Plant & Equipment	733	631
Infrastructure	8	15
Community Assets	213	113
Investment Property	2,893	790
Intangible Assets	339	243
Assets Under Construction	4,394	1,351
Revenue Expenditure Funded from capital under Statute	352	2,305
Third Party Loan	1,451	778
Surplus	124	-
Assets Held For Sale	255	-
<b>Sources of finance</b>		
Capital receipts	(3,481)	(3,479)
Government grants and other contributions	(2,750)	(2,742)
Sums set aside from Revenue:		
Direct revenue contributions	0	(5)
Loan/ finance lease principal repayments		
<b>Closing Capital Financing Requirement</b>	<b>(18,548)</b>	<b>(23,079)</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrowing (unsupported by government financial assistance)	4,531	-
<b>Decrease in Surplus in Capital Resource *</b>	<b>4,531</b>	<b>-</b>

\* East Herts has a negative Capital Financing Requirement which represents a surplus in capital resources

## 32. Leases

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.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment (embedded leases) are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### The Council as a Lessor

#### Finance Leases

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.

Lease payments are apportioned between:

a charge for the acquisition of the interest in the property, plant or equipment applied to write down the lease liability, and

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

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 Council at the end of the lease period). Depreciation is applied in the year of acquisition.

The Council is not required to raise council tax to cover depreciation, impairment and gains and losses on revaluation arising on leased assets. Any such costs that have been charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

### **Operating Leases**

Rents 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.

### **The Council as a Lessor**

#### **Finance Leases**

Where the Council 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 Investment Properties) 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. A gain, representing the Council'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.

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).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

### **Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in 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.

### **Finance leases**

As at 31 March 2020, the Council did not hold any leases that fell into the category of a finance lease.

## Council as a lessee

### Operating leases

The Council leases the Buntingford Service Centre.

The future minimum lease payments due under non-cancellable leases in future years are:

	31 March '20 £000	31 March '19 £000
Not later than one year	210	210
Later than one year and not later than five years	840	840
Later than five years	630	840
	<b>1,680</b>	<b>1,890</b>

The expenditure charged to Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2019/20 £000	2018/19 £000
Minimum lease payments	210	210
Lease payments receivable	-	-
	<b>210</b>	<b>210</b>

## Council as a lessor

### Finance leases

The Council leases out Pindars Lodge.

Following the introduction of IFRS 1 and this asset's transfer from an operating lease to finance lease, a lease term of 50 years from March 1997 was set.

The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	2019/20 £000	2018/19 £000
Finance lease debtor as at 31 March	147	149
Unearned finance income	215	228
<b>Gross investment in lease as at 31 March</b>	<b>362</b>	<b>377</b>



The gross investment in the lease which are the minimum lease payments, will be received over the following periods:

	Gross investment in lease 31 March '20 £000	Gross investment in lease 31 March '19 £000
Not later than 1 year	14	14
Later than 1 year and not later than 5 years	56	56
Later than 5 years	307	321
	<b>377</b>	<b>391</b>

### Operating Leases

The council receives income from a variety of properties ranging from Industrial and Commercial ground leases, to a small number of commercial premises including shops and other miscellaneous properties. Each is subject to individual agreements and reviews. The terms are dependent upon a number of criteria; the corporate priorities of the Council, options that are available, historic and legal agreements. The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 March '20 £000	31 March '19 £000
Not later than one year	1,622	1,258
Later than 1 year and not later than 5 years	5,015	4,008
Later than 5 years	36,793	33,178

## 33. Pension Scheme

As part of the terms and conditions of employment the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until the employee retires, the Council has a commitment to disclose them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. This is a funded defined benefit scheme which means that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets in the long term. Under the Scheme members' retirement benefits are not affected by the Fund's performance.

Pension contributions are based on rates determined by the Fund's professionally qualified actuary based on triennial reviews. The most recent review was undertaken in January 2020.

## Transactions Relating to Post Employment benefits

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge the Council is required to make against council tax is based on the cash payable in the year, 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 during the year.

	2019/20 £000	2018/19 £000
<b>Comprehensive Income &amp; Expenditure Statement:</b>		
<i>Service Cost comprising:</i>		
Current service cost	4,088	3,406
Past Service Cost	-	453
<i>Financing and Investment Income and Expenditure</i>		
Net Interest Expense	851	782
<b>Total post employment benefit charged to surplus or deficit on the provision of services</b>	<b>4,939</b>	<b>4,641</b>
<i>Other post employment benefit credited to the Comprehensive Income and Expenditure Statement</i>		
<i>Remeasurement of the net defined benefit liability comprising:</i>		
Return on plan assets (excluding the amount included in net interest ex	4,577	(4,647)
Actuarial gains/(losses) arising on changes in demographic assumptions	(3,371)	-
Actuarial gains/(losses) arising on changes in financial assumptions	(11,007)	7,575
Other actuarial gains or losses	(3,702)	-
<b>Total post employment benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>(8,564)</b>	<b>7,569</b>
<b>Movement in Reserve Statement</b>		
Reversal of net charges made to the surplus or deficit on the provision of services for post employment benefits in accordance with the code	(4,939)	(4,641)
<i>Actual amount charges against the general fund balance for pensions in the year:</i>		
<b>Employers contributions payable to scheme</b>	<b>2,457</b>	<b>2,397</b>

## Pensions Assets and Liabilities recognised in the Balance Sheet

	2019/20 £000	2018/19 £000
<b>Opening Fair Value of scheme assets</b>	111,549	105,245
Interest income	2,665	2,721
Remeasurement gain/(loss):		
Return on plan assets, excluding the amount included in the net interest expense	(4,577)	4,647
Contributions from employer	2,457	2,397
contributions from employees into the scheme	636	578
Benefits paid	(4,600)	(4,039)
<b>31 March</b>	<b>108,130</b>	<b>111,549</b>

### Reconciliation of present value of scheme liabilities

<b>Balance at 1 April</b>	146,116	134,640
Current service cost	4,088	3,406
Past service cost	-	453
Interest cost	3,516	3,503
Contributions by scheme participants	636	578
<i>Remeasurment (gain) and losses:</i>		
Actuarial gains/(losses) arising on changes in demographic assumptions	(3,371)	-
Actuarial gains/(losses) arising on changes in financial assumptions	(11,007)	7,575
Other acutarial gains or losses	(3,702)	-
Benefits paid	(4,600)	(4,039)
<b>31 March</b>	<b>131,676</b>	<b>146,116</b>

	2019/20 £000	2018/19 £000
<b>Scheme history</b>		
Present value of the defined benefit obligation	(131,676)	(146,116)
Fair value of assets	108,130	111,554
<b>(Deficit) in the scheme</b>	<b>(23,546)</b>	<b>(34,562)</b>

### Impact on the net worth of the Council

Statutory arrangements for funding the deficit means that the financial position of the Council remains healthy as:

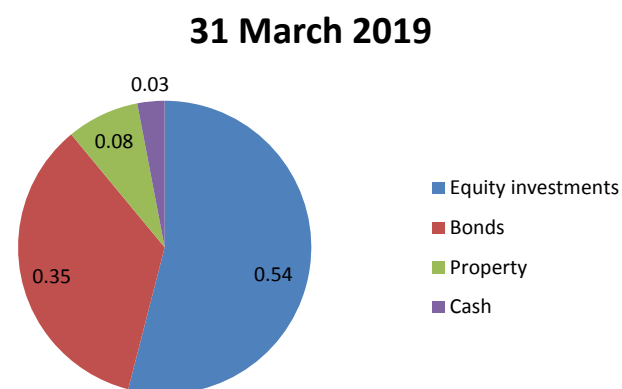
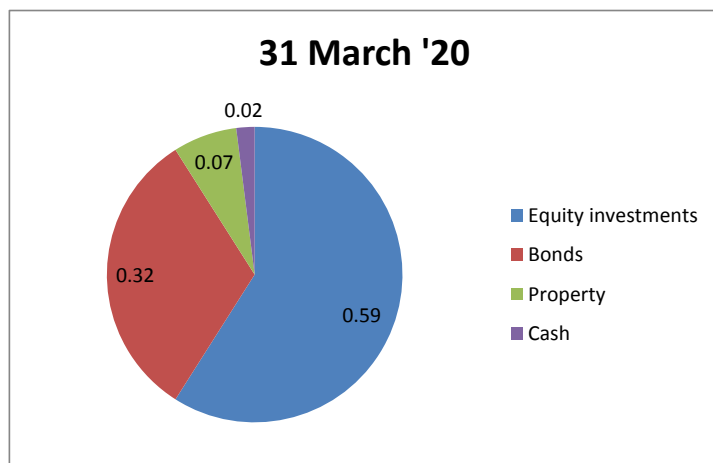
the deficit on the Local government scheme will be made good by increased contributions over the remaining working life of employees(i.e. before payments fall due), as assessed by the scheme actuary.

finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the pension scheme by the Council in the year to 31 March 2021 is £2.476m (£2.318m to 31 March 2020).

A full breakdown of the Fund's assets including the prior financial year comparator is detailed below:

Asset Category	Period Ended 31 March 2020				Period Ended 31 March 2019			
	Quoted prices in active markets	Quoted prices not in active markets	Total	% of Total Assets	Quoted prices in active markets	Quoted prices not in active markets	Total	% of Total Assets
	£000	£000	£000	%	£000	£000	£000	%
Equity Securities								
Consumer	2,462	-	2,462	2	4,962	-	4,962	4
Manufacturing	1,573	-	1,573	1	4,326	-	4,326	4
Energy & Utilities	144	-	144	0	1,151	-	1,151	1
Financial Institutions	1,936	-	1,936	2	4,600	-	4,600	4
Health & Care	851	-	851	1	907	-	907	1
Information Technology	3,974	-	3,974	4	3,490	-	3,490	3
Other	232	-	232	-	298	-	298	-
Debt Securities								
Corporate Bonds (investment grade)	-	-	-	-	-	-	-	-
Corporate Bonds (non investment grade)	-	-	-	-	-	-	-	-
UK Government	-	-	-	-	-	-	-	-
Other	-	2,082	2,082	2	-	51	51	-
Private Equity	-	4,745	4,745	4	-	5,230	5,230	5
Real Estate								
UK Property	-	3,286	3,286	3	-	3,952	3,952	4
Overseas Property	-	3,810	3,810	4	-	4,231	4,231	4
Investment Funds & Unit Trusts:								
Equities	37,817	-	37,817	36	28,147	-	28,147	25
Bonds	34,402	-	34,402	32	38,809	-	38,809	36
Commodities	-	-	-	-	-	-	-	-
Infrastructure	-	137	137	-	-	1,081	1,081	-
Other	1,008	6,569	7,578	7	942	5,895	6,837	6
Derivatives								
Foreign Exchange	-	404	404	0	-	(133)	(133)	-
Cash and Cash Equivalents	2,698	-	2,698	2	3,609	-	3,609	3
<b>TOTALS</b>	<b>87,097</b>	<b>21,034</b>	<b>108,131</b>	<b>100</b>	<b>91,241</b>	<b>20,307</b>	<b>111,547</b>	<b>100</b>



## Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Hertfordshire County Council Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Hertfordshire County Council Fund being based on the latest full valuation of the scheme as at January 2020.

The principal assumptions used by the actuary have been:

	31 March '20	31 March '19
Long-term expected rate of return on assets in the scheme:		
Equity investments	2.5%	2.5%
Bonds	2.5%	2.5%
Property	2.5%	2.5%
Cash	2.5%	2.5%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.9 years	22.5 years
Women	24.1 years	24.9 years
Longevity at 65 for future pensioners:		
Men	22.8 years	24.1 years
Women	25.5 years	26.7 years
Rate of inflation/ Pension increase	1.9%	2.5%
Rate of increase in salaries	2.3%	2.6%
Expected Return on Assets	3.0%	7.3%
Discount Rate	2.3%	2.4%
Take up option to convert annual pensions into retirement lump sum for pre April 2008 service	50%	50%
Take up option to convert annual pensions into retirement lump sum for post April 2008 service	75%	75%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis on the following page have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes at each change that the assumption analysed changes while all the others 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 ie. on an actuarial basis using the projected cost method. The methods and types of assumptions used in preparing the sensitivity analysis did not change from those used in the previous period

**Change in assumptions as at 31 March 2020:**

Approximate %  
increase to  
Employer Liability  
%

Longevity (increase or decrease in 1 year)	3-5%
0.5% decrease in real discount rate	9%
0.5% increase in the salary increase rate	1%
0.5% increase in the Pension increase rate	8%

**Impact on the Council's Cashflow**

The objectives of the scheme is to keep employer contributions at as constant a rate as possible. The Council has agreed a strategy with the schemes actuary, Hymans Robertson LLP, to achieve a funding level of 100% over the next 25 years. Funding levels are monitored on an annual basis.

## 34. Nature and Extent of Risks arising from Financial Instruments

### Key Risks

The Council's activities expose it to a variety of financial risks. The key risks are:

- **Credit risk** the possibility that other parties might fail to pay amounts due to the Council;
- **Liquidity risk** the possibility that the Council might not have funds available to meet its commitments to make payments;
- **Re-financing risk** the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- **Market risk** the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements.

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect and maximise (given the identified level of risk) the financial resources available to fund services. The Council in the annual Treasury Management Strategy Statement 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.

### 1 Credit Risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

This Council uses the creditworthiness service provided by Capita Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

The full Investment Strategy for 2019/20 was approved by Full Council on 5th March 2019 and is available on the Council's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Authority's maximum exposure to credit risk in relation to its investments in financial institutions cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2020 that this was likely to crystallise.

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

### Accounts Receivable

The Council does not generally allow credit facilities to customers in relationship to debts.

The past due amount can be analysed by age as follows: (see policy xii)

	31 March '20 £000	31 March '19 £000
Less than three months	2,051	1,625
Three months to one year	850	1,004
More than one year	1,768	1,379
	<b>4,669</b>	<b>4,008</b>

The Council pursues all debts in line with its established debt recovery policy.

## 2 Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (setting and approval of prudential indicators and the approval of the treasury and investment strategy reports, as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

See investment and Borrowing Note 12

## 3 Refinancing and Maturity Risk

The Council maintains a debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.



## 4 Market Risk

### Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments.

Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate impact on the Income and Expenditure Account. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance. Movements in the fair value of fixed rate investments will be reflected in the Comprehensive Income & Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rates exposure. The treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

With low interest rates generally prevailing, the Council has an interest equalisation reserve that assists in managing interest rate fluctuations in the medium term. The balance as at 31 March 2020 is £1.78m.

Based on the current Treasury Management position at 31 March 2020, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	no variable borrowings
Increase in interest receivable on variable rate investments	131
Increase in government grant receivable for financing costs	de minimus
Surplus on the Provision of Services	de minimus

#### Impact on Comprehensive I & E Statement

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

## 5 Price Risk

The Council, does not generally invest in equity shares or marketable bonds.

However, it does hold units in property funds to the value of £20m. Whilst these holdings are generally illiquid, the Council is exposed to losses arising from movements in the price of the units.

To limit its exposure to price movements the council has set a property fund investment limit of £20m, at the time of investment.

These units are all classified as Available-for-Sale, meaning that all movements in price will impact on gains and losses recognised in the Financial Instruments Revaluation Reserve. A general shift of 5% in the general price of shares (positive or negative) would thus have resulted in a £1m gain or loss being recognised in the Financial Instruments Revaluation Reserve.

## 6 Foreign Exchange Risk

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

The Council also has no shareholdings or insurance investment fund, therefore has no exposure to any further risks.

## 35. Capital Commitments

At 31 March 2020, the authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2020/21, with future years budgeted to cost estimated at £105m, this figure includes the major commitments, listed below. There were no similar commitments as at 31 March 2019.

The major commitments are:

- Grange Paddocks Leisure Centre – £21.1m
- Northgate End MSCP – £19m

## 36. Contingent Liability

The Council has identified one contingent liability which may give rise to future costs.

Following the Municipal Mutual Insurance Scheme Arrangement being triggered the Council has paid a total levy of £34,478 as at 31 March 2020. A contingent liability of around £103,435 remains in respect of potential further exposure against existing claims. Further claims could be notified.

Given the level of General Reserves held by the Council and the uncertainty of the value of the potential liabilities identified it has not been considered appropriate to make specific financial provision within the accounts at this stage.

## 37. Post Balance Sheet Event

There are no post balance sheet events as at 20 July 2020.

# THE COLLECTION FUND

## INCOME AND EXPENDITURE ACCOUNT

		2019/20			2018/19		
		£000	£000	£000	£000	£000	£000
		Council			Council		
		Tax	NDR	Total	Tax	NDR	Total
Income collectable from Council Taxpayers	Note 2	109,322		109,322	103,007		103,007
Income collectable from Business Ratepayers	Note 3		42,670	42,670		43,908	43,908
<b>Total Income</b>		<b>109,322</b>	<b>42,670</b>	<b>151,992</b>	<b>103,007</b>	<b>43,908</b>	<b>146,915</b>
Council Tax Precepts and Demands							
Hertfordshire County Council		82,578		82,578	78,703		78,703
East Herts Council		14,449		14,449	13,760		13,760
Hertfordshire Police		11,416		11,416	9,775		9,775
Business Rates Shares:							
Payments to Government			10,653	10,653		21,388	21,388
Payments to Hertfordshire County Council			17,046	17,046		4,278	4,278
Payment to East Herts Council			14,915	14,915		17,111	17,111
Charges to Collection Fund							
Costs of Collection			199	199		198	198
Bad Debt Provision - Increase:							
Council Tax		722		722	247		247
Non Domestic Rates			302	302		563	563
Non Domestic Rates Appeals Provision	Note 4		(1,910)	(1,910)		165	165
Transitional Protection Payment			(268)	(268)		(607)	(607)
Distribution of prior years' Fund balance		593	171	764	1,979	679	2,658
<b>Total Expenditure</b>		<b>109,758</b>	<b>41,108</b>	<b>150,866</b>	<b>104,464</b>	<b>43,775</b>	<b>148,239</b>
In year Movement in Fund		436	(1,562)	(1,126)	1,457	(133)	1,324
Balance as at 1 April		(1,070)	(990)	(2,060)	(2,527)	(857)	(3,384)
<b>Balance as at 31 March</b>		<b>(634)</b>	<b>(2,552)</b>	<b>(3,186)</b>	<b>(1,070)</b>	<b>(990)</b>	<b>(2,060)</b>
Allocated to :							
East Herts Council		(63)	(934)	(997)	(106)	(396)	(502)
Hertfordshire Police		(69)		(69)	(111)		(111)
Hertfordshire County Council		(502)	(775)	(1,277)	(853)	(99)	(952)
Government			(843)	(843)		(495)	(495)
<b>Total</b>		<b>(634)</b>	<b>(2,552)</b>	<b>(3,186)</b>	<b>(1,070)</b>	<b>(990)</b>	<b>(2,060)</b>

# NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

## 1. General

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund.

The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and Government of Council Tax and Non-Domestic Rates.

There is no requirement for a separate Collection Fund Balance sheet, as the assets and liabilities of the fund belong to the various bodies and Government.

In 2013/14 the local government finance regime was revised with the introduction of the Retained Business Rates scheme. The main aim of the scheme is to give Council's a greater incentive to grow businesses in the district. It does, however, also increase the financial risk to the Council due to non collection and the volatility of the NDR tax base.

The retained income scheme allows the Council to retain a proportion of the total NDR income received. For 2019/20 the Council joined a business rates retention pilot pool arrangement with other Hertfordshire Councils with Hertfordshire County Council as the lead authority. The other councils in the pool are Broxbourne, Dacorum, Hertsmere, North Hertfordshire, St Albans, Stevenage, Three Rivers, Watford and Welwyn Hatfield. The Council's share is 35% with the remainder being split between Hertfordshire County Council (40%) and Government (25%).

## 2. Council Tax

The Council's tax base i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of Band D dwellings, is calculated as follows:-

The tax base for 2019/20 was approved at Full Council on 19 December 2018 and was calculated as follows:

Estimated no. of taxable properties			
Band	after effect of discounts	Ratio	Band D Equivalent dwellings
Disa A	(0.50)	5/9	(0.28)
A	555.87	6/9	370.58
B	4,083.78	7/9	3,176.27
C	12,232.75	8/9	10,873.56
D	13,974.44	9/9	13,974.44
E	10,242.41	11/9	12,518.50
F	7,089.70	13/9	10,240.68
G	5,227.57	15/9	8,712.62
H	765.45	18/9	1,530.90
	54,171.47		61,397.27
Estimated collection rate			98.9%
2019/20 Estimated Council Tax base			60,721.9
<b>Council Tax Collection</b>			<b>£000</b>
2019/20 estimated Council Tax due			108,443
60721.9 x £1,785.90 (average band D charge)			
2019/20 Council Tax income			109,322
<b>Surplus</b>			<b>(875)</b>

### 3. Income from Business Ratepayers

The Council collects non-domestic rates for its area which are based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform rate (which for 2019/20 was 50.4p (2018/19 49.3p).

The total amount less certain reliefs and allowances is distributed to East Herts Council (35%), Hertfordshire County Council (40%) and Central Government (25%).

When the Retained Business Rates scheme was introduced, the Government set a baseline for each authority identifying the funding required. In order to ensure that each authority receives their base line amount, a top up or tariff amount is applied to each local authority.

East Herts is a tariff authority, which means that it doesn't keep its entire share but is subject to pay a tariff (£13.315m in 2019/20) to Central Government which is when used to fund 'top up' authorities.

The business rates retention scheme provides the opportunity for local authorities to share in the benefits of growth in the rates tax base i.e. provides an incentive for economic development and regeneration. Any income retained from growth is subject to a levy of 50%. Conversely if any Council suffers a significant drop in NNDR due to the loss of one or more major businesses, or a large number of smaller businesses, or a greater than expected loss from revaluations, then a safety net of 92.5% of the baseline applies. At the year end the total non-domestic rateable value was £117 million (£120 million for 2018/19).

### 4. Provisions

The Collection Fund account includes provisions for bad debts on arrears based on past years experience and the current years collection rate.

	2019/20			2018/19		
	£000	£000	£000	£000	£000	£000
	Council Tax	NDR	Total	Council Tax	NDR	Total
<b>Balance at 1 April</b>	(1,832)	(1,358)	<b>(3,190)</b>	(1,810)	(1,100)	<b>(2,910)</b>
Additional provisions made in year	(722)	(302)	<b>(1,024)</b>	(247)	(564)	<b>(811)</b>
Provision applied	313	182	<b>495</b>	225	306	<b>531</b>
<b>Balance at 31 March</b>	<b>(2,241)</b>	<b>(1,478)</b>	<b>(3,719)</b>	<b>(1,832)</b>	<b>(1,358)</b>	<b>(3,190)</b>

In addition, a provision has been made for NDR appeals against the rateable valuations assessed and determined by the Valuation Office Agency (VOA) which have not been settled by 31 March 2020.

	2019/20	2018/19
	£000	£000
<b>Balance at 1 April</b>	(8,993)	(8,828)
Change in provisions made	1,413	(966)
Provision applied in year	497	801
<b>Balance at 31 March</b>	<b>(7,083)</b>	<b>(8,993)</b>

## Group Accounts

### Introduction

In order to provide a full picture of the economic and financial activities of the Council, and its exposure to risk, the accounting statements of its subsidiary are consolidated with those of the Council. The resulting Group Accounts are presented in addition to the Council's single entity accounts. They include the core accounting statements, similar in presentation and purpose to the Council's accounts, and any explanatory notes considered necessary to explain material movements from the single entity accounts. Where no notes are given, users of the accounts should refer to the notes in the single entity accounts.

Group accounts have been prepared under the requirements of the Code of Practice on Local Authority Accounting, consolidating any subsidiary over which the Council exercises control or influence.

Millstream Property Investments Ltd, is a wholly owned company formed in February 2018 by the Council. There are no minority shareholders and no restrictions on the Council's ability to access or use the assets or settle the liabilities of the group. Millstream Property Investments Ltd was created to acquire, develop and refurbish homes to provide rental properties to tenants wishing to live in the private sector, but with the assurance that the accommodation is managed by a responsible landlord.

Millstream was not consolidated in 2018/19 as it's activities for that year were not material to the Council's accounts

### Accounting Policies

Millstream Property Investments Ltd has prepared it's 2019/20 accounts using accounting policies consistent with those applied by the Council and no adjustments have been required to align accounting policies. Both entities have a financial year end of 31 March.

## GROUP MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (ie those that can be applied to fund expenditure or reduce taxation) and other reserves.

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	General Reserve	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves	Share of Reserves of Subsidiaries	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2019</b>	<b>3,854</b>	<b>9,228</b>	<b>1,892</b>	<b>349</b>	<b>852</b>	<b>16,175</b>	<b>68,098</b>	<b>84,273</b>	<b>69</b>	<b>84,342</b>
<b>Movement in reserves during 2019/20</b>										
<b>Total Comprehensive Income and Expenditure</b>	<b>393</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>393</b>	<b>12,773</b>	<b>13,166</b>	<b>(21)</b>	<b>13,145</b>
Adjustments between group accounts and authority accounts	(53)					(53)		(53)	53	-
<b>Net Increase/Decrease before Transfers</b>										
Adjustments between accounting basis and funding basis under regulations	2,211	-	(1,892)	(49)	-	270	(270)	-		-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>2,551</b>	<b>-</b>	<b>(1,892)</b>	<b>(49)</b>	<b>-</b>	<b>610</b>	<b>12,503</b>	<b>13,113</b>	<b>32</b>	<b>13,145</b>
Transfers to/(from) Earmarked Reserves	(2,551)	2,631	-	-	(80)	-	-	-		
Increase/Decrease in Year	-	2,631	(1,892)	(49)	(80)	610	12,503	13,113	32	13,145
<b>Balance as at 31 March 2020 carried forward</b>	<b>3,854</b>	<b>11,859</b>	<b>-</b>	<b>300</b>	<b>772</b>	<b>16,785</b>	<b>80,601</b>	<b>97,386</b>	<b>101</b>	<b>97,487</b>

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	General Reserve	Total Usable Reserves	Total Unusable Reserves	Total Reserves	Share of Reserves of Subsidiaries	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2018</b>	<b>3,854</b>	<b>8,955</b>	<b>2,994</b>	<b>530</b>	<b>934</b>	<b>17,267</b>	<b>74,576</b>	<b>91,843</b>		<b>91,843</b>
<b>Movement in reserves during 2018/19</b>										
<b>Total Comprehensive Income and Expenditure</b>	<b>(3,227)</b>	<b>-</b>	<b>-</b>	<b>(66)</b>	<b>-</b>	<b>(3,293)</b>	<b>(4,277)</b>	<b>(7,570)</b>		<b>(7,570)</b>
Adjustments between group accounts and authority accounts										
<b>Net Increase/Decrease before Transfers</b>										
Adjustments between accounting basis and funding basis under regulations	3,418	-	(1,102)	(115)	-	2,201	(2,201)	-		-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>191</b>	<b>-</b>	<b>(1,102)</b>	<b>(181)</b>	<b>-</b>	<b>(1,092)</b>	<b>(6,478)</b>	<b>(7,570)</b>		<b>(7,570)</b>
Transfers to/(from) Earmarked Reserves	(191)	273	-	-	(82)	-	-	-		-
Increase/Decrease in Year	-	273	(1,102)	(181)	(82)	(1,092)	(6,478)	(7,570)	-	(7,570)
<b>Balance as at 31 March 2019 carried forward</b>	<b>3,854</b>	<b>9,228</b>	<b>1,892</b>	<b>349</b>	<b>852</b>	<b>16,175</b>	<b>68,098</b>	<b>84,273</b>	<b>-</b>	<b>84,273</b>

As this is the first year of consolidation, comparatives have not been provided



## GROUP 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, generally this will be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

	2019/20		2018/19
	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Chief Executive, PA's & Directors	594	-	594
Communications, Strategy & Policy	1,615	(140)	1,475
Human Resources & Organisation Development	651	(30)	621
Strategic Finance & Property	5,729	(1,290)	4,439
Democratic & Legal Services	1,993	(450)	1,543
Housing & Health	4,060	(1,236)	2,824
Planning & Building Control	3,558	(1,924)	1,634
Operations	15,692	(10,095)	5,597
Shared Revenues & Benefits Service	32,837	(31,602)	1,235
Shared Business & Technology Services	2,113	(81)	2,032
<b>NET COST OF SERVICES</b>			<b>21,994</b>
Payments of precepts to parishes			4,182
Gain on disposal of non current (fixed) assets			(1,371)
<b>OTHER OPERATING EXPENDITURE</b>			<b>2,811</b>
Interest payable and similar charges			662
Net Interest on the net defined benefit liability & remeasurements of the defined benefit liability for long term employee benefits			851
Interest receivable and similar income			(1,189)
Income from investment properties		Note 1	(1,025)
Direct expenditure incurred on investment properties		Note 1	222
Changes in Fair Value of Investment Properties			980
<b>FINANCING AND INVESTMENT EXPENDITURE</b>			<b>501</b>
Recognised capital grants and contributions			(2,700)
Council tax income			(14,465)
Non domestic rates			(2,937)
Non service related government grants			(5,532)
<b>TAXATION AND NON-SPECIFIC GRANT INCOME</b>			<b>(25,634)</b>
<b>(SURPLUS) / DEFICIT ON PROVISION OF SERVICES</b>			<b>(328)</b>
Millstream Capital contribution			(40)
Tax expenses of subsidiaries			(4)
<b>GROUP (SURPLUS)/DEFICIT</b>			<b>(372)</b>
(Surplus) or Deficit on revaluation of PPE assets			203
Reclassification of Grant			-
Remeasurements of the net defined benefit liability			(13,503)
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES</b>			<b>(13,300)</b>
(Surplus) / Deficit on revaluation of financial instruments			527
<b>ITEMS THAT MAY BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES</b>			<b>527</b>
<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(12,773)</b>
<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(13,145)</b>

As this is the first year of consolidation, comparatives have not been provided  
All operations arise from continuing activities.

# GROUP BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council.

		31 March '20 £000	31 March '19 £000
Property, Plant & Equipment			
- Other land and buildings		47,893	49,476
- Vehicles, plant, furniture and equipment		2,151	2,349
- Infrastructure assets		1,995	2,241
- Community assets		2,965	2,752
- Surplus assets		2,571	2,546
- Assets under Construction		5,740	1,345
		63,315	
Investment Properties		17,835	13,596
Intangible Assets		785	865
		<b>81,935</b>	<b>75,170</b>
Long Term Investments		21,448	22,118
Long Term Debtors	Note 2	249	1,034
<b>TOTAL LONG TERM ASSETS</b>		<b>103,632</b>	<b>98,322</b>
Assets Held For Sale		255	-
Short Term Investments		21,921	26,002
Short Term Debtors	Note 2	10,037	9,606
Cash and Cash Equivalents		15,723	14,977
<b>CURRENT ASSETS</b>		<b>47,936</b>	<b>50,585</b>
Provisions		(401)	(1,493)
Short Term Creditors	Note 2	(20,427)	(14,078)
<b>CURRENT LIABILITIES</b>		<b>(20,828)</b>	<b>(15,571)</b>
Provisions		(2,130)	(2,140)
Long Term Borrowing		(1,522)	(7,711)
Long Term Creditors	Note 2	-	-
Net Pension Liability		(23,546)	(34,568)
Grant Receipts in Advance - Capital		(1,997)	(1,957)
- Revenue		(4,058)	(2,687)
<b>LONG TERM LIABILITIES</b>		<b>(33,253)</b>	<b>(49,063)</b>
<b>NET ASSETS</b>		<b>97,487</b>	<b>84,273</b>
<b>USABLE RESERVES</b>			
- General Fund		3,854	3,854
- General Reserve		772	852
- Earmarked Reserves		11,859	9,228
- Capital Receipts Reserve		-	1,892
- Capital grants Unapplied		300	349
- Profit and Loss Reserve	Note 3	101	-
		<b>16,886</b>	<b>16,175</b>
<b>UNUSABLE RESERVES</b>			
- Revaluation Reserve		22,474	23,142
- Financial Instrument Revaluation Reserve		1,403	1,929
- Pensions Reserve		(23,546)	(34,568)
- Capital Adjustment Account		79,327	77,069
- Deferred Capital Receipts		148	150
- Collection Fund Adjustment Account		997	502
- Short-term Accumulating Compensated Absences Account		(202)	(126)
		<b>80,601</b>	<b>68,098</b>
<b>TOTAL RESERVES</b>		<b>97,487</b>	<b>84,273</b>

As this is the first year of consolidation, comparatives have not been provided

# GROUP CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period.

	2019/20		2018/19
	£000	£000	£000
<b>OPERATING ACTIVITIES</b>			
<b>Cash Inflows</b>			
Council Tax receipts	(10,706)		(10,188)
NNDR Receipts	(14,687)		(17,605)
DWP grants for benefits	(28,483)		(31,723)
Other Government grants	(8,365)		(5,559)
Cash received for goods and services	(16,012)		(15,441)
Interest received	(1,260)		(1,267)
<b>Cash inflows generated from operating activities</b>	<b>(79,513)</b>		<b>(81,783)</b>
<b>Cash Out Flows</b>			
Cash paid to and on behalf of employees	14,647		14,359
Housing Benefit paid out	28,499		33,324
Other operating cash payments	18,702		22,410
Precepts paid to other authorities	4,182		3,980
Interest paid	660		660
<b>Cash outflows generated from operating activities</b>	<b>66,690</b>		<b>74,733</b>
<b>Net Cash Inflow from operating activities</b>		<b>(12,823)</b>	<b>(7,050)</b>
<b>INVESTING ACTIVITIES</b>			
- Purchase of property plant and equipment, investment property and intangible assets	11,731		2,829
- Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,588)		(1,599)
- Capital grants	(2,495)		(2,727)
- Proceeds from short-term and long-term investments	(4,791)		(13,318)
<b>Net cash inflow from investing activities</b>		<b>2,857</b>	<b>(14,815)</b>
<b>FINANCING ACTIVITIES</b>			
- Cash Payments for the reduction of the outstanding liabilities relating to finance leases (Principal)	302		302
- Other payments for financing activities	8,934		12,901
<b>Net cash outflow from financing activities</b>		<b>9,236</b>	<b>13,203</b>
Net decrease in cash and cash equivalents		(730)	(8,662)
Cash and cash equivalents at the beginning of the reporting period		(14,993)	(6,315)
		<b>(15,723)</b>	<b>(14,977)</b>
Millstream opening balance			(16)
<b>Cash and cash equivalents at the end of the reporting period</b>		<b>(15,723)</b>	<b>(14,993)</b>

As this is the first year of consolidation, comparatives have not been provided

## Note 1 - Investment Property

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

	31 March '20		
	£000	£000	£000
	East Herts District Council	Millstream Property Investments Ltd	Group total
Income from investment property	956	69	1,025
Direct expenditure arising from investment property	(179)	(43)	(222)

## Note 2 - Debtors and Creditors

The effect of transactions between the Council and its subsidiary Millstream Property Investments Ltd are eliminated in Group Accounts, therefore debtors and creditors between these parties have been excluded.

## Note 3 - Financial Instruments

IFRS 9 requirement is to consider whether loans are made under market terms, especially those made between related parties.

During the year Millstream Property Investments Ltd received loans from its parent company East Herts Council deemed at below market rate as there was no interest charged.

The below market element amounting to £40,230 has been recognised in the reserves statement as a capital contribution.

	31 March '20 £000
Opening balance at 31 March 2019	69
Profit or loss for 2019/20	(8)
Capital contribution	40
Closing balance at 31 March 2020	101

## Note 4 - Summary of Financial Position of Subsidiary

Millstream Property Investments Ltd has been consolidated in the group accounts as a 100% owned subsidiary. The summary of financial position of the company is shown below:

Statement of comprehensive income and expenditure	31 March 2020
	£000
<b>Revenue</b>	<b>69</b>
Cost of sales	(23)
<b>Gross profit</b>	<b>46</b>
Administrative expenses	(29)
<b>Operating profit</b>	<b>17</b>
Interest payable	(52)
Other gains losses	23
<b>Profit/(Loss) on ordinary activities before taxation</b>	<b>(12)</b>
Tax on profit/(loss)	4
<b>Profit/(Loss) and total comprehensive income for the financial year</b>	<b>(8)</b>

Statement of financial position	31 March 2020
	£000
<b>Non current assets</b>	
Investment properties	2,349
<b>Current assets</b>	
Trade debtor	2
Cash and Cash equivalents	35
<b>Total Assets</b>	<b>2,386</b>
<b>Current liabilities</b>	
Trade creditor	75
<b>Non current liabilities</b>	
Loans	2,196
Provision for liabilities	14
<b>Total liabilities</b>	<b>2,285</b>
<b>Net Assets/Liabilities</b>	<b>101</b>
<b>Equity</b>	
Share capital	0
Retained earnings	101
<b>Total equity</b>	<b>101</b>

As this is the first year of consolidation, comparatives have not been provided

# GLOSSARY OF FINANCIAL TERMS

## **Accounting Policies**

Those principles, bases, conventions, rules and practices applied by the Council that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- Recognising;
- Measuring bases;
- Presenting.

## **Accruals**

Accruals The concept that Income & Expenditure are recognised as they are earned or incurred, not as money is received or paid.

## **Accumulated Absences**

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.

## **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
- the actuarial assumptions have changed

## **Amortisation**

The term used to refer to the charging of the value of a transaction or asset (usually related to intangible fixed assets) to the Income and Expenditure Account over a period of time, reflecting the value to the authority; similar to the depreciation charge for tangible fixed assets.

## **Asset**

An item having value measurable in monetary terms. Assets can either be defined as fixed or current. A fixed asset has use and value for more than one year whereas a current asset ( eg stocks or short term debtors) can readily be converted into cash.

## **Capital Expenditure**

Capital Expenditure Expenditure on the acquisition of a fixed asset or works which have a long term value to the Council, either directly to the Council or indirectly in the form of grants to other bodies.

## **Capital Financing Requirement**

It measures an authority's underlying need to borrow or finance by other long term liabilities for a capital purpose.

## **Capital Receipts**

The proceeds from the disposal of land and other assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by government, but they cannot be used for revenue purposes.

## **CIPFA**

CIPFA Chartered Institute of Public Finance and Accountancy. The principal accountancy body dealing with local government finance.

## **Code of Practice on Local Authority Accounting (The Code)**

Code of Practice on Local Authority Accounting sets out the arrangements required to be followed in the Statement of Accounts. It constitutes 'proper accounting practice' and is recognised as such by statute.

### **Community Assets**

Assets that a local authority intends to hold indefinitely, 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 principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

### **Contingent Asset**

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 Council'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.

### **Creditor**

An amount owed by the Council for work done, goods received, or services provided within the accounting period and for which payments has not been made at the Balance Sheet date.

### **Current Service Cost (Pensions)**

The increase in liabilities as a result of years of service earned this year.

### **Curtailment**

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:

- 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 will no longer qualify for benefits or will qualify only for reduced benefits.

### **Debtor**

Sums of money due to the Council but not yet received at the Balance Sheet date.

### **Deficit**

An excess of expenditure over income (or liabilities over assets).

### **Defined Benefit 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**

Charges reflecting the decline in the value (not cost) of assets as a result of their usage or ageing.

**DEFRA**

Department for Environment, Food and Rural Affairs.

**DWP**

Department for Work & Pensions.

**Expected Rate of Return on Pensions 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.

**Earmarked reserve**

These are funds that are set aside for a specific purpose, or a particular service, or type of service.

**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.

**Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

**Government Grants**

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, towards either revenue or capital expenditure incurred in providing local services.

**International Financial Reporting Standards**

International Financial Reporting Standards cover specific aspects of accounting practice and set out the correct accounting treatment. Compliance with them is mandatory.

**Impairment**

This is a reduction in value of a fixed asset as shown in the balance sheet to reflect its true value

**Infrastructure Assets**

Expenditure on works of construction or improvement but which have no tangible value, such as construction or improvement to highways and footpaths.

**Intangible Asset**

Non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the authority through custom or legal rights e.g. computer software.

**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.



**Investments (non-pensions fund)**

A long term investment is one that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments, other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.

**Investment properties**

Property that is used solely to earn rentals and/or for capital appreciation.

**LAA**

Local Area Agreement.

**Liquid resources**

Current asset investments that are readily disposal by the authority without disrupting its business.

**MHCLG**

Ministry of Housing, Communities and Local Government (formerly DCLG - Department for Communities and Local Government).

**MTFP**

Medium Term Financial Plan.

**NDR**

Non Domestic Rates.

**Operating Lease**

A lease whereby the ownership of the fixed asset remains with the lessor.

**Past Service Cost**

The increase / decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years.

**Revenue Expenditure**

The day to day running costs incurred by the Council in providing its services.

**REFCUS (Revenue Expenditure Funded from Capital Under Statute)**

Capital expenditure which is allowable under statute to be funded from capital resources but which does not fall within the definition of a fixed asset. An example is a grant made to another party to finance capital investment.

**Surplus**

An excess of income over expenditure (or assets over liabilities)

# Annual Governance Statement 2019/20

## Introduction

East Hertfordshire District Council is responsible for ensuring that its business is conducted in accordance with the law and relevant standards, and that public money is safeguarded and properly accounted for, used economically, efficiently and effectively. The Council 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 a regard of value for money.

The Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitation the effective exercise of its functions, including arrangements for the management of risk.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government 2010.

The Annual Governance Statement has been prepared and published in accordance with the Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) ('the Framework'). This fulfils the statutory requirement that Local authorities review their governance arrangements at least once a year. The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations;
- public money is safeguarded and property accounted for;
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The Framework also expects that local authorities should implement appropriate arrangements for the governance of their affairs in a way that facilitates the effective exercise of functions and ensure that the responsibilities set out above are met.

The diagram on the next page shows how the Council's plans and strategies link together.



### **Meeting the CIPFA/SoLACE Framework Requirements**

The Council has approved and adopted:

- a Code of Corporate Governance;
- the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016;
- a number of specific strategies and processes for strengthening corporate governance

The following sets out how the Council has complied with the seven principles set out in the CIPFA/SoLACE Framework during 2019/20.

#### **Principal A      Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

The Council has a Code of Conduct for elected Members and a Code of Corporate Governance which provides guidance for officers and Members on expected standards of behaviours to ensure integrity. The Council had three priorities for 2019/20 which were:

Priority	Outcomes we want to see
Improve the health and wellbeing of our communities	<ul style="list-style-type: none"> <li>• Residents living active and healthy lives</li> <li>• Support for our vulnerable families and individuals</li> <li>• Communities engaged in local issues</li> </ul>
Enhance the quality of people's lives	<ul style="list-style-type: none"> <li>• Attractive places</li> <li>• Future development best meets the need of the district and its residents</li> </ul>
Enable a flourishing local economy	<ul style="list-style-type: none"> <li>• Support our businesses and the local economy</li> <li>• Vibrant town centres</li> <li>• Working with others, to have achieved the right infrastructure for our businesses and communities</li> </ul>

To support these priorities members and officers receive training in Code of Conduct and behaviour issues. The Standards Committee and Monitoring Officer keep Codes of Conduct up to date and investigate any suspected breaches.

All officers and Members sign up to the Council's Anti-Fraud, Bribery and Corruption Policy. In addition, the Performance, Audit and Governance Committee receive an annual report setting out the arrangements in place and how these have been applied in practice during the year. The Whistleblowing policy places emphasis on the agreed ethical values of Members and employees, providing protection for individuals to raise concerns in confidence about suspect behaviour and ensuring that any concerns raised are properly investigated.

All Council decisions have to consider legal implications which are recorded on the Council's website. Senior officers and other key post holders receive support from Legal Services in this regard and if specialist legal advice is required then the Council will engage external advisors. The Section 151 and Monitoring Officers have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal requirements, and for reporting any such instances to members.

**Principal B Ensuring openness and comprehensive stakeholder engagement**

All meetings are open to the public and all agenda papers, reports and decisions made by the Council are published on the Council’s website together with details of forthcoming consultation exercises, surveys and, public meetings, except those determined as exempt from publication. The Council’s constitution sets out how it engages with stakeholders and partners through a combination of joint working arrangements, partnership boards and representation on the governing bodies of external organisations including local NHS bodies, neighbourhood forums, local business and other local authorities.

In addition to local associations, The Council also works closely with town and parish councils to ensure comprehensive involvement in all its decisions.

The Council periodically publishes a newsletter – Network eNewsletter. This is a free publication and is also available online and the Council utilises various online communication channels including Twitter, Instagram, Facebook, LinkedIn and YouTube. More specific e-bulletins are created for various communities of interest, such as Businesses and Families.

**Principal C                    Defining outcomes in terms of sustainable economic, social and environmental benefits**  
**& Principal D                Determining the interventions necessary to optimize the achievement of the intended outcomes**

The Council’s strategic vision for East Herts is set out in Our Corporate Strategy Plan. In pursuit of this vision, the Council develops various strategies to define specific outcomes for key service areas. Each Service also plans out how it will deliver the outcomes relevant to its area of work through business plans in accordance with the agreed annual budget. To remain focused on delivering sustainable social and environmental benefits, the Council has a Sustainable Community Strategy as well as a series of more specific strategies. These include the Health and Wellbeing Strategy, The Homeless and Homeless Prevention Strategy, Customer Services Strategy and Disclosure (Whistleblowing).

Key service decisions are subject to scrutiny by the Overview and Scrutiny Committee which includes lead Members. Reviews of options and risk by officers and Members and key performance indicators are in place for all services. These are reported quarterly and include reports to the Performance, Audit and Governance Oversight Committee for discussion and consideration of intervention where target performance is not being achieved.

Budget proposals are developed by services, challenged and subject to scrutiny by the Leadership Team. The Council regularly engages with other authorities to learn and understand best practice as achieved in other places.

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

A key element of the Council's service planning is to maximise the investment in staff through staff training, including the management development programme to empower and facilitate our senior managers and through them our workforce. All employees are enrolled on the Performance Development Review Scheme (PDRS) which assists employees in creating learning and development plans.

The Council works across a broad set of partnerships and collaborative arrangements, and uses commissioning and procurement processes to maximise capacity by delivering services in the most effective and efficient way.

**Principal F            Managing risks and performance through robust internal control and strong public financial management**

The Risk Management Strategy sets out the Council's approach to identifying and controlling risk. Risk registers are maintained at a corporate and individual service level with significant risks reported to the Leadership Team and to the Performance, Audit and Governance Committee.

Service outputs, outcomes, and achievements are monitored and reported quarterly.

The Council has an Anti-Fraud and Anti-Corruption strategy as well as Financial Regulations which set out expected processes and internal controls. The Shared Internal Audit Service (SIAS) team provide regular reports on the effective operation of these controls together with an annual assessment of the overall control environment.

East Herts Council is developing a reputation for strong financial management. Internal quality assurance processes will be greatly enhanced by implementing the new finance system for financial planning and reporting.

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

All Council decisions are published online together with supporting information to outline why such decisions were taken above comparable options. The Council follows the Government Communication Service guidance on providing clear and accurate information, and has developed its website to improve transparency and accessibility.

The Council reports its financial performance for scrutiny at the Performance, Audit and Governance Scrutiny Committee. This reporting incorporates services provided by all models of delivery including services shared with other authorities, partnerships and contracted out services, and reports performance and finance within the same document for ease of comparison.

**Review of Effectiveness**

Through reviews by external auditors, external agencies, the Shared Internal Audit Service (SIAS) and internal review teams, the Council constantly seeks ways of securing continuous improvement in the way in which its functions are exercised.

Internal Audit activity provided by SIAS is overseen by the SIAS Board and its responsibilities are defined through the Internal Audit Charter. The Charter is applicable to all clients of Hertfordshire's SIAS and provides them with an independent and objective opinion on the organisation's governance arrangements, encompassing internal control and risk management, by completing an annual risk-based audit plan.

From the internal audit work undertaken in 2019/20, the SIAS can provide the following assurance on the adequacy and effectiveness of the Council's control environment, broken down between financial and non-financial systems as follows:



The Council's Head of Strategic Finance and Property has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs, hence the S151 officer relies amongst other sources, upon the work of the internal audit in reviewing the operation of systems of internal control and financial management.

Overall, the assurance provided by internal audit has improved on 2018/19. During 2018/19 there were six audits that only had a rating of limited assurance and twenty one high priority recommendations were issued. The last update, to 28 February 2020, from SIAS showed that for 2019/20 there had been no audits rated as providing only limited assurance and no high priority recommendations had been issued.

The Council's external auditor, Ernst & Young, provides assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing value for money. The most recent Audit Letter, issued in November 2019 identified no material errors in the accounts and gave an unqualified opinion. They also concluded that East Herts has put in place proper arrangements to secure value for money in the use of resources.

The Council's Finance Team have undertaken a review to confirm that the principles described above have been in place throughout the year. A Management Assurance Statement, signed by the Heads of Service have also been obtained to provide confirmation that Codes of Conduct, Financial Regulations, and other corporate governance processes, have been operating as intended throughout the year so far as they are aware.

### **Follow up of issues identified in 2018/19**

During 2018/19, the following required enhancements to internal controls were identified as a result of reviews of arrangements and by the work of external and internal audit.



Issue	Actions delivered to achieve milestone
<p>IT Shared Service Improvement Plan</p> <p>Management should complete the review of the IT policies and tailor them to the needs of both Councils.</p> <p>These expectations should form the basis for a defined IT Strategy for the Shared IT Service, which should include as a minimum:</p> <ul style="list-style-type: none"> <li>o The expectations for the levels of service to be provided</li> <li>o The metrics for monitoring the performance of the Shared IT Service.</li> <li>o The performance of the Service should be reviewed on a routine basis by the ICT Partnership Board and measured against the defined metrics and key performance</li> </ul>	<p>The IT Strategy was approved by the Executive at Stevenage Borough Council in October 2019 and by Council at East Herts in December. This is an extensive document which far exceeds the minimum requirements contained in the recommendations. Performance of the Service is reviewed on a routine basis by the ICT Partnership Board and measured against the IT Strategy.</p>
<p>Cyber Security</p> <p>Management should establish a network access control to block unknown or unauthorised devices from connecting to the Council's IT network.</p> <p>There should be a record of the configuration of the Council's firewalls, which includes but is not limited to:</p> <ul style="list-style-type: none"> <li>o The purpose of all of the rules</li> <li>o The expected configuration and activity for each rule</li> <li>o The member of staff that requested and approved the rule</li> <li>o The configuration of the firewall should be reviewed on a routine basis.</li> <li>o The Service should develop a Firewall rule policy to provide the list of controls that are required to secure firewall implementations to an approved level of security</li> </ul>	<p>The Council has created a Security &amp; Network Team which has been tasked to look at security/network tools. There is also a planned upgrade to office 365.</p> <p>Financial and resource restrictions have delayed the procurement of network tools to financial year 2020/21.</p> <p>Replacement of all firewalls scheduled for April 2020. Configurations and creation of new network environment is being worked on as part of that plan.</p>

<p>Incident Management</p> <p>Management should update the Council's IT disaster recovery plan to include the procedure for establishing all IT services at a single data centre</p>	<p>We have started a project to install a secondary microwave link between our data centres. This will give us a resilient link where either can be down and connectivity remains.</p> <p>Also, with our upgrade to Horizon VDI, we are installing hardware which will allow either site to run 100% of capacity.</p> <p>Implementation was scheduled for January 2020 but is now expected to complete in April. Grant funding has been secured for an external review of disaster recovery post implementation.</p>
<p>S106 Spend Arrangements</p> <p>Record keeping of S106 contributions, the spend arrangements and associated timeframes be reviewed to confirm fitness for purpose. An effective master record is adopted for monitoring and reporting purposes.</p>	<p>To take forward the recommendations and provide oversight of S106 contributions a role was created of Infrastructure Contributions &amp; Spend Manager.</p> <p>A review of all received financial contributions from 1996 to date was undertaken to create a Master Received Contributions Spreadsheet.</p>

## Issues identified in 2019/20

During 2019/20, the following required enhancements to internal controls were identified as a result of reviews of arrangements and by the work of external and internal audit.

Issue	Actions delivered to achieve milestone
<p>Full implementation of high priority recommendations related to IT</p> <p>The implementation of some recommendations has had to be re-scheduled. Management is actively monitoring these issues and full implementation should be achieved during 2020/21</p>	<p>Revised action plans have been established which take account of resource constraints and changes to working practices during the pandemic.</p>
<p>Regulation of Investigatory Powers Act</p> <p>Compliance with the Act is monitored by the Investigatory Powers Commissioners Office. During November 2019 an inspection of the Council's arrangements resulted in a critical assessment. The Council was not meeting legal requirements in several areas and was given a list of eight required actions.</p>	<p>The Monitoring Officer has conducted a thorough overhaul of the Council's policy and procedures to address the required actions. New policies were reviewed by the Overview and Scrutiny Committee on 16 June 2020 and are going to the Executive meeting on 7 July 2020 for approval.</p>
<p>Information Governance</p> <p>A review by Internal Audit has highlighted a need to improve some areas of information governance:</p> <ul style="list-style-type: none"><li>o Lack of an adequate Information Asset Register</li><li>o Information Management policies and procedures are out of date</li><li>o Lack of a defined and enforced retention schedule</li><li>o Lack of defined disposal and destruction procedures.</li></ul>	<p>Options to expand the staff resources working in this area are being explored and an action plan will be constructed to address the shortcomings identified.</p> <p>The Council's Information Asset Register and Retention Schedule have since been located. Whilst they will need to be reviewed, this can be undertaken as soon as the expanded staff resource is in place.</p>

## Conclusion

The Council is satisfied that appropriate governance arrangements are in place however, it remains committed to maintaining and where possible improving these arrangements, in particular by:

- addressing the issues identified by Internal Audit as requiring improvement
- constructing a governance calendar to assist with the monitoring and updating of key governance documents

We propose over the coming year to continue to improve matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for any improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review

Signed .....Date .....

**Richard Cassidy**  
Chief Executive  
East Hertfordshire District Council

Signed .....Date .....

**Councillor L Haysey**  
Leader

# Statement of Responsibilities for the Statement of Account

## 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 Chief Financial Officer;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- To approve the Statement of Accounts.

## The Chief Financial Officers' Responsibilities

The Chief Financial Officer 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 this Statement of Accounts, the Chief Financial Officer has:

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

**The Chief Financial Officer has also:**

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

## EAST HERTFORDSHIRE DISTRICT COUNCIL

### Certificate of Responsible Finance Officer

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Authority at the reporting date and its income and expenditure for the year ended 31 March 2020.

Signed .....

Date .....

**Bob Palmer**

Head of Strategic Finance and Property (Chief Financial Officer)  
East Hertfordshire District Council

Signed .....

Date .....

**Councillor M Pope**

Chairman of Audit and Governance Committee

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## **East Herts Council Report**

### **Audit and Governance Committee**

**Date of Meeting:** 28 July 2020

**Report by:** Bob Palmer, Head of Strategic Finance and Property

**Report title:** Annual Governance Statement 2019/20

**Ward(s) affected:** All

---

### **Summary**

The Accounts and Audit Regulations 2015 require that all authorities conduct a review of the effectiveness of the system of internal controls and prepare an Annual Governance Statement each year. The Annual Governance Statement must be considered separately from the Statement of Accounts.

### **RECOMMENDATIONS FOR AUDIT AND GOVERNANCE COMMITTEE:**

**(a) That Members review and comment on the draft Annual Governance Statement for 2019/20.**

#### **1.0 Proposal(s)**

1.1 That Members scrutinise and comment on the draft Annual Governance Statement (AGS) for 2019/20.

#### **2.0 Background**

2.1 The Council is responsible for preparing and publishing its Annual Governance Statement in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executive and Senior Managers (SoLACE) framework.

- 2.0 This fulfils the statutory requirement that local authorities review their governance arrangements at least once a year.
- 3.0 The Delivering Good Governance in Local Government Framework requires local authorities to be responsible for ensuring that:
- (a) their business is conducted in accordance with all relevant laws and regulations;
  - (b) public money is safeguarded, properly accounted for and used economically, efficiently and effectively;
  - (c) there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.
- 2.4 The annual governance statement acts as a vehicle for the review of the Council's governance arrangements. The review should be reported both internally within the Council, to the Audit and Governance Committee and externally within the published accounts to provide assurances that:
- (a) Governance arrangements are adequate and operating effectively in practice or;
  - (b) Where reviews of the governance arrangements have revealed gaps, action is planned that will ensure effective governance in the future.
- 2.5 The process of preparing the governance statement should itself add value to the corporate governance and internal controls framework of the Council.
- 2.6 It is important to recognise that the governance statement covers all significant corporate systems, processes and controls for all of the Council's activities.
- 2.7 The draft Annual Governance Statement is attached as Appendix A for Members to review and comment on.



### **3.0 Reason(s)**

- 3.1 As part of a framework of good governance, it is important that management and Members can demonstrate that governance issues are acted upon and the implementation of recommendations is monitored.

### **4.0 Options**

- 4.1 Members can suggest amendments or additions to the draft AGS.

### **5.0 Risks**

- 5.1 The timely implementation of governance recommendations will reduce the risks to the Council.

### **6.0 Implications/Consultations**

- 6.1 Leadership Team have been consulted on the draft AGS and have provided Managers Assurance Statements confirming that appropriate controls have been in place in their service areas throughout the year.

### **Community Safety**

No

### **Data Protection**

No

### **Equalities**

No

### **Environmental Sustainability**

No

**Financial**

No

**Health and Safety**

No

**Human Resources**

No

**Human Rights**

No

**Legal**

The Accounts and Audit Regulations 2015 stipulate that all authorities must conduct a review of the effectiveness of the system of internal controls and prepare an Annual Governance Statement each financial year.

**Specific Wards**

No

**7.0 Background papers, appendices and other relevant material**

Appendix A

**Contact Member**

Councillor Geoff Williamson, Executive Member for Financial Sustainability [geoff.williamson@eastherts.gov.uk](mailto:geoff.williamson@eastherts.gov.uk)

**Contact Officer**

Bob Palmer, Head of Strategic Finance and Property  
Tel No: 01279 502074 [bob.palmer@eastherts.gov.uk](mailto:bob.palmer@eastherts.gov.uk)

## **ANNUAL GOVERNANCE STATEMENT 2019/20**

### **Introduction**

East Hertfordshire District Council is responsible for ensuring that its business is conducted in accordance with the law and relevant standards, and that public money is safeguarded and properly accounted for, used economically, efficiently and effectively. The Council 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 value for money.

The Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

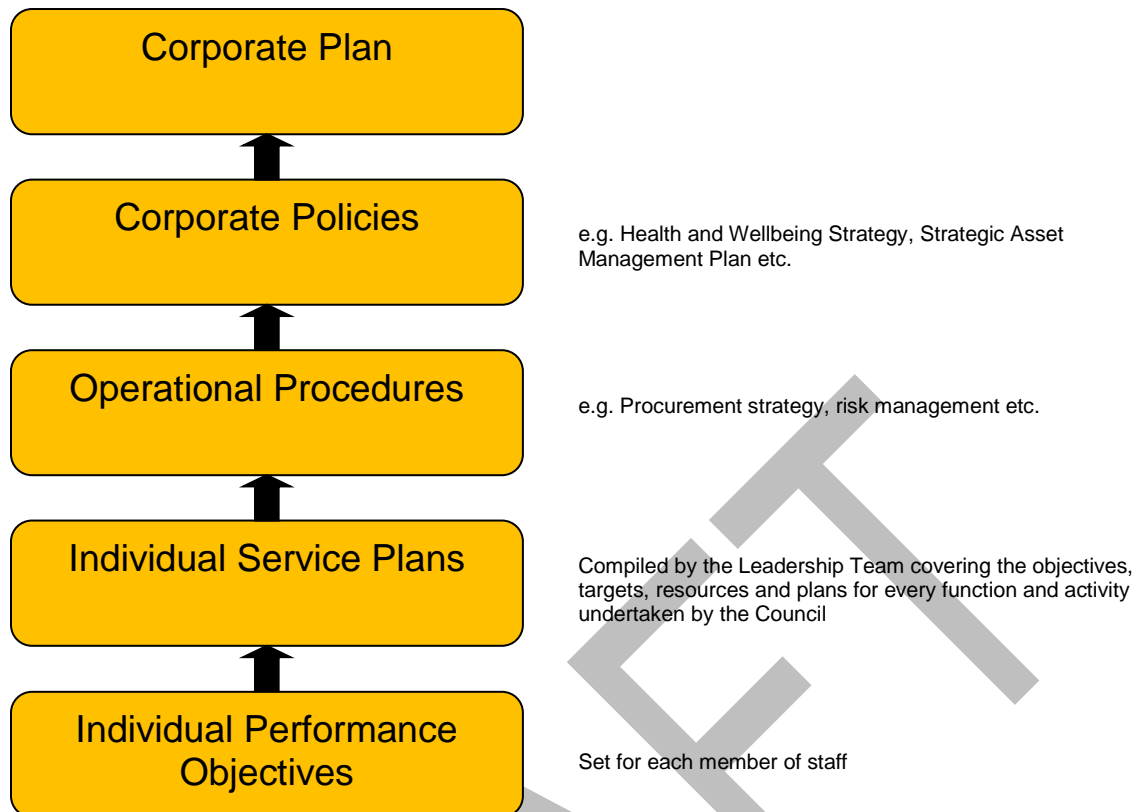
The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government 2010.

The Annual Governance Statement has been prepared and published in accordance with the Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) ('the Framework'). This fulfils the statutory requirement that Local authorities review their governance arrangements at least once a year. The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations;
- public money is safeguarded and properly accounted for;
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The Framework also expects that local authorities should implement appropriate arrangements for the governance of their affairs in a way that facilitates the effective exercise of functions and ensures that the responsibilities set out above are met.

The following diagram shows how the Council's plans and strategies link together.



### **Meeting the CIPFA/SoLACE Framework Requirements**

The Council has approved and adopted:

- a Code of Corporate Governance;
- the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016;
- a number of specific strategies and processes for strengthening corporate governance

The following sets out how the Council has complied with the seven principles set out in the CIPFA/SoLACE Framework during 2019/20.

#### **Principal A      Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

The Council has a Code of Conduct for elected Members and a Code of Corporate Governance which provides guidance for officers and Members on expected standards of behaviours to ensure integrity. The Council had three priorities for 2019/20 which were:

Priority	Outcomes we want to see
Improve the health and wellbeing of our communities	<ul style="list-style-type: none"> <li>Residents living active and healthy lives</li> <li>Support for our vulnerable families and individuals</li> <li>Communities engaged in local issues</li> </ul>
Enhance the quality of people's lives	<ul style="list-style-type: none"> <li>Attractive places</li> <li>Future development best meets the need of the district and its residents</li> </ul>
Enable a flourishing local economy	<ul style="list-style-type: none"> <li>Support our businesses and the local economy</li> <li>Vibrant town centres</li> <li>Working with others, to have achieved the right infrastructure for our businesses and communities</li> </ul>

To support these priorities Members and officers receive training in Code of Conduct and behaviour issues. The Standards Committee and Monitoring Officer keep Codes of Conduct up to date and investigate any suspected breaches.

All officers and Members sign up to the Council's Anti-Fraud, Bribery and Corruption Policy. In addition, the Performance, Audit and Governance Oversight Committee receive an annual report setting out the arrangements in place and how these have been applied in practice during the year. The Whistleblowing policy places emphasis on the agreed ethical values of Members and employees, providing protection for individuals to raise concerns in confidence about questionable behaviour and ensuring that any concerns raised are properly investigated.

All Council decisions have to consider legal implications which are recorded on the Council's website. Senior officers and other key post holders receive support from Legal Services in this regard and if specialist legal advice is required then the Council will engage external advisors. The Section 151 and Monitoring Officers have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal requirements, and for reporting any such instances to Members.

## **Principal B      Ensuring openness and comprehensive stakeholder engagement**

All meetings are open to the public and all agenda papers, reports and decisions made by the Council are published on the Council's website together with details of forthcoming consultation exercises, surveys and, public meetings, except those determined as exempt from publication. The Council's constitution sets out how it engages with stakeholders and partners through a combination of joint working arrangements, partnership boards and representation on the governing bodies of external organisations including local NHS bodies, neighbourhood forums, local business and other local authorities.

In addition to local associations, the Council also works closely with town and parish councils to ensure comprehensive involvement in all its decisions.

The Council periodically publishes a newsletter – Network eNewsletter. This is a free publication and is also available online and the Council utilises various online communication channels including Twitter, Instagram, Facebook, LinkedIn and YouTube. More specific e-bulletins are created for various communities of interest, such as Businesses and Families.

## **Principal C      Defining outcomes in terms of sustainable economic, social and environmental benefits**

## **Principal D      Determining the interventions necessary to optimize the achievement of the intended outcomes**

The Council's strategic vision for East Herts is set out in Our Corporate Strategy Plan. In pursuit of this vision, the Council develops various strategies to define specific outcomes for key service areas. Each Service also plans out how it will deliver the outcomes relevant to its area of work through business plans in accordance with the agreed annual budget. To remain focused on delivering sustainable social and environmental benefits, the Council has a Sustainable Community Strategy as well as a series of more specific strategies. These include the Health and Wellbeing Strategy, The Homeless and Homeless Prevention Strategy, Customer Services Strategy and Disclosure (Whistleblowing).

Key service decisions are subject to scrutiny by the Overview and Scrutiny Committee which includes lead Members. Reviews of options and risk by officers and Members and key performance indicators are in place for all services. These are reported quarterly and include reports to the Performance, Audit and Governance Oversight Committee for discussion and consideration of intervention where target performance is not being achieved.

Budget proposals are developed by services, challenged and subject to scrutiny by the Leadership Team. The Council regularly engages with other authorities to learn and understand best practice as achieved in other places.

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

A key element of the Council's service planning is to maximise the investment in staff through staff training, including the management development programme to empower and facilitate our senior managers and through them our workforce. All employees are enrolled on the Performance Development Review Scheme (PDRS) which assists employees in creating learning and development plans.

The Council works across a broad set of partnerships and collaborative arrangements, and uses commissioning and procurement processes to maximise capacity by delivering services in the most effective and efficient way.

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

The Risk Management Strategy sets out the Council's approach to identifying and controlling risk. Risk registers are maintained at a corporate and project level with significant risks reported to the Leadership Team and to the Performance, Audit and Governance Oversight Committee.

Service outputs, outcomes, and achievements are monitored and reported quarterly.

The Council has an Anti-Fraud and Anti-Corruption strategy as well as Financial Regulations which set out expected processes and internal controls. The Shared Internal Audit Service (SIAS) team provide regular reports on the effective operation of these controls together with an annual assessment of the overall control environment.

East Herts Council has a good record of strong financial management. Internal quality assurance processes have been enhanced by implementing the new finance system for financial planning and reporting.

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

All Council decisions are published online together with supporting information to outline why such decisions were taken above alternative options. The Council follows the Government Communication Service guidance on providing clear and accurate information, and has developed its website to improve transparency and accessibility.

The Council reports its financial performance for scrutiny at the Performance, Audit and Governance Oversight Committee. This reporting incorporates services provided by all models of delivery including services shared with other authorities, partnerships and contracted out services, and reports performance and finance within the same document for ease of comparison.

**Review of Effectiveness**

Through reviews by external auditors, external agencies, the Shared Internal Audit Service (SIAS) and internal review teams, the Council constantly seeks ways of securing continuous improvement in the way in which its functions are exercised.

Internal Audit activity provided by SIAS is overseen by the SIAS Board and its responsibilities are defined through the Internal Audit Charter. The Charter is applicable to all clients of Hertfordshire's SIAS and provides them with an independent and objective opinion on the organisation's governance arrangements, encompassing internal control and risk management, by completing an annual risk-based audit plan.



From the internal audit work undertaken in 2019/20, the SIAS can provide the following assurance on the adequacy and effectiveness of the Council's control environment, broken down between financial and non-financial systems as follows:



The Council's Head of Strategic Finance and Property has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs, hence the S151 officer relies amongst other sources, upon the work of internal audit in reviewing the operation of systems of internal control and financial management.

Overall, the assurance provided by internal audit has improved on 2018/19. During 2018/19 there were six audits that only had a rating of limited assurance and twenty one high priority recommendations were issued. The annual report from SIAS shows that for 2019/20 there was only one audit rated as limited assurance and only one associated high priority recommendation.

The Council's external auditor, Ernst & Young, provides assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing value for money. The most recent Audit Letter, issued in November 2019 identified no material errors in the accounts and gave an unqualified opinion. They also concluded that East Herts has put in place proper arrangements to secure value for money in the use of resources.

The Council's Finance Team have undertaken a review to confirm that the principles described above have been in place throughout the year. Management Assurance Statements, signed by the Heads of Service have also been obtained to provide confirmation that Codes of Conduct, Financial Regulations, and other corporate governance processes, have been operating as intended throughout the year so far as they are aware.

### **Follow up of issues identified in 2018/19**

During 2018/19, the following required enhancements to internal controls were identified as a result of reviews of arrangements and by the work of external and internal audit.

Issue	Actions delivered to achieve milestone
<p><u>IT Shared Service Improvement Plan</u></p> <p>Management should complete the review of the IT policies and tailor them to the needs of both Councils.</p> <p>These expectations should form the basis for a defined IT Strategy for the Shared IT Service, which should include as a minimum:</p> <ul style="list-style-type: none"> <li>○ The expectations for the levels of service to be provided</li> <li>○ The metrics for monitoring the performance of the Shared IT Service.</li> <li>○ The performance of the Service should be reviewed on a routine basis by the ICT Partnership Board and measured against the defined metrics and key performance indicators.</li> </ul>	<p>The IT Strategy was approved by the Executive at Stevenage Borough Council in October 2019 and by Council at East Herts in December. This is an extensive document which far exceeds the minimum requirements contained in the recommendations. Performance of the Service is reviewed on a routine basis by the ICT Partnership Board and measured against the IT Strategy.</p>
<p><u>Cyber Security</u></p> <p>Management should establish a network access control to block unknown or</p>	<p>The Council has created a Security and Network Team which has been tasked to look at security/network tools. There is</p>

<p>unauthorised devices from connecting to the Council's IT network.</p> <p>There should be a record of the configuration of the Council's firewalls, which includes but is not limited to:</p> <ul style="list-style-type: none"> <li>○ The purpose of all of the rules</li> <li>○ The expected configuration and activity for each rule</li> <li>○ The member of staff that requested and approved the rule</li> <li>○ The configuration of the firewall should be reviewed on a routine basis.</li> <li>○ The Service should develop a Firewall rule policy to provide the list of controls that are required to secure firewall implementations to an approved level of security</li> </ul>	<p>also a planned upgrade to office 365.</p> <p>Financial and resource restrictions have delayed the procurement of network tools to financial year 2020/21.</p> <p>Replacement of all firewalls scheduled for April 2020. Configurations and creation of new network environment is being worked on as part of that plan.</p>
<p><u>Incident Management</u></p> <p>Management should update the Council's IT disaster recovery plan to include the procedure for establishing all IT services at a single data centre.</p>	<p>We have started a project to install a secondary microwave link between our data centres. This will give us a resilient link where either can be down and connectivity remains.</p> <p>Also, with our upgrade to Horizon VDI, we are installing hardware which will allow either site to run 100% of capacity.</p> <p>Implementation was scheduled for January 2020 but is now expected to complete in April. Grant funding has been secured for an external review of disaster recovery post implementation.</p>
<p><u>S106 Spend Arrangements</u></p> <p>Record keeping of S106 contributions, the spend arrangements and associated timeframes be reviewed to confirm fitness for purpose. An effective master record is adopted for monitoring and reporting purposes.</p>	<p>To take forward the recommendations and provide oversight of S106 contributions a role was created of Infrastructure Contributions and Spend Manager.</p> <p>A review of all received financial contributions from 1996 to date was undertaken to create a Master Received Contributions Spreadsheet.</p>

## **Issues identified in 2019/20**

During 2019/20, the following required enhancements to internal controls were identified as a result of reviews of arrangements and by the work of external and internal audit.

Issue	Actions delivered to achieve milestone
<p><u>Full implementation of high priority recommendations related to IT</u></p> <p>The implementation of some recommendations has had to be re-scheduled. Management is actively monitoring these issues and full implementation should be achieved during 2020/21.</p>	<p>Revised action plans have been established which take account of resource constraints and changes to working practices during the pandemic.</p>
<p><u>Regulation of Investigatory Powers Act</u></p> <p>Compliance with the Act is monitored by the Investigatory Powers Commissioners Office. During November 2019 an inspection of the Council's arrangements resulted in a critical assessment. The Council was not meeting legal requirements in several areas and was given a list of eight required actions.</p>	<p>The Monitoring Officer has conducted a thorough overhaul of the Council's policy and procedures to address the required actions. New policies were reviewed by the Overview and Scrutiny Committee on 16 June 2020 and were adopted by the Executive at its meeting on 7 July 2020.</p>
<p><u>Information Governance</u></p> <p>A review by Internal Audit has highlighted a need to improve some areas of information governance:</p> <ul style="list-style-type: none"> <li>○ Lack of an adequate Information Asset Register</li> <li>○ Information Management policies and procedures are out of date</li> <li>○ Lack of a defined and enforced retention schedule</li> <li>○ Lack of defined disposal and destruction procedures.</li> </ul>	<p>Options to expand the staff resources working in this area are being explored and an action plan will be constructed to address the shortcomings identified.</p> <p>The Council's Information Asset Register and Retention Schedule have since been located. Whilst they will need to be reviewed, this can be undertaken as soon as the expanded staff resource is in place.</p>

## Conclusion

The Council is satisfied that appropriate governance arrangements are in place however, it remains committed to maintaining and where possible improving these arrangements, in particular by:

- promptly addressing the issues identified by Internal Audit as requiring improvement
- constructing a governance calendar to assist with the monitoring and updating of key governance documents

We propose over the coming year to continue to improve matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for any improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed.....

Richard Cassidy  
Chief Executive

Signed.....

Linda Haysey  
Leader of the Council

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## East Herts Council Report

### Audit and Governance Committee

**Date of Meeting:** 28 July 2020

**Report by:** Chairman of Audit and Governance Committee

**Report title:** Draft Work Programme 2020/21

**Ward(s) affected:** All

---

### Summary

- To invite Members to review and determine the future work programme of Audit and Governance Committee.

### **RECOMMENDATIONS FOR AUDIT AND GOVERNANCE COMMITTEE, that:**

- (a) **the main agenda items for the next meeting be agreed;**
- (b) **the draft work programme, as amended, at Appendix A, be agreed.**

#### **1.0 Proposal(s)**

- 1.1 Items previously required, identified or suggested for the Audit and Governance work programme are set out in Appendix A.

#### **2.0 Background**

- 2.1 The draft agenda for the next Audit and Governance Committee is shown in Appendix A. Members are asked to confirm that these are the key items they wish to consider.
- 2.2 Appendix A also sets out provisional items for future meetings of the committee. Whilst the timing of some items shown may have to

change depending on availability of essential data (eg. from central government), members are asked to consider the future programme and add, remove or move items as they see fit.

- 2.3 Members will be aware that on 13 May 2020 Council made a number of changes to the Constitution, this included a change to the terms of reference of Audit and Governance Committee so that the issue of “performance” now falls within the remit of Overview and Scrutiny Committee. This was necessary to avoid a duplication of the “performance” function which occurred in both committees’ terms of reference.
- 2.4 In an effort to better plan the work of both Audit and Governance and Overview and Scrutiny committees a meeting was held on 29 June 2020 with the Leader, Deputy Leader, the Chairmen and Vice Chairmen of both Audit and Governance and Overview and Scrutiny Committees.
- 2.5 What became apparent at that meeting was the issue of Audit and Governance Committee’s new role from the viewpoint of *governance vs performance* when there is the potential to seek a review of the same subject which could fall within the remit of both Committees but from differing perspectives. The Chairman cited the use of Section 106 monies as an example (ie. have all the S106 monies been spent where applied, could they have been better used, where and how, and going forward what can Members do to ensure they are best applied within the community?). Members may recall that a detailed report on this issue was submitted to the former Performance Audit and Governance Oversight Committee last year. Another example of potential confusion and remit cross over was in relation to Large Scale Projects – budget and delivery timescales which could fall within the remit of both Oversight and Scrutiny (performance) and Audit and Governance (how are governance arrangements addressed?). The Scrutiny Officer has raised the issue with the Head of Legal and Democratic Service to see how best Members can be supported.



- 2.6 From the viewpoint of Audit and Governance, the Chairman referred to the establishment of a Constitution Review Work Group which had been established and suggested that a small group of Members from Audit and Governance be set up to monitor matters. Members' views are sought on this.

### **3.0 Reason(s)**

- 3.1 While Audit and Governance is not a Scrutiny Committee, it has a specific role of monitoring the budget and oversees a range of information such as inspection reports and action plan monitoring. It approves the Council's Statement of Accounts and is also the Council's Audit Committee and carries out Treasury Management functions. As a result, the work programme helps provide structure and identifies a clear reporting timeframe for those reports.

### **4.0 Options**

- 4.1 Members have the option to include or exclude any items on the proposed work programme, however, officers recommend approval of the listed items as consideration will fulfil the council's audit functions and the items reflect the issues previously raised by members. It is worth noting that this is a draft work programme which is continually reviewed and will evolve as the work programme develops triggered by external and internal influences.

### **5.0 Risks**

- 5.1 If the Audit and Governance Committee chose not to consider the various audit and financial reports in the proposed work programme, subject to the Legal observations made later in this report, the council could potentially be at risk of not identifying potential issues and risks to the authority and thus taking mitigating actions.

## **6.0 Implications/Consultations**

6.1 Information on any corporate issues and consultation associated with this report can be found within the body of this report.

### **Community Safety**

No

### **Data Protection**

No

### **Equalities**

No

### **Environmental Sustainability**

No

### **Financial**

None applicable to this report apart from the benefits, as discussed above, of member oversight of the council's key financial practices and policies.

### **Health and Safety**

No

### **Human Resources**

No

### **Human Rights**

No

### **Legal**

None applicable to this report but Audit and Governance is required to receive and consider reports and agree such reports as required by statute. These include for example, the Treasury Management Statement and Statement of Accounts.

## **Specific Wards – All wards**

### **7.0 Background papers, appendices and other relevant material**

#### Appendix A

<b>Contact Member</b>	Mark Pope, Chairman of Performance Audit and Governance Oversight Committee <a href="mailto:mark.pope@eastherts.gov.uk">mark.pope@eastherts.gov.uk</a>
<b>Contact Officer</b>	James Ellis Head of Legal and Democratic Services Tel No: 01279 502170 <a href="mailto:james.ellis@eastherts.gov.uk">james.ellis@eastherts.gov.uk</a>
<b>Report Author</b>	Lorraine Blackburn, Scrutiny Officer Tel No: 01279 502172 <a href="mailto:lorraine.blackburn@eastherts.gov.uk">lorraine.blackburn@eastherts.gov.uk</a>

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# Audit & Governance Committee

## Work Programme 2020/21 – DRAFT

[NB: This is a working document and is subject to amendment]

14 January 2020	
Topic	Lead Officer
Capital Strategy	Bob Palmer, Interim Head of Strategic Finance
Treasury Management Strategy 2020-21	Bob Palmer, Interim Head of Strategic Finance
Draft Corporate Plan 2020/21	Ben Wood, Head of Communications and Policy
Budget and Medium Term Financial Plan 2020/21 – 2023/24	Bob Palmer, Interim Head of Strategic Finance
Annual Audit Letter	Suresh Patel, Ernst Young
Shared Internal Audit Service (SIAS)	Simon Martin, Client Audit Manager (HCC)
Shared Anti-Fraud Service (SAFS)	Nick Jennings Head of Service SAFs (HCC)
Draft Work Programme	Lorraine Blackburn, Scrutiny Office

17 March 2020	
Topic	Lead Officer
External Auditor 2018-19 Audit Plan	Suresh Patel (EY)
Shared Anti-Fraud Service (SAFS) with draft plan for 2019/20 for approval	Nick Jennings Head of Service SAFs (HCC)
Shared Internal Audit Plan (SIAS) 2019/20	Simon Martin, Client Audit Manager (HCC)
Shared Internal Audit Service (SIAS) Audit Plan Update	Simon Martin, Client Audit Manager (HCC)
Quarterly Corporate Budget Monitor - Quarter 3 December 2019	Bob Palmer Interim Head of Strategic Finance
Implementation of Annual Governance Statement	Bob Palmer, Interim Head of Strategic Finance
Annual Review of Risk Management	Bob Palmer Interim Head of

# Audit & Governance Committee

## Work Programme 2020/21 – DRAFT

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17 March 2020	
Topic	Lead Officer
Strategy	Strategic Finance and Bob Palmer /Graham Mully Insurance Risk Advisor
Annual Risk Report	Bob Palmer Interim Head of Strategic Finance and Graham Mully Insurance Risk Advisor
Draft Work Programme	Lorraine Blackburn, Scrutiny Officer
19 May 2020	
Topic	Lead Officer
Insurance Options Report – Procurement of next long term contract	Interim Head of Strategic Finance and Bob Palmer / Insurance and Business Risk Advisor
SIAS Internal Audit Plan Report 2020/21	Simon Martin, Client Audit Manager
SIAS Progress Report	Simon Martin, Client Audit Manager
SAFs	2019/20 Annual Fraud Report and Progress with Delivery Plan
Risk Management Strategy – Annual Review	Graham Mully, Insurance Risk Advisor
Strategic Risk Register – Annual Review	Graham Mully, Insurance Risk Advisor
External Auditor 2019/20 Audit Plan	Suresh Patel, Ernst Young
Annual Governance Statement	Bob Palmer, Interim Head of

# Audit & Governance Committee

## Work Programme 2020/21 – DRAFT

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17 March 2020	
Topic	Lead Officer
	Strategic Finance and Property
Quarterly Corporate Budget Monitoring	Bob Palmer, Interim Head of Strategic Finance and Property
Work programme	Lorraine Blackburn, Scrutiny Officer

28 July 2020	
Topic	Lead Officer
General Fund Revenue and Capital Outturn	Bob Palmer, Interim Head of Strategic Finance and Property
Cyber Risks	Simon Russell, ICT Strategic Partnership Manager
External Audit Fees	Suresh Patel, Ernst Young
SIAS Update	Simon Martin, Client Audit Manager (SIAS)
SAFs Update	Nick Jennings, Head of Service (SAFs)
Annual Accounts 2019/20	Bob Palmer, Interim Head of Strategic Finance and Property
Annual Governance Statement	Bob Palmer, Interim Head of Strategic Finance and Property
Work Programme	Lorraine Blackburn, Scrutiny Officer

# Audit & Governance Committee

## Work Programme 2020/21 – DRAFT

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<b>22 September 2020</b>	
<b>Topic</b>	<b>Lead Officer</b>
Code of Conduct Review	James Ellis, Head of Legal and Democratic Services
External Audit Fees	Suresh Patel, Ernst Young
SIAS Update	Simon Martin, Client Audit Manager (SIAS)
SAFs Update	Nick Jennings, Head of Service (SAFs)
Work Programme	Lorraine Blackburn, Scrutiny Officer



# Audit & Governance Committee

## Work Programme 2020/21 – DRAFT

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### Other items/notes:

- **Corporate Budget Monitoring Report** (formerly the Financial Health Check reports) will be provided quarterly.  
The dates for the quarterly Corporate Budget Monitoring reports to go to A&G:
  - Quarter 3 (2019/20) – March 2020
  - Outturn (full year 2019/20) – July 2020
  - Quarter 1 (April – June 2020) – September 2020
  - Quarter 2 (July – September 2020) - November 2020
  - Quarter 3 (October – December 2020) – March 2021
- **Complaints lodged with the Monitoring Officer** (Head of Democratic and Legal Support Services). When there are updates.
- **Changes to Constitution Review Update** (Head of Democratic and Legal Support Services): When there are updates.
- **Shared Anti-Fraud Service Report (SAFS)**. At every meeting.
- **Shared Internal Audit Service (SIAS)**. At every meeting.

DATE OF MEETING	REPORT DEADLINE (midday)
28 July 2020	15 July 2020
22 September 2020	9 September 2020
17 November 2020	4 November 2020
12 January 2021	23 December 2020
16 March 2021	3 March 2021

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