



**MEETING** : AUDIT AND GOVERNANCE COMMITTEE  
**VENUE** : ONLINE MEETING - LIVESTREAMED  
**DATE** : TUESDAY 22 SEPTEMBER 2020  
**TIME** : 7.00 PM

**PLEASE NOTE TIME**

**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 and A Curtis

*(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.)

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## **AGENDA**

1. Apologies

To receive apologies for absence.

2. Minutes - 28 July 2020 (Pages 7 - 34)

To confirm the Minutes of the meeting held on Tuesday 28 July 2020.

3. Chairman's Announcements

4. Declarations of Interest

To receive any Members' declarations of interest.

5. Shared Internal Audit Service - Update (Pages 35 - 48)

6. Shared Anti-Fraud Service - Update (Pages 49 - 66)

7. Strategic Risk Register 2020/21 – Quarter One (Pages 67 - 82)

8. External Audit Update – Progress on 2019/20 Audit (Pages 83 - 134)

9. Annual Governance Statement (Pages 135 - 152)

10. Statement of Accounts 2019/20 (Pages 153 - 266)

11. Quarterly Corporate Budget Monitor - Quarter 1 June 2020 (Pages 267 - 284)



12. Work Programme Proposals 2020-21 (Pages 285 - 298)

13. 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  
 AUDIT AND GOVERNANCE COMMITTEE  
 HELD AS AN ONLINE MEETING ON  
TUESDAY 28 JULY 2020, AT 7.00 PM

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PRESENT: Councillor M Pope (Chairman)  
 Councillors A Alder, L Corpe, R Fernando,  
 T Stowe and A Ward-Booth

ALSO PRESENT:

Councillor M Goldspink

OFFICERS IN ATTENDANCE:

Helen Standen	- Deputy Chief Executive
Lorraine Blackburn	- Scrutiny Officer
Ruth Luscombe	- Assistant Director of Digital and Transformation
Peter Mannings	- Democratic Services Officer
Ashok Mistry	- Finance Business Partner
Bob Palmer	- Interim Head of Strategic Finance and Property
Alison Street	- Finance Business Partner
William Troop	- Democratic Services Officer

ALSO IN ATTENDANCE:

Nick Jennings	- Shared Anti-Fraud Service (SAFS)
Simon Martin	- Shared Internal Audit Service
Nazeer Mohammed	- Ernst & Young (EY)
Richmond Nyarko	- EY
Suresh Patel	- EY

99 APOLOGIES

Apologies for absence were submitted on behalf of Councillor Huggins. It was noted that Councillor Curtis was substituting for Councillor Huggins.

100 MINUTES - 19 MAY 2020

It was moved by Councillor Ward-Booth and seconded by Councillor Curtis that the minutes of the meeting of the Committee (formerly called the Performance, Audit and Governance Oversight Committee), held on 19 May 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 19 May 2020 be confirmed as a correct record and signed by the Chairman.

101 CHAIRMAN'S ANNOUNCEMENTS

The Chairman welcomed the new members of the Committee, Councillors Fernando, Ward-Booth and

Huggins, although the latter was not in attendance. He also welcomed William Troop, the new Democratic Services Officer.

102 DECLARATIONS OF INTEREST

There were no declarations of interest.

103 CYBER SECURITY - PRESENTATION BY HELEN STANDEN AND RUTH LUSCOMBE

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Ruth Luscombe, Assistant Director of Digital and Transformation at Stevenage Borough Council (SBC), gave a presentation updating Members on the current state of Cyber Security across the IT partnership between the Council and SBC.

The internal audit which had been carried out in the financial year of 2018/19 had identified a number of risks and associated management actions. Whilst progress had been made, there were still five outstanding areas to address, of which two were high risk areas:

- Unauthorised devices attempting to connect to IT network (high risk);
- Inappropriate firewall configuration and absence of defined firewall management procedures (high risk);
- Inadequate training on information and cyber security (medium risk);
- Absence of approved cyber security incident management procedures (low/ advisory risk);

- Inadequate monitoring of network activity and network performance (low/ advisory risk).

In relation to the first and final of the outstanding areas, the Council had made progress by implementing the Microsoft Intune based Mobile Device Management (MDM) and Mobile Application Management (MAM) solution. This allowed the remote management of devices connected to the network. All new devices were now registered through this software and full implementation was expected by the end of the third quarter of 2020. Another related outstanding action was the implementation of a network access control mechanism to identify, review and report on devices that had physically connected to the IT network. Procurement for this was ongoing and was expected to be completed by the end of the current financial year.

In relation to the second area, a specification for the replacement of firewalls was in preparation, with procurement planned to be completed by the end of October 2020. There was also work being carried out to document changes to the firewalls, which was anticipated to be completed by the third quarter of 2020.

In relation to the third area, and in particular staff training, the Council had implemented- and was currently testing- a meta-compliance product. This would give the Council the ability, amongst other things, to simulate phishing attacks and identify staff that may be particularly susceptible to these. Targeted training could then be arranged. The creation of an Information Governance Team, which would have responsibility for GDPR and cyber security training, was being sought. The scope and associated resourcing levels required approval from the Council and SBC. The target completion date was November 2020.

In the fourth area, the Council's Cyber Security Incident Management Protocol was partially completed. After a period of preparation, the Council would engage an external vendor to complete the work. This process had been delayed due to the COVID-19 pandemic, but the Council hoped to complete this by the end of the third quarter of 2020.

The Chairman asked for further details regarding network access control and whether budget restrictions were still a constraint on the IT partnership between the Council and SBC.

The Assistant Director of Digital and Transformation said network access control also related to the in-tuning of devices, and that the Council planned to procure this work externally, alongside other network upgrades. She confirmed that the budget was adequate to address the outstanding areas. The main challenge lay in having the capacity to work through the outstanding actions.

The Chairman referred to the report on General Fund Revenue and Capital Outturn, saying he had noticed that funds for technology services had been carried over from the previous year.

The Assistant Director said she had only been in post since May 2020 and therefore could not speak to any events prior to this, but that the IT strategy had been signed off by both the Council and Stevenage Borough Council (SBC) and this comprised a comprehensive work programme. There had been significant spending on developing the appropriate team to carry out this programme, and the fact that actions had been carried over reflected the

complexity of it. There had also been a further delay due to COVID-19 but work was now progressing at pace.

Councillor Ward-Booth asked whether it was considered that there were greater risks to the Council's Cyber Security with the majority of staff working from home due to the COVID-19 pandemic. He also asked whether there were further security procedures being considered, such as multi-factor identification of staff identity when accessing Council devices and networks, and physical safeguards, for example Council devices being modified to prevent the insertion of USB sticks.

The Assistant Director said there was an increased risk associated with staff using Council devices and networks whilst working from home, although this was a universal consideration, rather than being specific to the Council. The implementation of the virtual desktop which staff used helped to mitigate these risks. These increased risks underlined the importance of the Council's ongoing work on cyber security. Specifically, multi-factor identification was being considered as an option. However, limited information could be accessed outside of the virtual desktop, which reduced the risk. Ongoing consideration was being given to the risks posed by staff working from home and highlighted potential progress to be made in terms of hardware.

The Deputy Chief Executive said the virtual desktop was exceptionally safe. Only two attempted cyber attacks had been made against the Council in the last six months, both of which had been thwarted. The Council was duty-bound to follow the Government's guidance on penetration testing, whereby the Council paid third parties to try and gain unauthorised access to systems, so it could make any



necessary changes highlighted by this process. Members should be reassured that there was no imminent threat to the Council's cyber security.

The content of the presentation was noted by the Committee.

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

104 ANNUAL GOVERNANCE STATEMENT

At the request of the Head of Strategic Finance and Property and with the consent of Members, the Chairman agreed to change the order of the agenda to bring forward the Annual Governance Statement (AGS), (Item 12 on the Agenda). The Head of Strategic Finance and Property said there was crossover between this item and the cyber security update and bringing forward this item would allow Members to raise questions with the Assistant Director of Digital and Transformation and the Deputy Chief Executive Officer before they left the meeting.

The Head of Strategic Finance and Property presented the AGS report, summarising the main key points. Particular reference was made to the improvements the Council had made, which had been noted by the Shared Internal Audit Service (SIAS). In the previous year, the Council had six limited assurance points and twenty one high priority points. Only one point of each category was noted this year. Other previous key problems, relating to issues such as the IT shared service and Section 106 payments, had been resolved. The report this year had highlighted problems again relating to IT, but high priority points had been swiftly addressed.

The Head of Strategic Finance and Property said that the Head of Legal and Democratic Services had carried out work to bring the Council's Regulation of Investigatory Powers Act (RIPA) policy up to date. Officers were satisfied that appropriate governance arrangements were in place, but referred to the need to address two issues going forward to ensure continuous improvement. First, by promptly addressing areas for improvement identified by SIAS and, secondly, by constructing a governance calendar to ensure key documents and policies were kept up to date.

Councillor Ward-Booth said it was alarming that in the two years since GDPR legislation came into force, the Council had not been able to put the correct procedures into place, such as for the destruction of data. He asked whether there was a more concrete timeline for these targets to be achieved, as the AGS seemed rather non-committal on this aspect.

The Deputy Chief Executive said that progress had been made and the Council's data retention schedule, which had previously not been located, had now been supplied to auditors for inclusion in the final draft. A report on GDPR was being prepared for the Leadership Team, which would then be presented to the Executive. It was also understood that the Assistant Director of Digital and Transformation would be carrying out a similar exercise for the Senior Leadership Team at SBC.

The Chairman asked that the Committee be kept up to date on this matter, and it was agreed this would be revisited at the Committee's next meeting.

Councillor Stowe said that the Committee had received a

report on Section 106 monies in September 2019 and commented that it would be useful if the Committee could once again receive this report in the upcoming September 2020 meeting. This was agreed.

Councillor Alder asked whether the Committee could be confident that the Council's measures against fraud and corruption were sufficient, especially given the proliferation in the provision of grants to local businesses due to the COVID-19 pandemic. The report seemed rather self-congratulatory, and some stronger language on the Council's resolve to prevent fraud and corruption would be welcome.

Nick Jennings, Shared Anti-Fraud Service (SAFS), said that whilst he could not speak to the AGS, the Council had performed well in relation to fraud and corruption prevention. Fraud inevitably occurred, but the Council was doing ongoing work to mitigate and manage this risk. This mitigation work would be covered in more detail in the SAFS report later in the meeting.

The Head of Strategic Finance and Property said he was happy to take Councillor Alder's observations on board and would reinforce the language in the report.

The Chairman asked whether it was correct that the Committee was responsible for keeping the Code of Conduct up to date and investigating any possible breaches, as he could not recall any items in relation to Standards coming before the Committee. Neither did he recall any report on the Council's Anti-Fraud, Bribery and Corruption Policy.

The Deputy Chief Executive Officer said the Head of Legal

and Democratic Services was primarily responsible for keeping the Code of Conduct up to date. The Standards Sub-Committee would investigate possible breaches; a meeting of the Sub-Committee would only occur if a possible breach was reported.

The SAFS Officer said an overview of the Council's response to fraud had been provided at the previous meeting of the Performance, Audit and Governance Oversight Committee. He said the Council's Anti-Fraud, Bribery and Corruption Policy was currently being re-written, with particular regard to whistle-blowing and anti-money laundering (AML) measures. The SAFS Officer and the Head of Strategic Finance and Property confirmed this policy would be presented to the Committee when completed.

The Head of Strategic Finance and Property said further, in response to the Chairman's query, that the AGS and final accounts would be presented back to Members. Ernst & Young (EY) were currently finishing the audit on these items. As requested by the Chairman and Members, the AGS and final accounts could be presented in a 'tracked change' format, so Members could see where amendments had been made.

#### 105 EXTERNAL AUDIT FEES

The Head of Strategic Finance and Property presented a report on external audit fees, and EY's proposal to increase the fees by 67% from £40,295 to £67,244. It was explained that each year, the Public Sector Audit Appointments (PSAA) set the scale fee for the audit. Members were referred to the two Appendices: a letter from PSAA which set out further background, and a letter from EY, which set out their rationale behind the proposed increase.

Members were informed that a number of other local authorities across Hertfordshire had also been asked to consider an increase. It was recommended that Members agree to the proposal to defer the decision to the PSAA given their experience and expertise in these matters. It was noted that the PSAA could accept the proposal in full, agree to an increase but alter the proportion of increase, or reject the proposal in full.

Suresh Patel, EY's representative, said that there was concern over the sustainability of downward pressure on audit fees generally. He explained that more work was now involved in the external audit, so an increase in fees was necessary to maintain the quality of the audit. EY were in discussion with the PSAA and the Council regarding the fees, as well as a number of other local authorities across the country.

Councillor Alder asked whether PSAA recommended an appropriate fee. She said the tone of EY's proposal seemed to suggest that the audit quality would fall unless the Council agreed to the increase. She felt that the standard of the EY Audit should be maintained regardless. If the Council could procure the audit at the current fee, it would not make sense to approve an increase.

EY's representative said the current fee scale represented what PSAA thought was a fair fee for the audit.

The Chairman said that in the private sector, generally auditors were also asking for increases in fees. It seemed sensible to defer the matter to the PSAA.

Councillor Corpe said that at a time when the Council was making cuts to key public services, such as Citizens Advice,

it would difficult to agree to an increase without a very compelling argument for doing so. He agreed with the proposal to defer to PSAA, and noted the increase was large. Some of the arguments made by EY for the increase were not applicable to the Council, such as increased work relating to social housing comparisons. Furthermore, the audits of Millstream Property Investments Ltd were carried out by a different auditor. It did not seem reasonable to pass on costs, such as EY's potentially delayed investment in appropriate IT systems to the Council.

EY's representative said that it was correct that not all of the reasoning applied directly to the Council. He said whilst the proposed fees were on the higher end of the scale compared to competitors carrying out audits on public bodies, EY were the only firm from the 'big four' who undertook this kind of work.

Councillor Corpe said that his impression would be that a large firm would be able to make savings elsewhere, compared to smaller competitors.

Councillors Corpe, Stowe and Ward-Booth agreed it would be difficult to justify such a large increase to residents and that it was important that PSAA made this decision, rather than the Council.

The Head of Strategic Finance and Property said Hertfordshire County Council and most of the other District Councils were audited by EY. However, Dacorum Borough Council (DBC) were audited by Grant Thornton (GT). It was noted that GT's scale fee was higher, which could be explained by the fact DBC still maintained a housing revenue account. The Head of Strategic Finance and Property said that GT had not proposed an increased

scale fee, but asked for an additional payment due to increased work, which constituted 4.4% of the overall cost. This was a much lower increase than that proposed by EY.

It was moved by Councillor Ward-Booth and seconded by Councillor Alder that the recommendation, as detailed, be approved. After being put to the meeting and a vote taken, the motion was declared CARRIED.

**RESOLVED** – the amount of any increase in the scale fee for the audit be referred to the PSAA to determine.

106 ANNUAL ASSURANCE STATEMENT AND INTERNAL AUDIT  
ANNUAL REPORT 2019/20

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Simon Martin, the Shared Internal Audit Service (SIAS) Officer, presented the Annual Assurance Statement and Internal Audit Annual Report 2019/20. He briefly summarised the purpose and contents of the report. The key messages, contained in the report were that the Council's internal control framework was largely working well; 29 audits had been carried out, with 83 recommendations made. SIAS had met or exceeded all targets for 2019/20 and therefore the Council had the vast majority of its internal audit plans successfully delivered. The SIAS Officer summarised the content of the Audit Charter

The SIAS Officer explained that as part of the recommendations, there was a need for Members to provide management assurance that the scope and resources for internal audit had not been subject to inappropriate limitations in 2019/20.

Councillor Corpe queried the term 'agreed non-conformance'. The SIAS Officer said there were two levels of non-conformance. He explained what the two levels of non-comformance were.

The Chairman sought and was provided with clarification on a number of issues:

- The identity of the Head of Assurance at Hertfordshire County Council.
- The timescale for the external quality assessment of SIAS and potential auditors.
- The implementation of recommendations identified by the Information Management Audit.
- The improved position of Herts Home Improvement following the previous audit.
- The forthcoming high-profile recommendation from the draft Information Management Audit.

The Chairman asked the Head of Strategic Finance and Property for assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2019/20.

The Head of Strategic Finance and Property confirmed there had been no inappropriate limitations or restrictions.

It was moved by Councillor Corpe and seconded by Councillor Stowe 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 Annual Assurance Statement and Internal Audit Annual Report were noted by the Committee;



(B) the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP) were noted by the Committee;

(C) the SIAS Audit Charter was approved by the Committee; and that:

(D) management confirmation that there had been no inappropriate limitations on the scope and resources for the internal audit for 2019/20 be noted.

#### 107 SHARED INTERNAL AUDIT SERVICE PROGRESS REPORT

The SIAS Officer presented the SIAS Progress Report. As of 10 July 2020, 12% of the Audit Plan days had been delivered. As it was still relatively early in the year, most audits were due to start in the coming months, although six were already in progress.

The SIAS Officer explained that it was expected that more progress might have been achieved but a proportion of staff had been re-deployed due to the COVID-19 pandemic.

Further progress had been made from July 2020 onward, but a number of audits had been cancelled, with agreement from the Head of Strategic Finance and Property and the Leadership Team. There were now fewer outstanding recommendations in relation to cyber security, and the majority of the other recommendations had now been met and implemented.

The Chairman queried:

- whether it would be considered usual for the audits of the Grange Paddocks and Hartham Leisure Centre projects to be carried out by an external auditor;
- what aspects of these projects would be audited;
- whether this would form part of the annual external audit, or would this be a separate piece of work for which there would be an additional cost.

The SIAS Officer said it was unusual for internal and external audit work to overlap but that it was not unusual that amendments were made to the audit plan as it progressed. The scope of the external audit would be related to the procurement process in the projects.

The Head of Strategic Finance and Property said he understood that the additional work would form part of the external auditor's value for money work, and would therefore form part of the main audit.

The Chairman asked that the Deputy Chief Executive provide Members with a verbal update on Incident Management following the meeting.

It was moved by Councillor Fernando and seconded by Councillor Corpe 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 amendments to the Internal Audit Plan as at 10th July 2020 be approved; and

(C) the Status of Critical and High Priority recommendations be noted.

108 SHARED ANTI-FRAUD SERVICE UPDATE - ANNUAL REPORT 2019/20

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The SAFS Officer presented the SAFS annual update for 2019/20. He explained the broad purposes of SAFS, including deterring fraud, delivering relevant training to staff, managing internal and external communications and prosecuting fraud when other defences were bypassed. He explained the work of the SAFS since March 2020 had been somewhat disrupted by the COVID-19 pandemic, although adaptations had been made where possible.

It was noted that SAFS had been supporting the Revenue Team in their work making grant payments to businesses due to the pandemic. Only five applications out of around 1600 had been deemed to be fraudulent. He explained that work had also been done to identify phishing emails and other cyber scams seeking to exploit the pandemic, and this information had been shared with national anti-fraud organisations.

The SAFS Officer said that SAFS had been awarded the highest rating during the Joint Review Audit and positive feedback had been given. He summarised the content of the Appendices attached to the report.

Councillor Alder congratulated Officers on their hard work and, in particular, managing the payment of grants to businesses during the pandemic. She asked how much the Council had lost on the five fraudulent grant applications.

Whilst the SAFS Officer believed none of these applications were successful, it was agreed he would follow up on this via an email to Members.

Councillor Stowe commented that in referring to Table 3 that it seemed that the Council generally received a fairly steady number of fraud referrals each year, of just fewer than 100. He asked why in 2016/17 this number jumped to 143. He also made reference to the mention of the additional £100,000 in council tax.

The SAFS Officer clarified the £100,000 was additional income for the Council, and said that in 2016/17 SAFS had also included some historic referrals which would not usually be included in the annual statistics.

The Chairman referred to KPI 4 (fraud training given to staff and Members). He referred to the Council's anti-bribery and whistle-blowing policy and procedures, and asked who was responsible for their review.

The SAFS Officer said the Section 151 or Monitoring Officer would take responsibility for these policies, with SAFS checking whether they fell within a coherent overall strategy.

The Chairman suggested it would be beneficial for the Committee to look at such policies.

The Scrutiny Officer said that the Head of Human Resources and Organisational Development was responsible for review of these policies, but that she would raise this matter with the Head of Legal and Democratic Services.

It was moved by Councillor Corpe and seconded by Councillor Ward-Booth 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 Committee reviewed the Council's work to combat fraud in 2019/20 be noted; and

(B) the review of the performance of SAFS in meeting its KPIs in 2019/20 be noted.

#### 109 GENERAL FUND REVENUE AND CAPITAL OUTTURN

The Head of Strategic Finance and Property presented the General Fund Revenue and Capital Outturn report. The key points for Members to note were:

- The Revenue Outturn was close to budget, with an underspend of £16,000, which would be taken into the General Reserve.
- There was an underspend of £30.91m in the Capital Outturn due to the delay of several projects.
- In the Net Cost of Services, there was an underspend of £33,000.
- In the corporate budgets, the interest and investment fund delivered an additional £149,000 on top of the projected amount, due to the performance of the Property Fund. This would be added to the General Reserve to offset poor performance elsewhere; the COVID-19 pandemic had suppressed interest rates

and there were difficulties in obtaining rent from some tenants. However, the property funds' investments were spread over a diverse range of investments.

- There was a transfer of £2.555m to the Collection Fund Reserve. Roughly £1.824m of this amount had been from Section 31 income. £731,000 had been taken from the Council's participation in the Business Rates Retention Pilot in Hertfordshire.
- In relation to the Capital Outturn, there was a spending programme of £41.672m, of which only £10.762m had been spent, leaving £30.898m to carry forward. Progress was now being made in relation to projects such as Northgate End Car Park and Grange Paddocks Leisure Centre, which would mean that these funds should be used throughout the financial year.

Councillor Corpe said that some content of this report had been considered at the Executive meeting on 7 July 2020 and asked whether it would be more appropriate for the Committee to have seen this report before the Executive. He said that it was positive to see that the Council had an underspend and that he hoped it could be diverted to services that had previously faced cuts. He asked what would be done with the underspend.

The Head of Strategic Finance and Property said the normal process would be that the Committee would consider this report prior to the Executive. However, due to COVID-19 pandemic, the Executive had asked for financial data to be presented to it as soon as it was available. He explained that normally it would be preferable for the

schedule of meetings to be altered to allow this Committee to see this data first.

The Head of Strategic Finance and Property said that funds would be added to the General Reserve, which could be spent on projects as Members saw fit. It was within the remit of the Committee to make a recommendation to the Executive over the use of these funds.

The Chairman said that whilst there was an underspend, this was net of a use of £750,000 of reserves, which was not planned for at the beginning of the year. This demonstrated that it was prudent to transfer underspends to the General Reserve for unforeseen circumstances. For example, the biggest use of reserves was seen in the New Homes Bonus Priority Spend reserve.

The Head of Strategic Finance and Property confirmed this was the case and that throughout the year authority needed to be obtained to use reserves. He confirmed that use of the New Homes Bonus priority spend reserve was most common throughout the year.

Councillor Corpe said that perhaps it would be helpful if it was highlighted more prominently in the accounts where spending had been subsidised by funds from various reserves.

The Chairman mentioned the accumulation of funds in the Flexible Homelessness Grant. He asked what this would be used for, as it did not appear to have been used throughout the year. He referred to unused funds in areas such as Discretionary Disabled Facilities, Decent Homes Grants and the Launch Pad 2 facility in Ware, and sought assurance that the Council was looking for opportunities to

use these funds on the correct projects.

Alison Street, Finance Business Partner, said the Flexible Homelessness Grant was funding from Central Government to combat homelessness and any excess did not need to be paid back, so was transferred to a reserve for use in later years. Around £250,000 had been received this year and about half of this had been spent. Officers were looking for opportunities to promote these grants.

It was moved by Councillor Stowe and seconded by Councillor Fernando 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 Committee approve the transfer of the General Fund revenue outturn of £16k under spend to the General Reserve; and

(B) the Committee approve capital budgets of £30.898m be carried forward to 2020/21 to fund ongoing capital schemes.

#### 110 DRAFT STATEMENT OF ACCOUNTS 2019/20

The Head of Strategic Finance and Property presented the Draft Statement of Accounts 2019/20. It was noted that the Draft Accounts were scheduled to be published by 31 May 2020, and were due to be audited by 31 July 2020.

However, owing to the COVID-19 pandemic, Central Government had changed the requirements. The Council was now required to publish the Draft Statement of Accounts by 31 August 2020, to be audited and published by 30 November 2020. As such, the Draft Statement of



Accounts was being presented to the Committee a month before the statutory deadline. Assuming there were no delays in the external audit, which were not foreseen, audited accounts should be available to the Committee on 22 September 2020.

The Head of Strategic Finance and Property said that as a general rule, Members would be briefed on the key features of the accounts in a seminar prior to a Committee meeting, but this had been made difficult due to current circumstances, so a key summary was contained within the report. This contained: :

- (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.

It was noted that IRFS 16 requirements on leases had been deferred due to the pandemic.

Members were advised that the Council was preparing group accounts for the first time, due to the establishment of the wholly owned subsidiary Millstream Property Investments Limited and its increased level of activity.

Officers assured Members that the Council had adequate resources to continue operation for the foreseeable future, due to a healthy balance sheet. There were significant fluctuations in the Pension Fund as well as movements in assets and liabilities, and the low rate of inflation had reduced the Council's liabilities by around 10% due to

anticipated wage stagnation. The Council's pension liability would be paid over an extended period. Property, Plant and Equipment (PPE) had a value £63.315 million and another £15.486 million was added by investment properties.

The Chairman queried the impact on the Council if it was necessary for it to carry out work on the IRFS 16 requirements on leasing.

The Head of Strategic Finance and Property said that it would be a large piece of work, but as this was the second occasion the implementation of IRFS 16 had been postponed, some preparatory work had already been done and that it might not have a material impact on the accounts.

The Chairman referred to the Council's Pension Liability and said this was the smallest liability in a number of years. He also mentioned the undervaluation of the Millstream properties, asked whether those accounts were audited at the time. The Chairman asked whether the valuation of the asset held for sale at the yearend was derived from cost.

The Head of Strategic Finance and Property said that the actuary used a prediction of the inflation rate, rather than the rate at that period in time but that assets and liabilities could move in either direction. He explained that Millstream's accounts had not been previously audited, so it was only the external audit this year which discovered the undervaluation. This was primarily due to a discount given on three specific properties by the Council at the time of sale.

The Finance Business Partner said the cost of the asset was

derived from a valuation at the end of February 2020.

It was moved by Councillor Fernando and seconded by Councillor Ward-Booth 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 Committee noted the amended timetable for the production and auditing of the annual Statement of Accounts; and

(B) the draft Statement of Accounts be received.

#### 111 WORK PROGRAMME PROPOSALS 2020-21

The Scrutiny Officer presented the Work Programme Proposals 2020-21. It was noted that the performance function had been removed from this Committee's remit and fell now within the remit of Overview and Scrutiny Committee.

It was noted a report from the Centre for Public Scrutiny (CfPS) on the overview and scrutiny function was expected soon, which would also give guidance on the governance role of this Committee.

The Scrutiny Officer said that there were plans for the establishment Constitution Review Work Group, and the Committee might wish to consider nominating a small number of Members to assist on the work of this Group. She further added that following comments made during the evening that the Work Programme would need to be amended to reflect a request by Members regarding the

need for further information on a Data Retention Schedule and Fraud Policies.

The Chairman asked that Members should be updated on Section 106 spending, as well as large capital projects, to ensure they were running on budget. He felt however, it would be prudent to await guidance from the external review as well as the opinion of the Head of Legal and Democratic Services. It was noted that Officers would be reporting later in the year in relation to a Section 106 update

The Scrutiny Officer said it was anticipated that the constitutional review and associated changes would define the governance function of the Committee more clearly.

Councillor Ward-Booth suggested that the Committee receive and update on Information Management and GDPR compliance and asked when the report from the Centre of Public Scrutiny would be received.

The Scrutiny Officer said that it was hoped that the report would be received by the end of the week.

The Committee discussed the review group to undertake the constitutional review. It was agreed that the particular details, including which Members would take part in this and the frequency of meetings would be arranged following further advice from the Head of Legal and Democratic Services.

Councillor Stowe asked whether the issue of Section 106 payments would form part of the future Work Programme. The Scrutiny Officer asked Members to specify what they would like to scrutinise in terms of Section 106 Agreement

monies, given that they had been briefed the previous year on this matter and taking care not to encroach on the Overview and Scrutiny Committee's remit.

Councillor Ward-Booth said it would be useful for a report to be received on the new processes, such as allowing local groups to bid for funding, which could be scrutinised from a governance point of view.

The Chairman said from an audit perspective, the Committee should ensure that the Council was receiving Section 106 monies from developers and that this was being spent within the limited time frame permitted.

It was moved by Councillor Corpe and seconded by Councillor Ward-Booth 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 Committee approved the report and the draft work programme as amended.

The meeting closed at 9.40 pm

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## East Herts Council Audit and Governance Committee

22 September 2020  
Shared Internal Audit Service –  
Progress Report

### Recommendation

Members are recommended to:

- a) Note the Internal Audit Progress Report
- b) 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
  - 2.5 Critical and High Priority Recommendations
  - 2.7 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 4 September 2020.
  - b) The findings for the period 1 April 2020 to 4 September 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 4 September 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 4 September 2020, 26% 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:

<b>Audit Title</b>	<b>Date of Issue</b>	<b>Assurance Level</b>	<b>Number of Recommendations</b>
Information Management 2019/20	July 2020	Limited	One High, Three Medium priority
Recycling 2019/20	Aug 2020	Satisfactory	Five Medium, Three Low/Advisory priority
Performance Management	Sept 2020	Satisfactory	Two Medium, One Low/Advisory priority

- 2.3 The table overleaf summarises the position regarding 2020/21 projects as at 4 September 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	1	3
Draft Report Issued	4	14
In Fieldwork/Quality Review	0	0
In Planning/Terms of Reference Issued	5	17
Allocated	15	52
Not Yet Allocated	0	0
Cancelled	4	14
Total	29	100

#### Proposed Audit Plan Changes

- 2.4 No audit plan amendments have been proposed since the last committee meeting. Members may recall being advised at the last committee meeting that 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 return to Audit Plan delivery at this Council, audits are now underway and it is anticipated that all remaining planned audits will commence going forward.

#### Critical and High Priority Recommendations

- 2.5 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.
- 2.6 The schedule attached at Appendix B details any outstanding Critical and High priority audit recommendations.

#### Performance Management

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

Performance Indicator	Annual Target	Profiled Target	Actual to 4 Sept 2020
<b>1. Planned Days</b> – percentage of actual billable days against planned chargeable days completed	95%	25% (68/270 days) Note (1)	26% (69.5/270 days)
<b>2. Planned Projects</b> – percentage of actual completed projects to draft report stage against planned completed projects	95%	20% (5/25 projects)	20% (5/25 projects)
<b>3. Client Satisfaction</b> – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100% (4 received) Note (2)
<b>4. Number of Critical and High Priority Audit Recommendations agreed</b>	95%	95%	No High priority recommendations have been made

Note (1) - this reflects the delay in starting to deliver the 2020/21 Internal Audit Plan.

Note (2) – the 4 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				
<b>Key Financial Systems – 64 days</b>									
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	0.5	In Planning
Business Rates						6	Yes	0.5	In Planning
Housing Benefits						6	Yes	0	Allocated
Asset Management						8	Yes	0	Allocated
<b>Operational Audits – 109 days</b>									
Customer Services						0	N/A	0	Cancelled
My View (Payroll self service)						10	Yes	0	Allocated
Grounds Maintenance						10	Yes	0.5	In Planning
Car Parking						10	Yes	0	Allocated
Emergency Planning						0	N/A	0	Cancelled
Development Control						10	Yes	0	Allocated
Facilities Management						10	Yes	9.5	Draft Report Issued
Waste Management (follow-up)						2	Yes	1.5	Draft Report Issued
Fly Tipping						10	Yes	2	TOR Issued
Food Safety						0	N/A	0	Cancelled
Climate Change & Sustainability						7	Yes	0	Allocated
Tree Management						10	Yes	9.5	Draft Report issued
Performance Management	Satisfactory	0	0	2	1	10	Yes	10	Final Report Issued

**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	9.5	Draft Report Issued
<b>IT Audits – 12 days</b>									
Payment Card Industry Compliance						6	Yes	1.5	TOR Issued
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	4	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	4.5	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	1.5	Through Year
Client Liaison						6	Yes	1.5	Through Year
Liaison with External Audit						1	Yes	0.5	Through Year
Plan Monitoring						12	Yes	4.5	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>2</b>	<b>1</b>	<b>290</b>		<b>69.5</b>	

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**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 (Sept 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:                      The purpose for the connection has been recorded                      Appropriate security controls have been enabled on the device connecting to the IT network                      The period of time that the device will require the connection                      All connections are approved before being allowed to proceed.                      Devices connected to the IT network should be reviewed on a routine basis.</p>	<p>The Council has created a Security &amp; 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.</p>	<p>ICT Strategic Partnership Manager.</p>	<p>Network Tools July 2019.                      Intune October 2019.                      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.   <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.                       Financial and resource restrictions have forced the procurement of network tools to financial year 2020/21.   <u>December 2019.</u>                      Revised date as above. It is very rare (if ever) that someone connects</p>	<p>Partially implemented – continue to monitor.</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 (Sept 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> <p><u>September 2020.</u> A verbal update will be provided at the meeting.</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</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	ICT Strategic Partnership Manager.	August 2019 – DR review. April 2020 - VDI upgrade.	<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</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 (Sept 2020)
		<p>systems should take place to provide assurance that recovery could happen within the 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>capacity in the event on one data centre being of offline.</p>			<p>scheduled for October 2019.</p> <p><u>December 2019.</u> Expected completion 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> <p><u>September 2020.</u> A verbal update will be provided at the meeting.</p>	
3.	Information Management (2019/20).	<p><u>Absence of a defined Information Asset Register</u></p> <p>Management should put arrangements in place for a data audit to be performed, the scope of which should include, but not be limited to, the identification and assessment of the information assets held by the Council.</p> <p>Using the results of the data audit, management</p>	<p>The Head of Legal and Democratic Services and Monitoring Officer had joined the Council days before the audit commenced and it was difficult for him to know precisely where the required information had been saved.</p> <p>While initial searches associated with the</p>	Head of Legal and Democratic Services and Monitoring Officer.	September 2020.	<p><u>September 2020.</u></p> <p>This is a new recommendation. It has since been superseded.</p>	<p>This recommendation has been superseded. It is included here for completeness and will not be subject to further monitoring.</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 (Sept 2020)
		<p>should produce an Information Asset Register, which should record the security measures and storage controls implemented to protect each information asset as well as the name of an appropriate information asset owner.</p> <p>Furthermore, management should define the responsibilities of the information asset owners and communicate them to all members of staff.</p>	<p>audit did not locate an Information Asset Register, one has since been located, as has a list of appropriate information asset owners.</p> <p>The Council is currently reviewing its Information Governance arrangements, following which a review of the aforementioned Information Asset Register has been prioritised to ensure it is fit for purpose and up to date. This is similarly true for the list of information asset owners as well.</p>				

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

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

**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>Service</b>	<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>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

### Progress with delivery of the 2020/21 Anti-Fraud Plan

### Recommendation

Members are recommended to:

Note the work of the Council and the Shared Anti-Fraud Service in delivering the **2020/21 Anti-Fraud Plan**

## Contents

Introduction

1. Background
2. Summary of all anti-fraud activity at EHC- Quarters 1 to 2 combined

Appendix

- A. EHC Anti-Fraud Plan 2020/21
- B. SAFS KPI performance

## Introduction

This report provides details of the work undertaken to protect the Council against the threat of fraud and the Council's 2020/21 Anti-Fraud plan. 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 fraud risks and finding ways to mitigate or manage these effectively wherever possible.

These reports include:

***Fighting Fraud and Corruption Locally a Strategy for the 2020's.*** This document replaces the previous 2016-2019 Strategy on which all current Anti-Fraud Plans are based however, much of the format/themes/content of the previous document are retained with key changes being around the governance and 'ownership' of anti-fraud and corruption arrangements.

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

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

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

- 1.1 According to reports from CIPFA, National Audit Office (NAO), Cabinet Office, and the Private Sector, fraud risk across local government in England exceeds £2.billion each year, with some more recent reports indicating levels considerably above this.
- 1.2 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.
- 1.3 It is essential that to support this service the Council has in place a robust framework to prevent and deter fraud, including effective strategies and policies, as well as plans to deal with the investigation and prosecution of identified fraud.
- 1.4 East Herts Council is a founding member of the Hertfordshire Shared Anti-Fraud Service (SAFS). This Committee has previously received detailed reports about the creation of SAFS, and how this service works closely with the Shared Internal Audit Service (SIAS). SAFS works across the whole Council dealing with many aspects of fraud, from deterrence & prevention to investigation & prosecution.

## 2. Anti-Fraud Activity 2020/21

### Staffing & Resources

- 2.1 In May 2020 (delayed from March due to Covid) this Committee approved the 2020/21 Anti-Fraud Plan for the Council and KPIs for SAFS to achieve in respect of delivery of the plan. See **Appendix A** for details of the Plan and **Appendix B** for progress with delivery and KPI Performance.
- 2.2 The SAFS Team this year is composed of 18 accredited and trained counter fraud staff and is based at Hertfordshire County Council's offices in Stevenage.
- 2.3 Each SAFS Partner receives dedicated support and response. This is achieved by allocating officers to work in each Partner, but also allowing all officers to work with different Partners from time to time. Providing the Service in this manner allows officers to develop working relationships with Council staff, and also provides improved resilience and flexibility across the Partnership as a whole. SAFS Officers have access to Council offices, officers, systems & data to conduct their enquiries.
- 2.4 For 2020/21 SAFS has deployed one Counter Fraud Officer to work exclusively for the Council, and this officer is supported by SAFS Management and the SAFS Intelligence Team, based at Stevenage, which includes expertise in open source investigations, statutory data-matching, data-analytics and financial investigations.

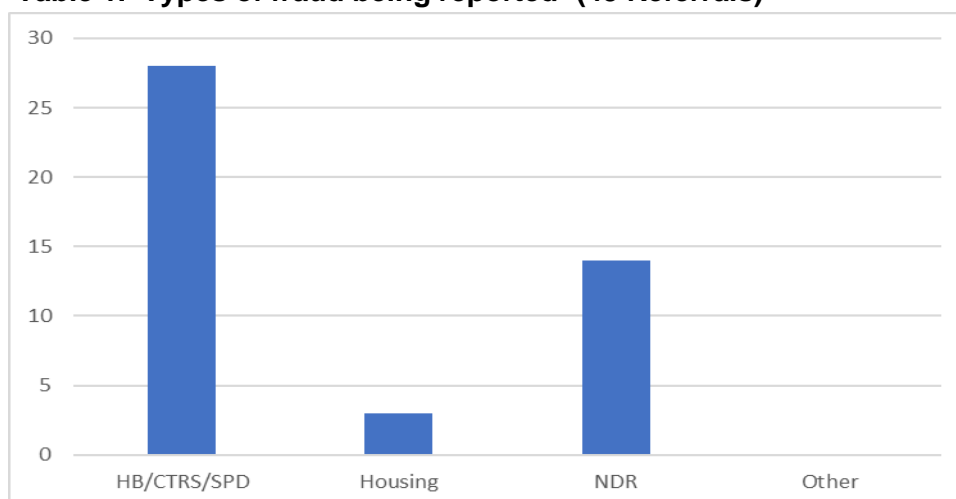
Fraud Awareness and Prevention

- 2.5 One of the key aims for the Council is to create an 'Anti-Fraud' culture that will deter fraud; encourage senior managers and Members to consider the risk of fraud when developing policies or processes to prevent fraud occurring; encourage staff and the public at large to understand the impact of fraud on the Council and to report fraud where it is identified.
- 2.6 Council and SAFS officers have been reviewing and updating the Councils anti-fraud policies to bring them in line with current best practice.
- 2.7 The Council will take part in several fraud awareness/prevention s in the current year including the International Fraud Awareness Week in November. These campaigns encourage residents to protect themselves from fraud and report fraud that they suspect may impact on the Council. SAFS have worked with the communication teams at all Partners to develop social media campaigns with shared messages that will be shared across Hertfordshire.
- 2.8 The SAFS webpage – [www.hertfordshire.gov.uk/reportfraud](http://www.hertfordshire.gov.uk/reportfraud) includes an online reporting tool. A confidential fraud hotline (0300 123 4033) and a secure email account are also available for reporting fraud – [fraud.team@hertfordshire.gov.uk](mailto:fraud.team@hertfordshire.gov.uk) . These contact details are also available on the Councils own website and intranet. None of these functions replace the Council's own Whistleblowing reporting procedures. Council staff can use the same methods to report fraud or contact SAFS officers working at the Council offices.
- 2.9 Alongside the Councils HR team SAFS maintains the delivery of its e-training package for staff to raise awareness of fraud as a risk. This training package is hosted on the Councils intranet. Additional training for front line staff is being agreed with service leads and will be delivered via Teams/Zoom/Skype for the remainder of this year.

Counter Fraud Activity & Reported Fraud

- 2.10 Between April and August SAFS has received a total of 45 allegations of fraud affecting Council services.

**Table 1. Types of fraud being reported- (45 Referrals)**

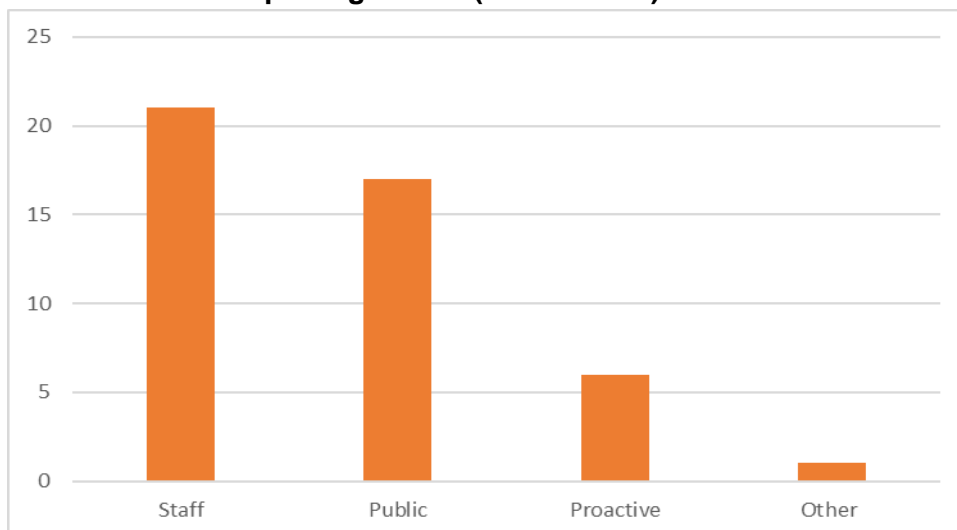


'HB/CTRS/SPD'- Housing Benefit/Council Tax Reduction Scheme/ Single Person Discounts

'NDR'- National Non-Domestic Rates or Business Rates.



**Table 2. Who is reporting Fraud- (45 Referrals)**



*'Proactive' - includes all data matching/ analytics activity*

- 2.11 SAFS also carried forward 22 live cases from 2019/20.
- 2.12 At the time of this report many cases raised for investigation are still in the early stages, however, of the 32 investigations still under investigation the estimated fraud loss and savings combined exceed £300k.

**'Fraud Loss' is where a fraud has occurred resulting in a debt that can be recovered through civil/statutory routes. 'Fraud Savings' reflect attempted frauds that have been prevented or an ongoing 'Loss' that has been stopped.**

- 2.13 A number of cases have been delayed or suspended due to the restrictions with face to face interviews impaired by social distancing and some cases where SAFS works with other agencies, in particular the Department for Work and Pension (DWP), have been delayed as staff working for the DWP have been diverted to the delivery of Universal Credit during the Covid crisis.

*SAFS Response to Covid-19*

- 2.14 SAFS moved to a home working service in accordance with HMG and HCC guidance in mid-March. It became apparent very quickly that the Covid-19 outbreak and responses to it, both nationally and locally, would create opportunities for fraudsters to exploit.
- 2.15 In February 2020, the Government had published its ***Fraud in Emergency Management and Recovery principles***, this publication couldn't have been more opportune and SAFS recent close involvement with the Cabinet Office put us in unique position to be able to share this guidance with those involved in the county-wide response to the outbreak and our own support for SAFS Partners.
- 2.16 The areas that have seen the most focus from SAFS have been as follows:

- Support with the NDR / Small Business Relief (SBR) Grant/ discount schemes. Within 3 days of the governments published guidance on its SBR grants /discount scheme, we had procured Destins SBR Review system. This bespoke system helps to identify businesses who appeared to be eligible for grants but had ceased trading prior to the relevant date in March. As well as procuring the system for each District Council, we also arranged for training of staff. SAFS staff undertook several data-cleansing exercises for each council, including NHDC, by the second week in April.
- SAFS also provided guidance and support to NDR Teams on the services provided NAFN, CIFAS and the 'Spotlight' system from the Cabinet Office. Currently, SAFS have several cases under investigation where fraudulent applications for grants appear to have been made and we are working closely with NDR teams to resolve these.
- Enhanced alerts around mandate / phishing frauds from national bodies including Cabinet Office, CIFAS/CIPFA/ NFIB, Herts Police and NAFN. We are providing alerts to all SAFS Partners of new and emerging fraud threats and, where these are being identified or reported by SAFS Partners, we are sharing this intelligence with Action Fraud, Trading Standards, NCSC and CIFAS.
- SAFS are working on at least two sophisticated phishing email attacks against two SAFS Partners both of which where the resultant losses could have been or were significant. SAFS are working with a variety of agencies investigating these cases. Where system weaknesses were identified these have been addresses locally and new policies/procedures and additional staff training have been put in place.
- SAFS IS assisting in a national scam email to local councils attempting to obtain data about local businesses in the hospitality and pharmacy sectors so that fraudulent grant applications can be submitted.
- Phishing emails sent to residents purporting to be from local councils or Government offering grants/refunds - these are aimed at obtaining bank account details and can range from the obviously fraudulent to very clever emails closely mimicking genuine HMRC correspondence. We have set up a specific alert with SAFS Partner CSC teams so that we can collate and share this intelligence nationally.
- We are also working with all comms, HR and IT Teams and developing the SAFS webpages to better inform the public to protect them and their data. This activity also applies to local businesses that have also been targeted using similar methods and we are working with the local police business watch scheme- OWL.
- SAFS has been liaising nationally and regionally with other LA groups and counter fraud services and has utilised it's 'Knowledge Hub' site to share best practice and initiatives as well as requesting support and guidance from LACAN and the South East Counter Fraud Group, London Fraud Forum and others. These networks have provided assurance that SAFS response at present is appropriate and targeted on the right areas for the all partners.

*Proactive and Prevention Activity*

- 2.14 SAFS manage the framework contract for all councils in Hertfordshire to conduct bulk reviews of council tax discounts and exemptions, improving collection and preventing fraud. These services are provided with split in costs between Hertfordshire County Council, the Police and Crime Commissioner, and district and borough councils. The Councils Shared Revenue and Benefit Service plans to make use of this Framework in 2020/21.
- 2.16 SAFS continues to work in partnership with the DWP to share data and evidence where fraud impacts on local welfare schemes, such as Council Tax Support or Housing Benefit, and national schemes, such as Income Support and Job Seekers Allowance or Universal Credit.
- 2.17 SAFS officers have ensured the Council's compliance with the National Fraud Initiative (NFI). The NFI is a nationwide statutory anti-fraud data sharing exercise conducted by the Cabinet Office every two years across local and central government. The next extract and upload of data from the Council is due in October, as part of NFI 2020/21, and we are working with Council officers to make sure that relevant data-sets can be identified and officers trained to conduct the upload in accordance with legislation.
- 2.18 The Council is planning to join the Hertfordshire FraudHub in 2020. This project operates using the same legal framework as the two yearly NFI but allows data to be matched more frequently helping to prevent fraud or detecting it sooner. Council and SAFS officers are currently working on the legal process required to being data-uploads. We will keep Members informed with the progress of with this new project.

## **Appendices**

- A.** EHC Anti-Fraud Plan 2020/21
- B.** Performance against SAFS KPIs.

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**East Herts Council  
Anti-Fraud Plan 2020/2021**

**in partnership with**

**The Shared Anti-Fraud Service**



**SAFS**

Shared Anti-Fraud Service  
Fighting Fraud in Partnership

## Contents

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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 of 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.

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 exceeded £7bn in 2016/2017 excluding housing benefit fraud & council tax fraud.

In 2019 the National Crime Agency’s *Public Private Threat Update- (Economic Crime)* for 2018 identified that reported nationally fraud loss had increased by 38% on the previous year and incidents of fraud crime had increased by 9%. The report highlights insider fraud, cyber enabled fraud and identity fraud as key areas of risk.

In CIPFA’s *Counter Fraud and Corruption Tracker 2019 – Summary Report* reported fraud in local government had a downward trend in 2018/19 compared to previous years, in particular in relation to tenancy and social housing fraud. The report mentions that this trend may be indicative of action taken by local government to prevent this type of fraud. But that report goes on to suggest that the three biggest areas of fraud risk for local government remain procurement, council tax and adult care services.

The Council has always accepted and acknowledged that it is at risk of significant fraud and it is clear that the increasing upward trend of reported fraud nationally requires the Council to ensure that it has in place robust processes and strategies to reduce the opportunity for fraudsters to attack the Councils finances.

The CIPFA ***Local Government Counter Fraud and Corruption Strategy (2016-2019)*** provides a strategic response for local government to deal with the threat of fraud and 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. A new strategy will be announced in March 2020 and this expected to follow the same six themes or 6C’s:

- 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

What is clear is that every pound lost from the public purse, due to fraud, is a pound lost from front line services. The Councils Anti-Fraud Plan 2020/2021 is based on the principles of ‘Acknowledge/ Prevent/ Pursue’ and the 6 C’s to ensure the Council is adequately protected against the risk of fraud and that, where fraud does occur, there are plans to manage, mitigate and recover losses.

## **SAFS Resources 2020/21**

### **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. In 2019 the SAFS Partnership won awards for '*Significant Contribution*' at the Fighting Fraud and Corruption Locally Awards and the '*Outstanding Partnership*' award at the Tackling Economic Crime Awards.

SAFS is a Partnership with each organisation paying an annual fee for Hertfordshire County Council to provide a contracted service across the whole Partnership. SAFS, as a service, has a number of key objectives developed by its Management Board (the Board) and every Partner has a seat on that Board. For East Herts Council the Interim 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 January 2020 the SAFS Board accepted a report from the Head of SAFS to increase the fees for all Partners in line with a cost of living increase to meet increased staff costs. The Board also received assurance from financial modelling that the service would be sustainable, in its current form, for the next three years.

The Board agreed that the annual fee for all Partners would increase by 2% per annum to 2021 and would be reviewed further at that time.

Fees for East Herts Council in will increase from £81,600+ VAT (2019/20) to £83,232+ VAT (2020/21).

### **Staffing**

The full complement of SAFS in 2020/2021 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 0.6 FTE Accredited Financial Investigator, both posts are funded from SAFS Budgets.

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 three Audit Committees reports per annum. The Accredited Financial Investigator is also available to assist in money laundering or proceeds of crime investigations.

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



## **SAFS - 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 of fraud and fraud prevention
  - 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 cases selected 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 2020/2021

CIPFA Principles	Goals & 6Cs	Activities	Responsible Officer
<b>ACKNOWLEDGE</b>	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 Performance, Audit and Governance Committee and Senior Managers ensure compliance with CIPFA best practice in the Councils 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 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 Access to SAFS fraud reporting tools (web/phone/email) for staff, public and elected Members. The Council and SAFS will provide fraud awareness & specific anti-fraud training across all Council services and review the E-Learning training available 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
	Co-ordination of effort, sharing of best practice, data, fraud alerts and new threats. <b>COLLABORATION</b>	Develop the Councils use of the Herts <i>FraudHub</i> and report the benefits of this initiative to the Council. SAFS will work with all Council services to make best use of 3rd party providers such as NAFN, PNLD, CIPFA, CIFAS, SAS and Hoovu Deliver the NFI 2020/2021 Exercise Continue to work with DWP to deliver CTRS/HB joint working 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
	Have the highest levels of professional standards <b>COMPETENCE</b>	All SAFS staff will be fully trained and accredited Review data sharing agreements/protocols to ensure compliance with DEA & GDPR/DEA 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 that all SAFS Staff will join.	SAFS Manager Monitoring Officer / SAFS Manager SAFS Manager s.151 Officer/ SAFS Manager
<b>PURSUE</b>	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 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 Legal Service a HR and debt recovery teams will seek to 'prosecute' offenders, apply sanctions and recover financial losses	SAFS Manager/ s.151 Officer SAFS Manager SAFS Manager SAFS Manager /Monitoring Officer/ s.151 Officer/ Head of Shared R&B Service
	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 SAFS will assist the Council in providing its Transparency Code (Fraud) Data for 2019/2020 Reports for Audit Committee on all Counter Fraud activity at the Council 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

SAFS

KPIs 2020/21

KPI	Measure	Target 2020/21	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.	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/ R&B Liaison Meetings.	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.	Ensure that all cases of reported fraud are triaged within agreed timescales.
4	Added value of SAFS membership.	A. Membership of NAFN & PNLD B. Membership of CIPFA Counter Fraud Centre C. NAFN Access/Training for relevant Council Staff D. 5 Fraud training events for staff/Members in year.	Deliver additional services that will assist in the Council in preventing fraud across all services and in the recovery of fraud losses.
5	Allegations of fraud received. & Success rates for cases investigated.	A. All reported fraud (referrals) will be logged and reported to the Council by type & source. B. 60% of cases investigated and closed in year with a positive outcome. C. All cases investigated will be recorded and the financial value, including loss/recovery/ savings of each, Reported.	This target will measure the effectiveness of the service in promoting the reporting of fraud & measure the effectiveness in identifying cases worthy of investigation.
6	Making better use of data to prevent/identify fraud.	A. Develop the Hertfordshire FraudHub for the Council. B. Support the NFI 2020/21 data upload for the Council. C. Consider other areas where the better use of data will benefit the Council financially.	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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## SAFS – EHC

## KPIs 2020/21

KPI	Measure	Target 2020/21	Performance to August 2020
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.	Reports to SAFS Board in June 2020 and September 2020. EHC S.151 sits on the SAFS Board.
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/ R&B Liaison Meetings.	A. FTE left on Mat Leave in April 2020 but replacement CFO has covered vacancy B. Reports to A&G Comm in May 2020 and September 2020 and third report planned for March 2021. C. SAFS has close working with relationship with R&B and regular liaison is taking place.
3	Action on reported fraud.	A. All urgent/ high risk cases 2 Days. B. All other cases 5 Days on Average.	A&B. both being met within 2 days at present.
4	Added value of SAFS membership.	A. Membership of NAFN & PNLD B. Membership of CIPFA Counter Fraud Centre C. NAFN Access/Training for relevant Council Staff D. 5 Fraud training events for staff/Members in year.	A. SAFS has access to both and EHC staff can access NAFN B. SAFS Mgt are members of the CF Centre. C. See A above. D. Training events are being developed with HR.
5	Allegations of fraud received. & Success rates for cases investigated.	A. All reported fraud (referrals) will be logged and reported to the Council by type & source. B. 60% of cases investigated and closed in year with a positive outcome. C. All cases investigated will be recorded and the financial value, including loss/recovery/ savings of each, Reported.	A. This is happening daily as referrals received B. This is being monitored and will be included in SAFS year-end report. C. This is happening daily as cases are investigated/closed.
6	Making better use of data to prevent/identify fraud.	A. Develop the Hertfordshire FraudHub for the Council. B. Support the NFI 2020/21 data upload for the Council. C. Consider other areas where the better use of data will benefit the Council financially.	A. A fraud-hub approach is being taken where data/knowledge/experience/expertise is shared across SAFS [Partners]. B. SAFS are fully supporting EHC compliance with NFI 2020/21 C. This includes the Herts Fraud-Hub as well as specific one-off data-matching/analytics.

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## East Herts Council Report

### Audit and Governance Committee

**Date of Meeting:** 22 September 2020

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

**Report title:** Strategic Risk Monitoring 2020/21- Quarter One

**Ward(s) affected:** All

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### Summary

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

**(a) The Strategic Risk Register be reviewed and officers advised of any further action that could be taken to manage risk.**

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

1.1 Quarterly monitoring of the Strategic Risk Register has resumed in 2020/21 and this report details the controls introduced during quarter one.

#### **2.0 Background**

2.1 Performance, Audit and Governance Oversight Committee received a report on 19 May 2020 proposing the content of the Strategic Risk Register for 2020/21. The committee also reviewed the Risk Management Strategy for the year.

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

3.1 Public services are facing unprecedented challenges and the effective management of risk is needed more than ever. Our

risk-managed approach to decision making will help the council achieve objectives and deliver services more efficiently.

3.2 Given both the pandemic and the break in risk reporting, the report submitted in May 2020 included mitigating actions (controls) introduced or planned. The report reflected the position at the end of April rather than a specific time period. This report records the quarter one position.

3.3 In addition to the updated controls listed there have been minor updates to the finance risk description. The target impact score for risk 8, business economy, has been reduced from 3 to 2. No other descriptions or scores have changed. (The scoring matrix is included at the foot of the register.)

#### **4.0 Options**

4.1 Members of the Performance, Audit and Governance Committee were advised in in May that, new for 2020/21, Leadership Team would monitor the highest level service, project and corporate risks. However the Communications, Strategy and Policy team has since commenced a quarterly report on major projects. As that report also covers risk, the report proposed is not considered necessary. It had been the intention to record these lower-level risks on Pentana for Members to view which will no longer happen.

4.2 Contrary to expectations it has not yet been possible to upload strategic risks to Pentana Performance, although given the reports to this committee, use of Pentana may not be necessary in any event.

#### **5.0 Risks**

5.1 Embedding risk management produces many benefits for the Council which are documented within the Risk Management Strategy presented at May's meeting.



## **6.0 Implications/Consultations**

6.1 Leadership Team proposed the content of the register in February 2020 and agreed the updated content in August 2020.

### **Community Safety**

No

### **Data Protection**

No

### **Equalities**

No

### **Environmental Sustainability**

No

### **Financial**

Risk management can provide protection of budgets from unexpected losses. Better governance can be demonstrated and the annual audit plan is risk based.

The 'resources' item within the Strategic Risk Register deals with financial pressures and several other entries will have financial impacts.

### **Health and Safety**

None specific but risk management processes can provide a safer environment across the District and all services for the benefit of the public, staff and our contractors.

Compliance reports are submitted by the Health and Safety Officer to Safety Committee, Leadership Team, Human Resources Committee and Executive.

## **Human Resources**

The fourth item within the Strategic Risk Register details the risk of not having the capacity or skills to deliver services, staff recruitment and retention, succession planning etc.

## **Human Rights**

No

## **Legal**

One strategic risk specifically concerns legislation and several other risks touch on legal matters.

## **Specific Wards**

No

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

7.1 Please see the Strategic Risk Register at Appendix 1.

### **Contact Member**

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### **Report Author**

Graham Mully, Insurance and Risk Business  
Advisor  
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	Title	Description	Current		Target		Owner	Controls introduced or planned in 2020/21 quarter 1.
			likelihood score	impact score	likelihood score	impact score		
1	Resources	<ul style="list-style-type: none"> <li>The lockdown has caused a loss of income of approximately £800,000 per month. The restrictions are now easing but it is likely to take some time for people to return to their previous patterns of behaviour.</li> <li>Medium Term Financial Plan included a range of projects to reduce net expenditure. At the moment it is unclear when, and in some cases if, these projects can be delivered.</li> <li>Total Government support of just over £1.7 million has been received. However, it remains unclear whether all of the Council's losses will be funded by central government.</li> <li>Once the economy has started to recover, the Government will have to determine how it will manage public finances going forward. It is possible that a new phase of austerity may follow and central</li> </ul>	3	3	3	3	Interim Head of Strategic Finance and Property	<p>Assistance is being provided to support local businesses to try and ensure the local economy can recover strongly when restrictions are lifted.</p> <p>Information is being provided to central government to highlight the financial difficulties and lobbying is being undertaken by the Society of District Council Treasurers, the District Councils Network and the Local Government Association.</p> <p>The Medium Term Financial Plan will be updated and amended to reflect the council's changed circumstances and future prospects. It may be necessary to seek additional efficiencies to replace or supplement those already planned.</p>

	funding for district councils is likely to be limited.						
Political change (local or national)	<ul style="list-style-type: none"> <li>• Planning policy changes.</li> <li>• Devolution.</li> <li>• Leadership / management culture.</li> <li>• Environmental sustainability and the need for carbon reduction across the council with an ambition to become carbon neutral by 2030.</li> <li>• Brexit risks: <ul style="list-style-type: none"> <li>• Potential project delays due to labour shortages or materials imports, or increased project costs due to tariffs or supply chain difficulties.</li> <li>• Settled status for EU nationals with only half of the 4,000 registered in District having applied for settled status.</li> <li>• Risk to business growth.</li> </ul> </li> </ul>	3	3	3	2	Chief Executive	<p>It is likely that we will see significant changes to both national and local policies following from COVID-19.</p> <p>Both officers and Members are engaged in networking and lobbying to seek to influence change and to gain early indications of new policies.</p> <p>Officers are considering the lessons from how the Council has been able to operate during the crisis. It is evident that working from home is possible on a greater scale and this will have implications for our future accommodation needs.</p>

3	Performance, resilience and security of IT systems	<ul style="list-style-type: none"> <li>• Risk of data breach / loss, business continuity incident or poor performance impacting service delivery.</li> <li>• Changing demand on council services and the requirement to invest in and encourage online interaction with customers.</li> </ul>	3	3	2	2	Deputy Chief Executive	<p>IT provision was greatly tested following the lockdown due to COVID-19. We were able to respond swiftly and effectively, enabling over 700 staff across the shared service to continue in their roles working from home. Road map implemented for ensuring IT security. Digital By Design work stream established and One Page Plan completed.</p> <p>Employees and members continue to deliver council services remotely and meetings are now conducted through video conferencing. In general IT systems have held up enabling the council to continue to support residents and businesses.</p>
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4 Page 74	Capacity and skills to deliver services	<ul style="list-style-type: none"> <li>Recruitment and retention of staff.</li> <li>Capability and skills to deliver services and projects.</li> <li>Succession planning.</li> </ul>	3	2	2	2	Head of HR and Organisational Development	<p>The temporary labour supply arrangement went live in April 2020 which will reduce fees paid to agencies and ensure wider pool. A similar arrangement for consultants is being implemented and goes live in August 2020. A new online presence has been set up with Indeed to both improve the employer brand and to provide a more cost effective online recruitment presence; this went live from 1<sup>st</sup> of June. Ongoing work has begun with the Comms team and HR to improve the online presence and promote the employer brand further. Staff turnover has reduced for the 19/20 period to 10.1% from 19% meaning that the regrading and pay proposals appear to have aided attraction and retention as planned. Career graded posts are continuing to be used with the projects team creating a further post in July as part of a restructure. A review of apprentices and the professional training pot is underway to ensure it supports succession</p>
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								planning but recruitment of new apprentices has been delayed by the pandemic and changes to standards. A wellbeing survey has been undertaken and followed up on to ensure staff are supported during the pandemic alongside a number of wellbeing and effective ways of working initiatives to further support employee wellbeing and the retention of staff.
5	Poor performance or failure of key partner or contractor	<ul style="list-style-type: none"> <li>• Risk that supplier, contractor or key third sector partner fails or fails to deliver.</li> <li>• Impact on services.</li> <li>• Delays to key projects and financial consequences.</li> </ul>	2	3	1	3	Chief Executive	Regular discussions are continuing with contractors and key third sector partners to ensure no failures in delivery.

6 Page 76	Infrastructure / growth	<ul style="list-style-type: none"> <li>• Delivery of strategic projects and the risk that residents and key stakeholders are not supportive.</li> <li>• Management of housing growth to ensure that new developments are controlled, provide sustainable communities and with appropriate infrastructure in place. Threat to existing employments sites and the need to ensure that new sites are provided.</li> <li>• Reliance on partners and stakeholders.</li> </ul>	2	3	2	3	Chief Executive	<p>Grange Paddocks and Northgate End construction work is underway.</p> <p>Delays to the Hertford Theatre and Hartham Leisure Centre Projects but public consultation now underway.</p> <p>Project delivery will be kept under constant review as government guidance changes.</p>
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7	Legal	<ul style="list-style-type: none"> <li>• Risk of avoidable data breach caused by action of staff, contractors or partners, or resilience of systems.</li> <li>• Use of third party systems for virtual meetings during COVID-19 pandemic and potential security problems associated with this.</li> <li>• Capacity to respond to changing legislation after Brexit.</li> <li>• Alternative service delivery models.</li> <li>• Effective management of both large scale development projects and major procurement exercises.</li> </ul>	2	3	2	3	Head of Legal and Democratic Services	<p>Training provided re Zoom and centralised controls imposed on the East Herts corporate account requiring increased security features be enabled.</p> <p>COVID-19 restrictions for holding physical/hybrid meetings slowly being relaxed making reliance on software for virtual meetings less important.</p> <p>Steps being taken to address long term capacity and capability to respond quickly. Proposals for Legal Services restructure to be presented to Leadership Team in the near future.</p> <p>Mandatory data protection e-learning for staff, along with scam detection training.</p>
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8 Page 78	Business economy	<ul style="list-style-type: none"> <li>• Ability to attract, sustain and nurture businesses within the District. Insufficient space for existing business to grow.</li> <li>• Risk of being unable to ensure employment land is provided alongside new developments, or that employment land is lost to housing development.</li> <li>• Likelihood of a global recession following COVID-19 pandemic increased leading to increase in unemployment, low business growth and commercial property values decreasing significantly.</li> <li>• Loss of low skilled labour and exchange rates post Brexit could further increase risk to businesses.</li> </ul>	3	3	2	2	Head of Communications, Strategy and Policy	<p>2 stage approach to mitigating recession following COVID-19:</p> <p>Council has supported over 2200 businesses with £30m of government funded grants and £18m of reliefs.</p> <p>Further work in each town centre underway in conjunction with town councils, police and business representative organisations focusing on a #ShopLocal campaign whilst encouraging social distancing measures. £132k of ERDF funding for re-opening the high streets safely will be administered between now and 31 March 2020.</p> <p>Council also commissioning a new service with Broxbourne Borough Council and the CVS to support newly unemployed residents get back into work by supporting them with digital skills such as interviewing over Zoom and MS Teams.</p> <p>European Regional Development</p>
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								<p>Fund project to support businesses will hopefully launch in summer 2020. This will provide a step change in our approach by targeting specific sectors as well as growing the Ware and Bishop's Stortford Launchpad.</p> <p>Development of 20 Ha new employment land at key sites is being supported through the master planning process.</p> <p>Steps being taken to protect existing employment land through introduction of Article 4 Directions on designated sites in January 2021 and robust negotiations on mixed development schemes in key sites such as Caxton Hill and the Goods Yard.</p>
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Page 80	COVID-19 (Coronavirus) pandemic	<ul style="list-style-type: none"> <li>Business continuity incident and emergency planning response, specifically resulting from the COVID-19 pandemic.</li> </ul>	3	3	2	3	Head of Health and Housing	<p>Pandemic Business Continuity Plan updated.</p> <p>Legal advice sought for all major contracts in terms of force majeure.</p> <p>Comprehensive guidance placed on the intranet on homeworking, health and safety and HR matters.</p> <p>Increased use of video conferencing for remote workers.</p>
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Likelihood	Description		Likelihood of occurrence		Probability of occurrence	
	3	Probable	Annually	The event will probably occur		
	2	Possible	1 in 5 years	The event may occur		
	1	Unlikely	Less frequently than 1 in 5 years	The event may occur in exceptional circumstances		
Impact	Description		Financial	Reputation	Service / operation	
	3	Significant	> £400,000 p.a.	Adverse national media	Major fall in service quality	
	2	Moderate	£100,000 to £400,000 p.a.	Adverse local media	Significant fall in service quality	
	1	Minor	< £100,000	Public concerns restricted to local complaints	Little impact to service quality	

Impact	Significant			High
	3			
	Moderate		Medium	
	2			
Minor	Low			
1				
		Unlikely 1	Possible 2	Probable 3
		<b>Likelihood</b>		

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# East Hertfordshire District Council Audit results report

Year ended 31 March 2020  
8 September 2020



Building a better  
working world

Agenda Item 8



Audit and Governance Committee  
East Hertfordshire District Council  
Wallfields, Pegs Lane  
Hertford, SG13 8EQ

8 September 2020

Dear Members,

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of East Hertfordshire District Council (the Authority) for 2019/20.

At the date of this report our audit of the Authority's accounts for the year ended 31 March 2020 is substantially complete. However, subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report. As set out on pages 6 to 9, as per our update to the Committee in May 2020, the Covid-19 pandemic has impacted the statements and our audit opinion. We have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit and Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the meeting on 22 September 2020.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl



# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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



# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report tabled at the March 2020 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions which we reported to the Committee in May 2020:

### Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

### Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of Property Plant and Equipment** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation report produced by the Authority's external valuer. We considered that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment. This is particularly relevant for assets valued at fair value (such as investment properties) or some valued at existing use value (EUV) or value of land on which specialised assets sit because of the paucity of reliable market information available at 31 March 2020 upon which to give those valuations. We have recognised the valuation of investment properties and other land and buildings valued using market data as a significant risk.
- ▶ **Disclosures on Going Concern** - The pandemic has had a significant impact on the Authority's finances and as a result there was a need for the Authority to revisit and update financial plans for 2020/21 and the medium term financial plan. We determined that the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance.
- ▶ **Events after the balance sheet date** - We identified an increased risk that further events after the balance sheet date concerning the Covid-19 pandemic would need to be disclosed. The amount of detail required in the disclosure needs to reflect the specific circumstances of the Authority.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 has been deferred until 1 April 2021. We therefore no longer considered this to be an area of audit focus for 2019/20.
- ▶ **Impairment of receivables** - We identified impairment of receivables as a new area of focus. The Authority holds material third party receivable balances as at 31 March 2020. There is a risk of increasing amounts written off as irrecoverable and impairment of year-end balances due to the potentially increasing number of businesses and residents unable to meet their financial obligations. We have reviewed significant judgements made by management.

# Executive Summary

## Scope update

### Changes to the scope of our audit as a result of Covid-19

- ▶ As the Authority holds material land and buildings, which are valued at market value, we have engaged our own experts to support our audit procedures.

**Changes in materiality** - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 2% of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.490m (Audit Planning Report – £1.590m). This results in updated performance materiality, at 75% of overall materiality, of £1.118m, and an updated threshold for reporting misstatements of £0.079m.

**Information Produced by the Entity (IPE):** We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- ▶ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- ▶ Agree IPE to scanned documents or other system screenshots.

### Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.

The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Authority and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We will determine the impact on our audit fee and discuss with the Interim Head of Service at the conclusion of the audit.

# Executive Summary

## Status of the audit

We have substantially completed our audit of East Hertfordshire District Council financial statements for the year 31 March 2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- ▶ Completion of procedures on property valuations
- ▶ Completion of procedures on the pension disclosures where we are awaiting an assurance letter from the auditor of Hertfordshire Pension Fund
- ▶ Clearance of queries arising from review by Associate Partner and Manager
- ▶ Santander bank confirmation
- ▶ Completion of EY internal consultation process
- ▶ Review of the final version of the financial statements
- ▶ Completion of our final review processes
- ▶ Completion of subsequent events review
- ▶ Receipt of the signed management representation letter.

Owing to changes made by Treasury to the Whole of Government Accounts (WGA) timetable, we do not expect to issue the audit certificate at the same time as the audit report.

Our audit opinion will emphasise the following:

- ▶ Valuation of investment properties and other land and buildings valued using market data - We will include an "emphasis of matter" paragraph to draw users attention to the valuation uncertainty disclosure in Note 3 of the accounts. This is not a modification to the audit report.

In addition, we are currently considering that for Going concern, we will not include an emphasis of matter paragraph given the limited financial impact on the Authority of the Covid-19 pandemic. This is subject to internal EY consultation.

## Audit differences

At the time of writing, there is one unadjusted audit difference relating to the accounting treatment for investment properties in Millstream. We identified a £100k misstatement of the group's asset revaluation reserve. Management have deemed this to be immaterial. This is explained in more detail at Section 04 below.

There are two adjusted difference we wish to highlight. Firstly, the draft financial statements have been amended take account of the impact of a late pension liability adjustment arising from the McCloud case. The final accounts show a £1.9m decrease to the pension liability balance reported in the draft accounts.

Secondly, our work on the valuation of other land and buildings identified that the Authority's valuer applied incorrect sustainable net income for Jackson Square Car Park. This resulted in an overvaluation of £1.1m which has been adjusted for by the Authority.

# Executive Summary

## Areas of audit focus

Our audit plan and the May 2020 update, identified two significant risks and six areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Valuation of investment property & other land and buildings valued using market data Arising from the impact of the Covid-19 pandemic on the valuation at 31 March 2020	We are awaiting the output of the work of our valuation experts, EY Real Estates (EYRE). We anticipate including an emphasis of matter paragraph in our audit report about the material uncertainty reported by the Authority's valuer. This is not a modification to the audit report but highlighting to the reader an important disclosure.
Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure	We have completed our testing and found no indications that revenue expenditure has been inappropriately charged to capital.

Other area of audit focus	Findings & conclusions
Valuation of other land and buildings valued using the depreciated replacement cost (DRC) basis	We have substantially completed our work in response to this risk, including the work carried out by our valuations specialist, EYRE. However, we are currently awaiting the final output from EYRE to enable us to conclude on this risk.
Pension Valuation and Disclosures	We are awaiting assurances from the auditor of the Hertfordshire County Council Pension Fund.
Business Rates Appeals Provision	We have completed our testing of the business rates appeal provision and have not identified any issues with the calculation of the liability.
Group Accounting	We have completed our testing and noted the Authority's group financial statements have been prepared on an appropriate basis. We have reported an unadjusted audit difference of £100k to the group accounts.  We need to complete our final review of this work.
Impairment of receivables Arising from the impact of the Covid-19 pandemic	We have completed our audit procedures and found that the impairment of receivables is materially stated.



# Executive Summary

## Areas of audit focus (continued)

Other area of audit focus	Findings & conclusions
Going concern	The draft accounts did not include a detailed disclosure note relating to going concern. However, the Interim Head of Service had carried out an assessment of the impact of the Covid-19 pandemic on the Authority's income, expenditure, balances and reserves for the June Audit and Governance Committee. We reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions, particular around reductions in fees and charges. We also discussed with management the need to make specific disclosures in the 2019/20 statements. Subsequently, the Authority has included a going concern disclosure in the statement of accounts. We are satisfied that the disclosure appropriately reflects the impact of the Covid-19 pandemic on the Authority's finances. We are currently not planning to include an emphasis of matter paragraph in our audit report given the limited financial impact reported. This is subject to final EY internal consultation.

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

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

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

# Executive Summary

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, from the results of substantive procedures performed we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statement.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the Authority's delivery of its large capital programme as a significant risk. We have completed our procedures and found that the Authority has the expected arrangements in place to manage the capital programme delivery as they relate to the value for money conclusion.

## Other reporting issues

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

Subject to the finalisation of the areas in the Status of Audit work section, we have no other matters to report.

## Independence

We have no matters relating to our Independence to bring to your attention. Please refer to Section 8 for our update on Independence.





## 02 Areas of Audit Focus

## Significant risk

### Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure

#### What is the risk?

The Authority is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure. Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charge to the comprehensive income and expenditure account.

#### What judgements are we focused on?

We have identified a risk of expenditure misstatement due to fraud or error that could affect the income and expenditure accounts.

We have focused on the Authority's judgement that an item is capital expenditure in nature.

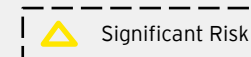
#### What did we do?

Our approach focused on:

- ▶ Sample testing additions to property, plant and equipment to ensure that they had been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- ▶ Using our data analytics tool to identify and test journal entries that moved expenditure into capital codes.

#### What are our conclusions?

- ▶ Our sample testing of additions to property, plant and equipment found that they had been correctly classified as capital and included at the correct value.
- ▶ Our sample testing of additions to property, plant and equipment did not identify any revenue items that were incorrectly classified.
- ▶ Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.





## Areas of Audit Focus

### Significant risk

#### Valuation of investment properties and other land & buildings valued using market data

##### What is the risk?

Covid-19 has impacted the valuation of the Authority's investment properties and other assets valued using market data as outlined by the Authority's valuer. This is because of the paucity of reliable market information available at 31 March 2020 upon which to give those valuations. The Authority has included in Note 3 of the accounts reference to the valuers material uncertainty. There is a risk that the valuation of these assets could be materially misstated.

##### What judgements are we focused on?

The reasonableness of the methodologies adopted by the valuer in undertaking their valuations in 2019/20 and of the key assumptions input into these valuations. In particular assets with reference to fair value/market value. Additionally, we considered assets not revalued in the current year for the potential of material misstatement in valuation as of 31 March 2020.

##### What did we do?

- ▶ Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
  - ▶ Engaged our valuations specialist (EY Real Estates - EYRE) to review a sample of other land & buildings & investment properties asset valuations to verify the reasonableness of the valuation methodology applied and key assumptions used.
  - ▶ Challenged the assumptions used by the valuer. We sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square meter).
  - ▶ Reviewed assets not subject to valuation in 2019/20 to confirm that the valuation of remaining asset base was not materially misstated.
- Checked that the material uncertainty reported by the Authority's valuer was appropriately disclosed in the financial statements.

## Significant risk



### What are our conclusions?

- ▶ We have substantially completed our work in response to this risk, including the work carried out by our valuations specialist, EYRE. However, we are currently awaiting their final output to enable us to conclude on this risk.
- ▶ Our work on the valuation of other land and buildings identified that the Authority's valuer applied incorrect sustainable net income for Jackson Square Car Park. This resulted in overvaluation of £1,119,800 which has now been adjusted for by the Authority.
- ▶ The draft accounts did not include a material valuation uncertainty paragraph reported by the valuer in their valuation report. This was subsequently updated. We have reviewed the disclosure in the financial statements, and consider the disclosure appropriate.
- ▶ Overall our audit work did not identify any material issues at the time of writing this report. However our work on valuations is still in progress and needs to be concluded.



## Areas of Audit Focus



### Other Areas of Audit Focus - Valuation of Other Land and Buildings using DRC method

The fair value of Property, Plant and Equipment (PPE) using depreciated replacement cost (DRC) represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Authority engages an internal expert valuer who applies a number of complex assumptions. Annually, PPE assets are assessed to identify whether there is any indication of impairment (i.e. a reduction in their carrying value).

As the Authority's asset base using DRC method is significant, and the outputs from the valuer are subjective, there is a risk that the fair value of PPE may be under or overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

This risk relates to assets that are revalued, being other land and buildings, surplus assets using DRC method. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost.

Our approach has focused on:

- ▶ Engaging our valuations specialist (EYRE) to review a sample of other land & buildings asset valuations to verify the reasonableness of the valuation methodology applied and key assumptions used;
- ▶ Considering the work performed by the Authority's internal valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Reviewing and sample testing the key asset information provided by the Authority to the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre, leasing agreements for the estimated rental income);
- ▶ Reviewing and sample testing the key assumptions used by the valuers in performing their valuation, by cross referencing to available market data for similar properties within the region (e.g. value of developed and undeveloped land)
- ▶ Considering the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code. We have also considered whether any specific changes to assets (which would impact its value) have been communicated to the valuer;
- ▶ Performing a reasonableness review on the valuation of assets not included in the 2019/20 valuation cycle. This is performed to confirm that the remaining asset base is not materially misstated;
- ▶ Considering changes to useful economic lives as a result of the most recent valuation;
- ▶ Considering whether asset categories held at cost have been assessed for impairment and are materially correct; and
- ▶ Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

# Areas of Audit Focus

## Other Areas of Audit Focus - Valuation of Other Land and Buildings using DRC method

### Findings and conclusions

- ▶ We note that the Authority's valuer when calculating the land value for assets valued using the DRC method does not use market values, which is what typically valuers use. We have engaged our valuations specialist (EYRE) to assess whether the valuations of land for a sample of assets valued using DRC are within an acceptable range.
- ▶ We have substantially completed our work in response to this risk, including the work carried out by our valuations specialist. However, we are currently awaiting the final output from EYRE.
- ▶ We have reviewed assets not subject to valuation in 2019/20 to confirm that the valuation of remaining asset base was not materially misstated.
- ▶ Overall our audit work did not identify any material issues at the time of writing this report. However our work on valuations is still in progress and needs to be concluded.



## Areas of Audit Focus



### Other Areas of Audit Focus - Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2020 this totalled £21.6 million (£33.6 million at 31 March 2019).

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the Pension Fund.

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

Our approach has focused on:

- ▶ Liaising with the auditors of Hertfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to East Hertfordshire District Council;
- ▶ Assessing the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

An additional consideration in 2019/20 will be the impact of Covid-19 on the valuation of complex (Level 3) investments held by Hertfordshire Pension Fund (for example private equity investments) where valuations as at 31 March 2020 will have to be estimated. This is likely to impact on the IAS19 reports provided by the actuary and the assurances over asset values that are provided by the pension fund auditor, and consequently the assurance we are able to obtain over the net pension liability.

#### Findings and conclusions

In August 2020 the Authority obtained a revised IAS 19 report from the actuary to take into account the most recent development in respect of the McCloud ruling. This has resulted in a reduction of the pension liability by £1.9m. We have agreed the revised disclosures to the revised IAS19 report.

At the date of this report, we are awaiting the IAS19 assurance letter from the auditor of the Pension Fund to enable us to complete our procedures.



# Areas of Audit Focus

## Other Areas of Audit Focus - Business Rates Appeals Provision

Billing Authorities such as East Hertfordshire District Council are required to account for NDR on a full accrual basis. This requires Billing Authorities to consider establishing a provision under IAS 37 in respect of the potential adverse impact of successful appeals against valuations.

The appeals provision for East Hertfordshire District Council is material in 2019/20 at £2.5 million (2018/19 £3.6 million). We therefore raised this other area of audit focus in our 2019/20 audit planning report.

The calculation of the appeal provision is an estimation which requires management to make judgements around the potential future liability of the Authority. This includes assessing the historic level of successful appeals and estimating the number of future claims and their value. We therefore deem this to be a higher risk estimate due to its size and complexity.

Our approach has focused on:

- ▶ Reviewing the Authority's methodology underpinning the provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS 37;
- ▶ Considering the work performed by the Authority's external specialist, Analyse Local, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Ensuring the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed; and
- ▶ Reviewing the completeness of the provision.

### Findings and conclusions

We were satisfied with the reasonableness of the Authority's approach to determining the business rates appeals provision and our audit procedures above have not identified any material differences in the financial statements.





# Areas of Audit Focus



## Other Areas of Audit Focus - Group accounting

The Authority prepared the group accounts for the first time in 2019/20 due to the consolidation of the Millstream Property Investments Limited (subsidiary) financial statements with the single entity Council financial statements. The Local Authority Accounting Code of Practice requires the Authority to prepare group financial statements to consolidate the Authority's interests, unless these interests are considered not material. Group accounting is a complex accounting method and therefore there is an increased risk of material misstatement due to error.

Our approach has focused on:

- ▶ Testing the consolidation of entries relating to the subsidiary into the Council's Group Statement of Accounts
- ▶ Sample testing of investment properties purchased during the year by Millstream Property Investments Ltd.
- ▶ Checking that group disclosures are complete and accurate.

### Findings and conclusions

Our audit procedures above identified one misstatement related to the accounting treatment for investment properties in Millstream. Accounting for investment property valuations did not comply with the accounting standard - IAS40 *Investment Property*. The standard requires a gain or loss arising from a change in the fair value of the investment property to be recognised in profit or loss for the period in which it arises. However, in Millstream this was recorded under an Asset Revaluation Reserve. This resulted in an additional reserve position in Millstream which was then consolidated into the group accounts, therefore misstating the group's asset revaluation reserve by £100k. We discussed the misstatement with management. Management accepted that the treatment was not in correct but that the item was not material to the group accounts and therefore they would not amend the final accounts. We have accepted this as an unadjusted audit difference of £100k.

Overall the Authority's group financial statements have been prepared on an appropriate basis. However work completed needs to be reviewed.



## Impairment of receivables

At 31 March 2020 the Authority had £11.9m of total debtors. This included £2.5m of receivables from central government bodies and other local authorities. For the remaining balance, there may be risk to collection due to the impact of the Covid-19 pandemic. To address the risk, we have performed the following procedures:

- ▶ Evaluated the reasonableness of the methods and assumptions used by management to estimate the allowances for doubtful debts.
- ▶ Tested the accuracy and completeness of the data used by management to compute the bad debts provision.

For a sample of 21 debtors, representing just over £3.2m of total debtor balance, reviewed the debt position as at July 2020 to evaluate reasonableness of collection as at 31 March 2020.

### Findings and conclusions

Our sample testing confirmed that that the impairment of receivables in the accounts was fairly stated.

# Areas of Audit Focus

## Going concern disclosure

There is presumption that the Authority will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Authority revenue as a result of Covid-19 increases the need for the Authority to undertake a detailed going concern assessment to support its assertion. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we requested that management provide a documented consideration to support their assertion regarding the going concern basis. We also reviewed the Authority's subsequent new disclosure note.

Our approach has focused on:

- ▶ Assessing the adequacy of disclosures required in 2019/20;
- ▶ Discussing with management the going concern assessment and challenging management's underlying assumptions;
- ▶ Considering the impact on our audit report, including completing the EY consultation requirements.

### Findings and conclusions

The draft accounts did not include a going concern disclosure but the Interim Head of Services had carried out an assessment of the impact of the Covid-19 pandemic on the Authority's income, expenditure, balances and reserves for the June Audit and Governance Committee and further update in September 2020 for Executive committee. We reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions, particular around reductions in fees and charges. We also discussed with management the need to make specific disclosures in the 2019/20 statements.

The Authority is forecasting that the net General Fund impact in 2020/21 of the Covid-19 pandemic will be a reduction of up to £0.6m. In common with similar authorities, the biggest impact is forecast to be the loss of car parking income. The net impact of £0.6m compares to a General Fund balance as at 31st March 2020 of £4.6m and a Earmarked reserves of £11.9m. We therefore note that the Authority has headroom within the General Fund to absorb the estimated financial impact of the Covid-19 pandemic in the short to medium-term.

We have now reviewed the new going concern disclosure included in the statement of accounts, and are satisfied that it adequately reflects the Authority's assessment and informs the reader of the impact of the pandemic on the Authority's finances.

Given the limited financial impact reported we are currently not planning to include an emphasis of matter paragraph in the audit report. This is subject to EY internal consultation.



# 03 Audit Report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAST HERTFORDSHIRE DISTRICT COUNCIL

##### Opinion

We have audited the financial statements of East Hertfordshire District Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Authority and Group Movement in Reserves Statement,
- ▶ Authority and Group Comprehensive Income and Expenditure Statement,
- ▶ Authority and Group Balance Sheet,
- ▶ Authority and Group Cash Flow Statement and the related notes 1 to [x].
- ▶ Collection Fund and the related notes 1 to [x]

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of East Hertfordshire District Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- ▶ have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

##### Basis for opinion

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

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

##### Emphasis of matter - Property, Plant and Equipment and Investment Property valuation

We draw attention to Note x of the statement of accounts, which describes the valuation uncertainty the Authority is facing as a result of the Covid-19 pandemic in relation to specific property valuations. Our opinion is not modified in respect of this matter.



# Audit Report

## Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

### Our opinion on the financial statements

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Interim Head of Service's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Interim Head of Service's has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Interim Head of Service is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

##### Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, East Hertfordshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

##### Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

### Our opinion on the financial statements

#### Responsibility of the Interim Head of Service

As explained more fully in the Statement of the Responsibilities set out on page 1, the Interim Head of Service's is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

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

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

#### Auditor's responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether East Hertfordshire District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether East Hertfordshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.



# Audit Report

## Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

### Our opinion on the financial statements

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Delay in the certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the NAO.

### Use of our report

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

Suresh Patel (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Luton Date





04

# Audit Differences





# Audit Differences

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

## Summary of adjusted differences

1. A net decrease in the pension liability by £1.9m as a result of the Authority obtaining a revised IAS 19 report from the actuary.
2. Reduction in the value of the Jackson Square Car Park by £1.1m.

## Summary of un-adjusted differences

We highlight the following misstatement which has not been corrected by management. The Audit and Governance Committee should consider management’s rationale as to why they have not corrected the misstatement. This should be included in the management Letter of Representation.

Our audit procedures above identified one misstatement related to the accounting treatment for investment properties in Millstream. Accounting for investment property valuations did not comply with the accounting standard - IAS40 Investment Property. The standard requires a gain or loss arising from a change in the fair value of the investment property to be recognised in profit or loss for the period in which it arises. However, in Millstream this was recorded under an Asset Revaluation Reserve. This resulted in an additional reserve position in Millstream which was then consolidated into the group accounts, therefore misstating the group’s asset revaluation reserve by £100k. We discussed the misstatement with management. Management accepted that the treatment was not in correct but that the item was not material to the group accounts and therefore they would not amend the final accounts. We have accepted this as an unadjusted audit difference of £100k.

The Authority have decided not to update the financial statements for this difference, an explanation for which will be provided in the letter of representation.

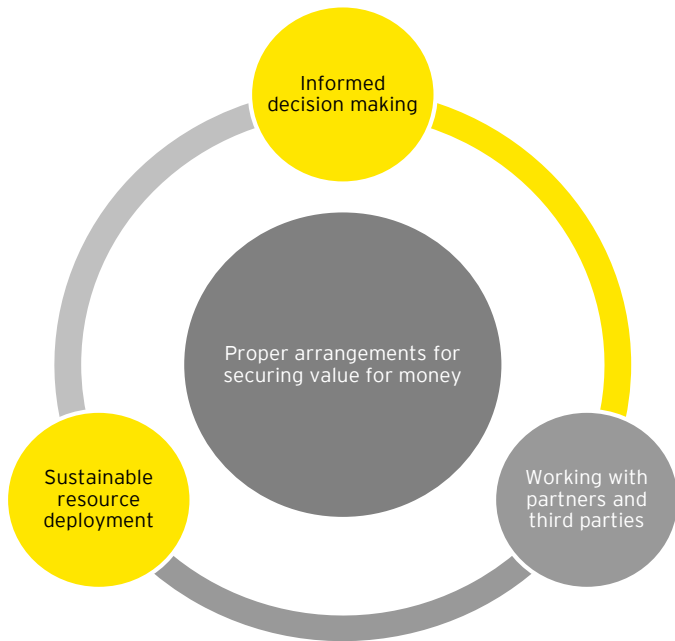


05

Value for Money



# Value for Money



## Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

## Overall conclusion

We identified one significant risk around these arrangements. The table below present our findings in response to the risk in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention. We have not identified any new significant risks around these arrangements. We have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources

## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

### What is the significant value for money risk?

### What arrangements did the risk affect?

#### Delivery of Ambitious Capital Programme

The Authority set a capital programme for 2019/20 at £41.4 million in December 2018. At quarter 3 the Authority anticipates delivering £13.4 million which represents only 32% of the initial plan. In 2018/19 the capital programme outturn was £6.2 million against a 2018/19 budget of £12.2 million. The Authority has several large capital projects planned, including Old River Lane, Grange Paddocks Leisure Centre, Hartham Leisure Centre and the Hertford Theatre. There is a risk that, given the relative size of the Authority and the number of projects in operation, the Authority does not have the capacity or expertise to successfully deliver these projects within budget and in a timely manner to deliver the benefits identified and needed. The projects present challenges for the Authority in terms of governance, financial and risk management as well as partnership working. Given the significance and importance of these decisions to the Authority’s strategic, operational and financial priorities, the effectiveness of the governance and risk management arrangements related to this project are crucial.

Taking informed decisions

Deploying resources in a sustainable manner

### What did we do?

Our approach has focused on the following sample of capital programmes:

- ▶ Old river lane;
- ▶ Grange paddocks and Hartham leisure centres; and
- ▶ Hertford theatre

We have assessed the arrangements in place supporting these developments, focusing on:

- A. Information provided to Members and Officers when taking decisions in relation to the project;
- B. Consideration of advice taken by the Authority, including legal and financial advice;
- C. The extent to which the Authority has identified, considered, and mitigated the risks around the project;
- D. The extent to which the Authority has considered alternative funding options;
- E. The governance arrangements and judgements made during the tender process; and
- F. The adequacy of the processes established by the Authority to review and monitor delivery of the any agreed outputs.



# Value for Money risks (continued)

### Old river lane

We reviewed the Old River Lane development as part of our 2017-18 value for money work and obtained a update in 2018-19. when the project was suspended due to a judicial review. The judicial review process concluded in February 2020, with the outcome in favour of the Authority. The Authority has now appointed a Preferred Developer and is also exploring funding options. The Authority is now compiling a report to provide suitable recommendations to full Council. The Authority has established a Delivery Board, including the Leader, Deputy Leader, the Chief Executive and Project Manager. This board will provide oversight and guidance on the delivery of the overall scheme.

### Leisure centres

► Grange Paddocks - The Authority's solicitor reviewed and agreed the contractual terms for the construction contract during 2019-20. We noted that the delivery agreement for Grange Paddocks was signed off by the Project Board at its meeting on 12 March 2020. This has now fixed the price and confirmed the construction programme. An Executive Summary outlining the content was presented to the Project Board.

► Hartham - The Authority did not enter into a construction contract with the developer as the project was over the capital budget. It also sought legal advice in respect of the Authority's intellectual property on the prepared designs. Key decisions have been approved by the project board. The Authority is currently reviewing the next steps for this project and more information will follow in due course.

### Hertford theatres

We noted detailed progress reports, known as RIBA stage reports, are presented to the project board. The RIBA Plan of Work organises the process of briefing, designing, constructing and operating building projects into eight stages and explains the stage outcomes, core tasks and information exchanges required at each stage. This is crucial information presented to the board which outlines the status and next steps in greater detail prepared by an expert. During 2019-20, two RIBA stages have been completed. The original feasibility scheme anticipated a cost of £13.5m to deliver the full Growth and Legacy brief. Following detailed analysis of the original costs, a number of additional or revised cost requirements have been identified. The revised cost estimate for the project now comes to a total of £19.68m. This was analysed by the board and acknowledged as a significant increase on the agreed funding. A business case was also approved by the board to demonstrate the expected return on investment.

### What are our findings?

We have completed our planned audit work in relation to the significant risk and expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources and expect to issue an unqualified value for money conclusion. The actions taken by the Authority demonstrate that they have appropriate arrangements in place for taking informed decisions in 2019-20 and the foreseeable future in respect of its capital investments strategy.





## 06 Other reporting issues

## Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements. Management has agreed to update the statement to include Covid-19 related considerations as required by CIPFA. We have no other matters to report.

### Whole of Government Accounts

The Authority is below the threshold for requiring audit procedures on its WGA submission however as the WGA timetable has been moved to later in the year we have yet to review the Authority's consolidation pack for consistency with the audited statements.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have had no reason to exercise these duties.





07

# Assessment of Control Environment





# Assessment of Control Environment

## Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.





# 08 Data Analytics





# Use of Data Analytics in the Audit

## Data analytics – Journal Entry Analysis and Payroll Analysis

### Analytics Driven Audit

#### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2019/20, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



## Journal Entry Testing

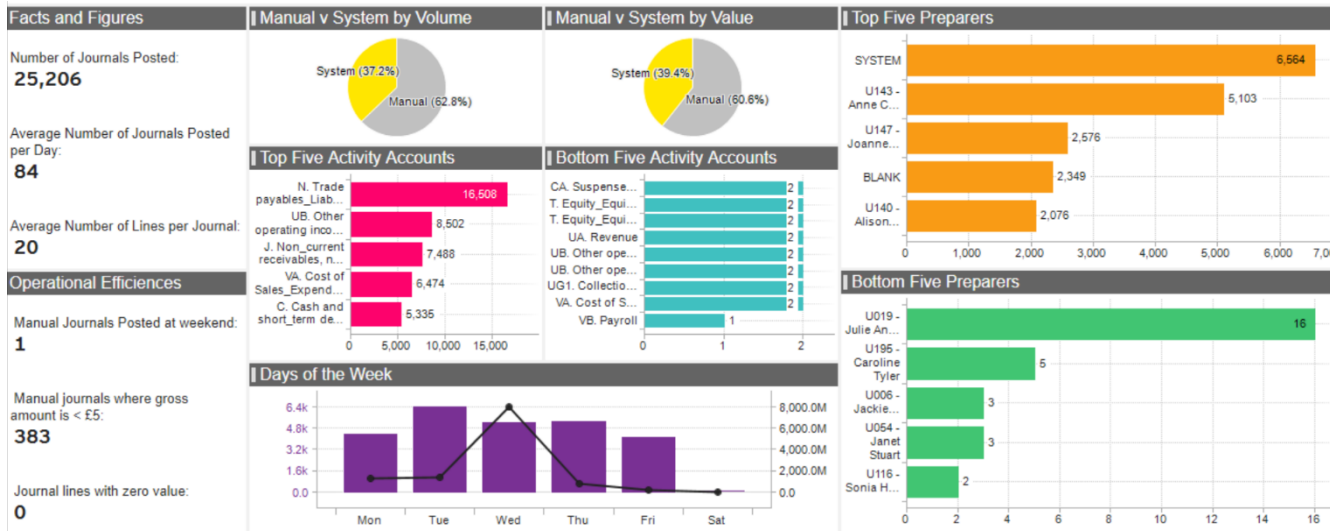
### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

### Journal entry data criteria – 31 March 2020



### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

### What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



09

# Independence

## Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2020. We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Finance, Audit and Risk committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Governance Committee on 22 September 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

## Relationships, services and related threats and safeguards

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

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

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

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

We have included the fees paid by the Authority in engaging us as a reporting accountant on DWP's the housing benefits assurance programme. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

In our Audit Plan and subsequent reporting to the Audit and Governance Committee, we have communicated our proposal to increase the scale fee for 2019/20. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table below does not reflect those proposals.

All fees exclude VAT	Final fee 2019/20	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£	£
Code work - scale fee	40,295	40,295	40,295	40,295
Additional code work:				
• New General ledger	-	-	-	1,950
• Updated pension disclosures	-	-	-	950
• VFM conclusion significant risk (Note 1)	5,000	2,000-5,000	N/A	1,750
• Going concern disclosure (Note 2)	TBC	-	-	-
• Asset valuations impacted by Covid-19 (Note 3)	TBC	-	-	-
• EY consultations on auditor report (Note 4)	TBC	-	-	-
• Group consolidation	5,000	4,000-5,000	-	-
<b>Total audit</b>	<b>TBC</b>	<b>46,295-50,295</b>	<b>40,295</b>	<b>44,295</b>
Other non-audit services not covered above (HB)	TBC	9,140	N/A	9,140
<b>Total other non-audit services</b>	<b>TBC</b>	<b>9,140</b>	<b>N/A</b>	<b>9,140</b>
<b>Total fees</b>	<b>TBC</b>	<b>TBC</b>	<b>40,295</b>	<b>53,208</b>

Notes: These items are outside of the PSAA scale fee and will be subject to agreement with the Interim Head of Service and then PSAA.

1. We reported in the Audit Plan that the VFMC significant risk would necessitate an additional fee.

2. We have carried out additional work to review, assess and challenge the Authority's going concern assessment and associated disclosure.

3. We have carried out additional work in response to the material uncertainty reported by the Authority's valuer on investment property valuations.

4. This has led to an emphasis of matter paragraph in the audit report.

4. To ensure that we are giving the right assurance to the Authority, EY have instigated a consultation process involving the Firm's Professional Practice Directorate.



## New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services - Remuneration advisory services - Internal audit services - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

### Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

## Other communications

### EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019: [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf)









# 10 Appendices

## Appendix A

# Required communications with the Audit and Governance Committee





There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	  <b>When and where</b>	
Terms of engagement	Confirmation by the Audit and Governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan - March 2020	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - March 2020	
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report - September 2020	

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about East Hertfordshire District Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report - September 2020
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit and Governance Committee responsibility.</li> </ul>	Audit Results Report - September 2020

## Appendix A

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	  <b>When and where</b>
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit Results Report - September 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit Plan - March 2020 and Audit Results Report - September 2020

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit Results Report - September 2020



## Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	Audit Plan - March 2020 and Audit Results Report - September 2020
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report - September 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report - September 2020
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - September 2020
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Plan - March 2020 and Audit Results Report - September 2020



## Appendix B

# Management representation letter (continued)

### Management Rep Letter

[To be prepared on the entity's letterhead]

Xx September 2020

Suresh Patel  
Associate Partner  
Ernst & Young LLP  
400 Capability Green  
Luton  
LU1 3LU

This letter of representations is provided in connection with your audit of the financial statements of East Hertfordshire District Council ("the Group and Council") for the year ended 31 March 2020. We recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of East Hertfordshire District Council as of 31 March 2020 and of its income and expenditure and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

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

#### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council has a system of internal controls adequate to enable the

preparation of accurate financial statements in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

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

#### B. Non-compliance with laws and regulations, including fraud

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

In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others

#### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters

## Management representation letter

## Management Rep Letter

- Additional information that you have requested from us for the purpose of the audit and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements, including those related to the COVID-19 pandemic.
  3. We have made available to you all minutes of the meetings of Group and Council and Performance, Audit and Governance Oversight held through the 1 April 2019 to the most recent meeting on the following date: 31 September 2020.
  4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the 31 March 2020 end. These transactions have been appropriately accounted for and disclosed in the financial statements.
  5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
  6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
  7. From 1 April 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

**D. Liabilities and Contingencies**

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

**E. Subsequent Events**

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

**F. Other information**

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

**G. Going Concern**

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

**H. Estimates**

When we have identified following estimates as significant or higher risk:

- i. Pension Liability
- ii. Property, Plant & Equipment / Investment Properties – Valuation and Impairment
- iii. Provision for impairment of receivables
- iv. NDR Appeals Provision

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out the operations on behalf of the Group and Council.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic on 31 March 2020 and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

**I. Retirement benefits**

1. ~~On the basis of~~ the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant





## Appendix B

# Management representation letter

### Management Rep Letter

retirement benefits and all settlements and curtailments have been identified and properly accounted for.

#### J. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group ~~unrealised~~ profits on transactions amongst Council, subsidiary undertakings and associated undertakings.

Yours faithfully,

\_\_\_\_\_  
Interim Head of Service (Chief Financial Officer)

\_\_\_\_\_  
Chair of the Finance, Audit and Risk Committee

## About EY

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

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ED None

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## East Herts Council Report

### Audit and Governance Committee

**Date of Meeting:** 22 September 2020

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

**Report title:** Annual Governance Statement 2019/20

**Ward(s) affected:** All

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### 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 (AGS) each year. The AGS must be considered separately from the Statement of Accounts.

The first draft of the AGS was considered by this Committee on 28 July and this version has been amended for the comments of the Committee and the external auditor.

### **RECOMMENDATION FOR AUDIT & GOVERNANCE COMMITTEE:**

**(a) That Members review and approve the amended Annual Governance Statement for 2019/20.**

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

1.1 That Members scrutinise the amended AGS and approve it for inclusion in the Statement of Accounts.

#### **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 & Accountancy (CIPFA) and the Society of Local Authority Chief Executive and Senior Managers (SoLACE) framework.

- 2.2 This fulfils the statutory requirement that local authorities review their governance arrangements at least once a year.
- 2.3 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 When the Committee considered the draft AGS on 28 July amendments were requested to clarify responsibility for keeping the Code of Conduct up to date and strengthen the wording on the Council's resolve to prevent fraud and corruption. The AGS has been amended accordingly using tracked changes.
- 2.8 The external auditor asked for the AGS to be expanded to explain what impact, if any, covid-19 has had on the Council's governance arrangements. There have been no significant impacts from covid-19 on governance arrangements and this is set out in the amended AGS.
- 2.9 The amended 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 mater**

None

**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

Contact Tel No 01279 50 2074

[bob.palmer@eastherts.gov.uk](mailto:bob.palmer@eastherts.gov.uk)

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## **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.

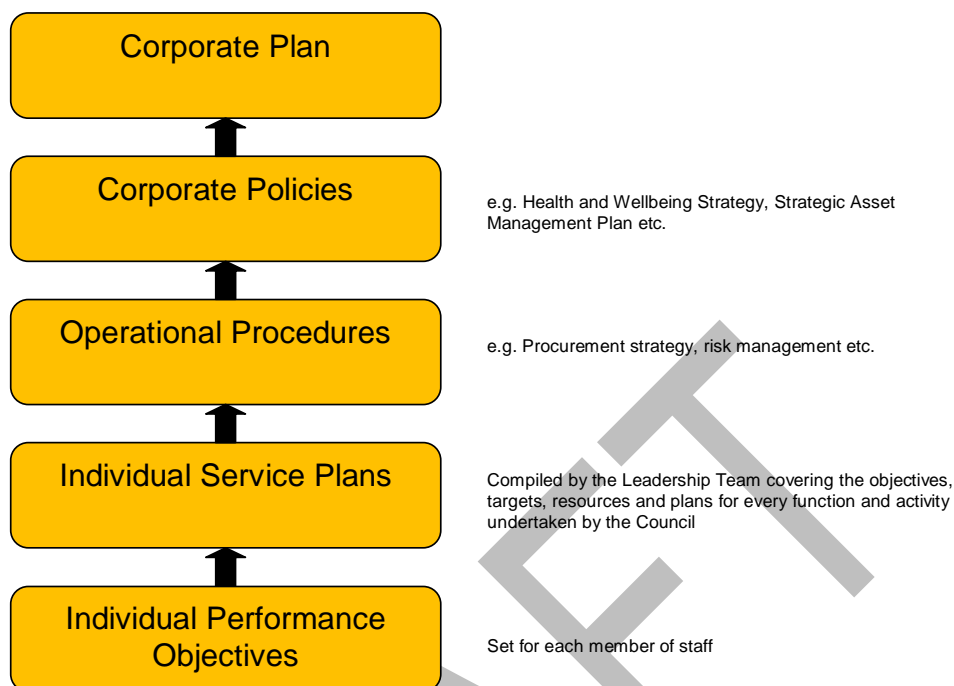
The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government 2010.

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.~~ The Monitoring Officer keeps Codes of Conduct up to date and any suspected breaches are investigated by the Standards Sub-Committee.

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. The Council will not tolerate fraud or corrupt behaviour in any form and will take whatever steps are necessary to prevent it.

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.

**Impact of Covid-19 on Governance**

**Covid-19 has not had a significant impact on the governance structures and processes of the Council. The method of conducting meetings has changed but both officer and Member meetings have continued to take place to allow the business of the Council to be transacted.**

**No changes have been necessary to the Council's Constitution or Financial Regulations. It was necessary to suspend the work of SIAS for a short period of time. This has resulted in a reduced programme of work for 2020/21 but it is still a programme that will allow assurance opinions to be provided on both financial and non-financial systems.**

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**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</p>	<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</p>



<p>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>against the IT Strategy.</p>
<p><u>Cyber Security</u></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>○ 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>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><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>

	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><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 &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.

<b>Issue</b>	<b>Actions delivered to achieve milestone</b>
<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</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>areas and was given a list of eight required actions.</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

DRAFT

## **East Herts Council Report**

### **Audit and Governance Committee**

**Date of Meeting:** 22 September 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 first draft of the annual Statement of Accounts was presented to this Committee on 28 July. The external audit of the Accounts is nearly complete and the updated Statement has been amended for items that have arisen during the course of the audit.

### **RECOMMENDATION FOR AUDIT & GOVERNANCE COMMITTEE:**

**(a) That Members note the amendments set out below and approve the draft Statement of Accounts, subject to completion of the external audit.**

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

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

#### **2.0 Background**

2.1 There has been one significant adjustment necessary as a result of the external audit. The work of the external auditor revealed a calculation error in one of the valuation reports that had led to an overstatement in the value of the Council's car parks by £1.1

million.

2.2 Correcting the valuation error had the following impacts on the Statement of Accounts:

- (a) Movement in Reserves Statement – the overall increase in unusable reserves is reduced by £1.1 million.
- (b) Income and Expenditure Statement – the deficit on revaluation of fixed assets increases from £0.2 million to £1.3 million.
- (c) Balance Sheet – the value of other land and buildings and the value of the revaluation reserve are both reduced by £1.1 million.

2.3 A second correction to the Accounts was necessary to reflect updated information from the pension fund. The figures included in the previous draft of the accounts included estimated returns on the pension fund assets for the last three months of 2019/20. Now the actual returns have been calculated the projected deficit on the fund has reduced by £1.9 million.

2.4 Correcting the pension information had the following impacts on the Statement of Accounts:

- (a) Movement in Reserves Statement – the overall increase in unusable reserves is increased by £1.9 million.
- (b) Income and Expenditure Statement – the net cost of services is reduced by £0.2 million and the surplus on re-measurement of the net defined benefit liability is increased by £1.7 million.
- (c) Balance Sheet – the value of the net pension liability and the pensions reserve are both reduced by £1.9 million.

2.5 The adjustments set out above have had no impact on the Council's total usable reserves which remain unchanged at £16.8 million.

2.6 The other amendments to the Statement of Accounts have

involved additional text being added to cover the impact of the pandemic. The significant additions are to the Narrative Statement on page 15 and the Accounting Policies on page 21. These additions make it clear that the Council is sufficiently financially robust to cope with the pandemic and that the going concern basis is the appropriate basis for the Statement of Accounts.

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

- 3.1 The external audit is nearly complete and the Committee need to be updated on changes to the draft Statement of Accounts.
- 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**

None

### **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 its 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 mater**

None



**Contact Member**

Councillor Geoff Williamson, Executive Member  
for Financial Sustainability

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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 and is underlined with a single horizontal line.

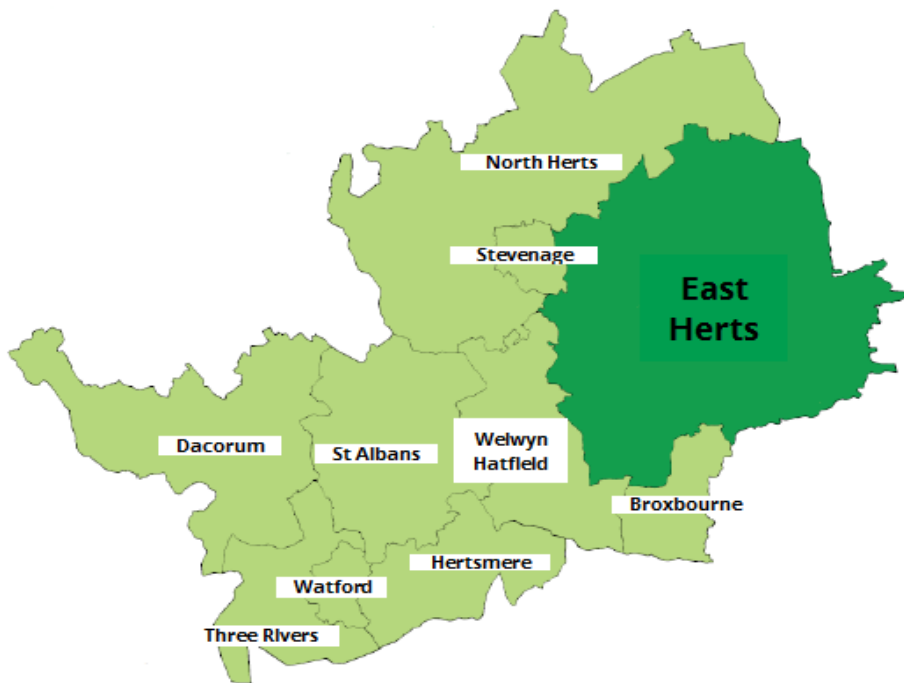
Councillor Geoffrey Williamson, Executive Member for Financial Sustainability



# 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

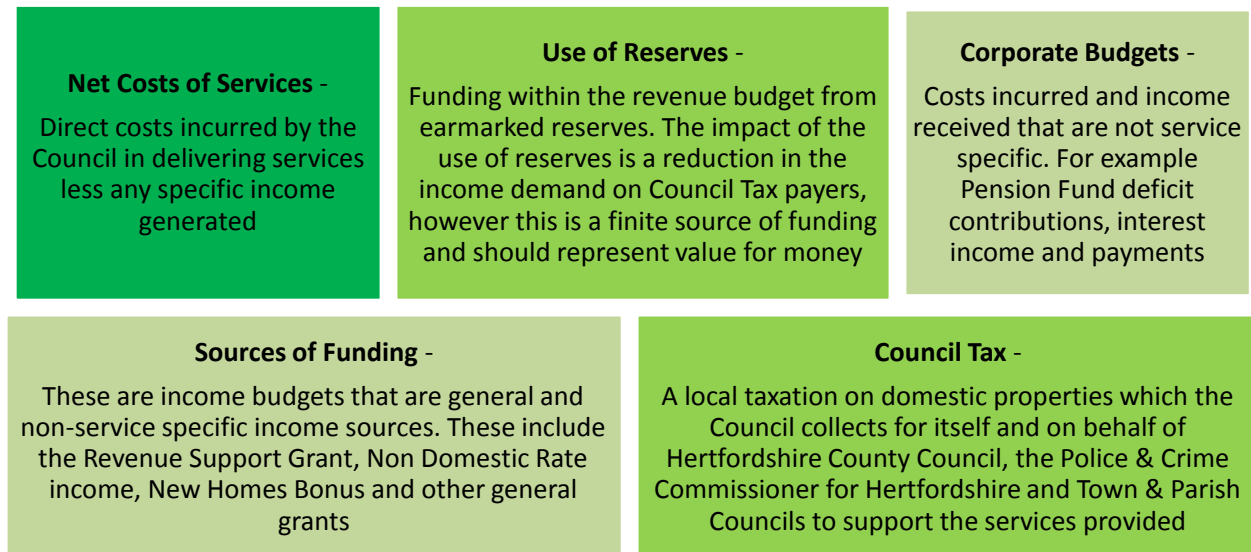
**Old River Lane development:** a vibrant arts centre with cinema and performance space, alongside a multistorey car park and an attractive public square are set to transform part of Bishop's Stortford as the Old River Lane (ORL) scheme moves forward. The site will also see a mixed development of around 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:



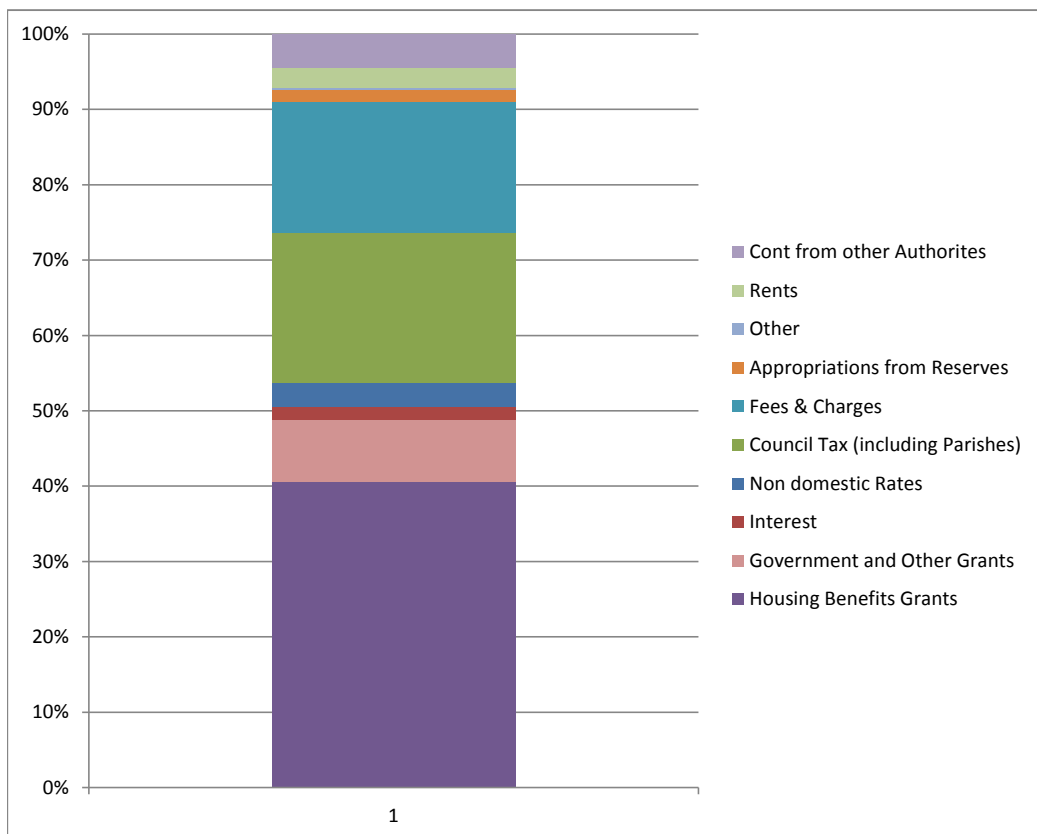
The table below details the Council's performance against the five major 'building blocks'. There was a £16k underspend in 2019/20, this has been transferred to the General Fund.

	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>

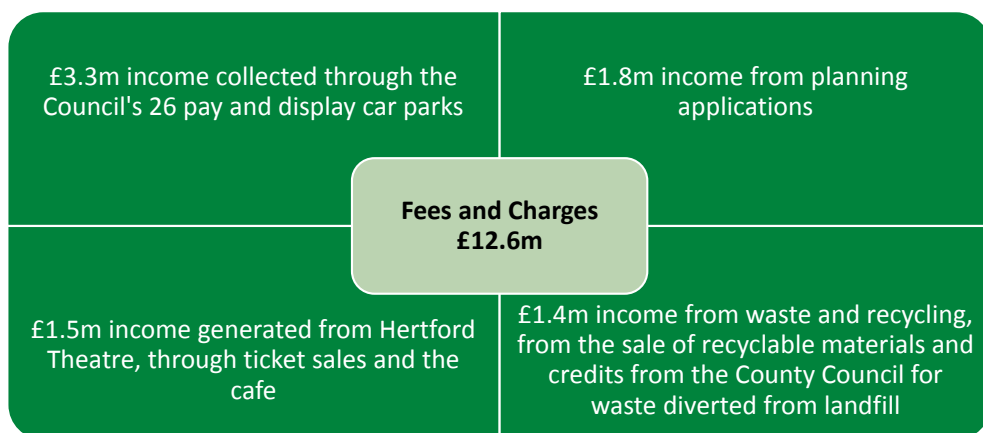
The Council's budget is monitored monthly by senior management and reported quarterly to the Executive. The outturn above includes £783k net use of reserves to fund services, this amount is included within the net cost of services figure.

## 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.

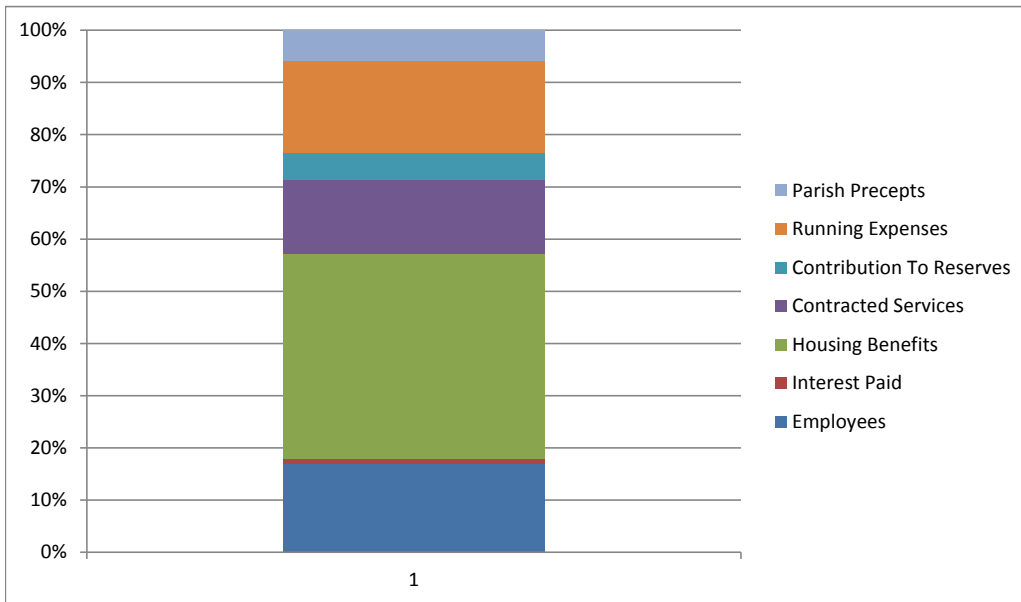
As the billing authority, East Herts Council collects Council Tax income from residents of the district; this is then distributed between Hertfordshire County Council, East Herts Council and the Police and Crime Commissioner. Of the income collected the Council's share in 2019/20 was £14.4m; £4.2m of 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

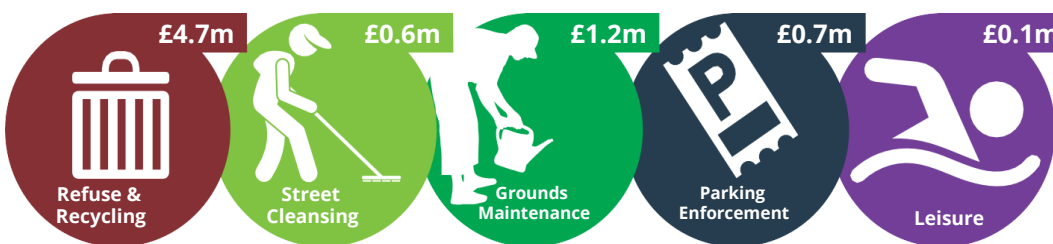
The chart below shows the £72.6m that the the Council spent in 2019/20. Housing benefits make up the largest outgoing of the Council.



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:

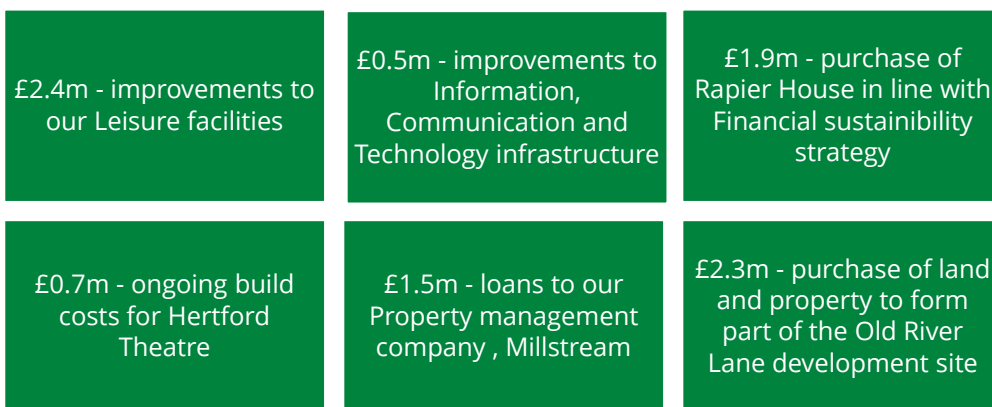


# FINANCIAL MANAGEMENT

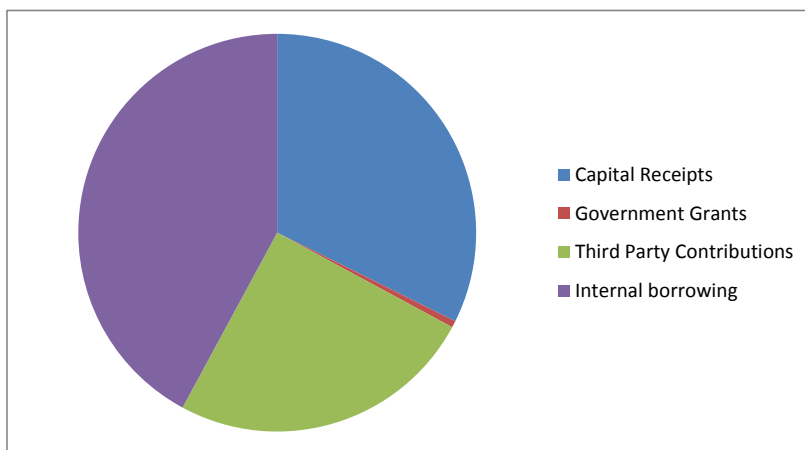
## Capital

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:



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

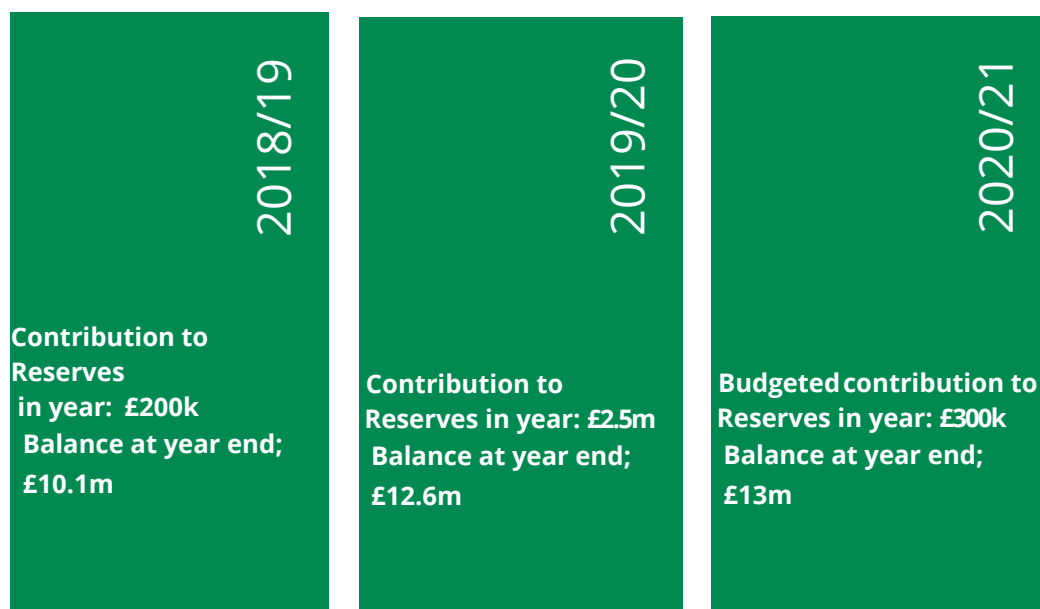
East Herts' approach to setting the revenue and capital budget for the four years commencing 2020/21 was to improve the organisational financial sustainability and resilience in the forthcoming years.

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 £21.610m which is an decrease of £13m compared to the position at 31 March 2019.

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

## **Impact of COVID-19**

The COVID-19 pandemic has had a major impact on the Council, although the financial impact will be in 2020/21 and subsequent years. The most significant impacts have been loss of car parking income, loss of other fees and charges and commercial rent deferrals. The Council has incurred additional expenditure to ensure that key services such as homelessness are maintained.

The Cabinet Office issued a Procurement Policy Note (PPN) in March relating to Supplier relief – PPN 02/20: Supplier relief due to COVID-19. This note aims to guide public sector bodies to provide support to suppliers and contractors, which includes making advanced payments and entering into open book accounting arrangements. Appropriate support will be agreed for suppliers for a fixed period in line with the PPN where it is clearly demonstrated that a supplier is in financial difficulty. Further support will be considered at the end of this period, taking into account current Government guidance and policy.

The Council has received some Government funding towards the additional costs and reduced income. The financial impact will depend on the level of Government funding received and how quickly services are able to return to pre COVI-19 operating levels. The Local Government Secretary of State has provided public assurances that Local Government will have the resources it needs to meet COVID-19 challenges.

Whilst the Council's un-ringfenced General Fund reserve would have some capacity to absorb a financial impact, a robust financial plan will be required to ensure the sustainability of the Council's finances are maintained and this will form part of the budget setting work for 2021/22.

Over the next few months, officers will be reviewing the Medium Term Financial Plan, taking into account the 2019/20 outturn. Work will also commence on a detailed review of budgets to identify additional cost saving and revenue generating activities. This will play a fundamental part in the 2021/22 budget setting process.

The Council uses cash flow forecasting to assist with treasury management decisions and this has gained greater significance as unplanned expenditure has been required to respond to the emerging situation and specific grants to deal with COVID-19 have been paid and received. Cash flow will continue to be closely monitored to ensure sufficient funds are available for daily requirements.

More detail of specific risks and uncertainties is provided in Note 4, Assumptions made about the future and other major sources of estimation uncertainty.

# 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>516</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>516</b>	<b>13,414</b>	<b>13,930</b>
Adjustments between accounting basis and funding basis under regulations	Note 5	2,035	-	(1,892)	(49)	-	94	(94)	-
<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>13,320</b>	<b>13,930</b>
Transfers to/(from) Earmarked Reserves	Note 6	(2,551)	2,631	-	-	(80)	-	-	-
Increase/Decrease in Year		0	2,631	(1,892)	(49)	(80)	610	13,320	<b>13,930</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>81,418</b>	<b>98,203</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)	-	-	-
Increase/Decrease in Year		-	273	(1,102)	(181)	(82)	(1,092)	(6,478)	<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	Net Expenditure
	£000	£000	£000	£000
Chief Executive, PA's & Directors	589	-	589	537
Communications, Strategy & Policy	1,601	(140)	1,461	2,469
Human Resources & Organisation Development	645	(30)	615	589
Strategic Finance & Property	5,708	(1,301)	4,407	4,451
Democratic & Legal Services	1,983	(450)	1,533	1,318
Housing & Health	4,030	(1,236)	2,794	4,020
Planning & Building Control	3,535	(1,924)	1,611	1,084
Operations	15,670	(10,095)	5,575	6,060
Shared Revenues & Benefits Service	32,792	(31,602)	1,190	1,240
Shared Business & Technology Services	2,113	(81)	2,032	1,595
<b>NET COST OF SERVICES</b>			<b>21,807</b>	<b>23,363</b>
Payments of precepts to parishes			4,182	3,980
Gain on disposal of non current (fixed) assets			(1,371)	(1,758)
<b>OTHER OPERATING EXPENDITURE</b>			<b>2,811</b>	<b>2,222</b>
Interest payable and similar charges			662	660
Net Interest on the net defined benefit liability & remeasurements of the defined benefit liability for long term employee benefits			851	782
Interest receivable and similar income			(1,239)	(1,265)
Income from investment properties ( Note 10)			(956)	(1,035)
Direct expenditure incurred on investment properties ( Note 10)			179	514
Changes in Fair Value of Investment Properties			1,003	278
<b>FINANCING AND INVESTMENT EXPENDITURE</b>			<b>500</b>	<b>(66)</b>
Recognised capital grants and contributions			(2,700)	(2,552)
Council tax income			(14,465)	(13,816)
Non domestic rates			(2,937)	(1,555)
Non service related government grants			(5,532)	(4,369)
<b>TAXATION AND NON-SPECIFIC GRANT INCOME (Note 29)</b>			<b>(25,634)</b>	<b>(22,292)</b>
<b>(SURPLUS) / DEFICIT ON PROVISION OF SERVICES</b>			<b>(516)</b>	<b>3,227</b>
(Surplus) or Deficit on revaluation of Fixed assets			1,322	1,752
Reclassification of Grant			-	66
Remeasurements of the net defined benefit liability (Note 33)			(15,263)	2,928
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES</b>			<b>(13,941)</b>	<b>4,746</b>
(Surplus) / Deficit on revaluation of financial instruments (Note 12)			527	(403)
<b>ITEMS THAT MAY BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES</b>			<b>527</b>	<b>(403)</b>
<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(13,414)</b>	<b>4,343</b>
<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(13,930)</b>	<b>7,570</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	£000	£000
Property, Plant & Equipment	<i>Note 7</i>				
- Other land and buildings		46,774			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
			62,196		
Investment Properties	<i>Note 10</i>	15,486			13,596
Intangible Assets	<i>Note 11</i>	785	16,271		865
			<b>78,467</b>		<b>75,170</b>
Long Term Investments	<i>Note 12</i>	21,408			22,118
Long Term Debtors	<i>Note 15</i>	2,483	23,891		1,034
<b>TOTAL LONG TERM ASSETS</b>			<b>102,358</b>		<b>98,322</b>
Assets Held For Sale	<i>Note 17</i>	255			0
Short Term Investments	<i>Note 12</i>	21,921			26,002
Short Term Debtors	<i>Note 15</i>	10,098			9,606
Cash and Cash Equivalents	<i>Note 16</i>	15,688			14,977
<b>CURRENT ASSETS</b>			<b>47,962</b>		<b>50,585</b>
Provisions	<i>Note 19</i>	(401)			(1,493)
Short Term Creditors	<i>Note 18</i>	(20,414)			(14,078)
<b>CURRENT LIABILITIES</b>			<b>(20,815)</b>		<b>(15,571)</b>
Provisions	<i>Note 19</i>	(2,115)			(2,140)
Long Term Borrowing	<i>Note 12</i>	(1,522)			(7,711)
Net Pension Liability	<i>Note 21</i>	(21,610)			(34,568)
Grant Receipts in Advance	<i>Note 29</i>	(1,997)			(1,957)
- Capital					
- Revenue		(4,058)			(2,687)
<b>LONG TERM LIABILITIES</b>			<b>(31,302)</b>		<b>(49,063)</b>
<b>NET ASSETS</b>			<b>98,203</b>		<b>84,273</b>
<b>USABLE RESERVES</b>					
- General Fund	<i>Note 20</i>	3,854			3,854
- General Reserve	<i>Note 20</i>	772			852
- Earmarked Reserves	<i>Note 6</i>	11,859			9,228
- Capital Receipts Reserve	<i>Note 20</i>	0			1,892
- Capital grants Unapplied	<i>Note 20</i>	300			349
			<b>16,785</b>		<b>16,175</b>
<b>UNUSABLE RESERVES</b>					
- Revaluation Reserve	<i>Note 21</i>	21,355			23,142
- Financial Instrument Revaluation Reserve	<i>Note 21</i>	1,403			1,929
- Pensions Reserve	<i>Note 21</i>	(21,610)			(34,568)
- Capital Adjustment Account	<i>Note 21</i>	79,327			77,069
- Deferred Capital Receipts	<i>Note 21</i>	148			150
- Collection Fund Adjustment Account	<i>Note 21</i>	997			502
- Short-term Accumulating Compensated Absences Account	<i>Note 21</i>	(202)			(126)
			<b>81,418</b>		<b>68,098</b>
<b>TOTAL RESERVES</b>			<b>98,203</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. The accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue.

The Council has carried out a detailed assessment of the likely impact of COVID-19 on its financial position and performance during 2019/20, 2020/21 and beyond. This included consideration of the following:-

- Loss of income on a service by service basis, due to temporary closures, reduction in demand, and increased collection losses.
- Additional expenditure on a service by service basis, e.g. provision of new and expanded services in response to the crisis (such as additional costs relating to temporary accommodation for the homeless), and additional costs associated with changes to working practices (such as remote working).
- Changes to government policy, e.g. changes to business rate reliefs, guidance on supplier relief, additional funding for local authorities, and additional responsibilities which sit alongside this.
- The impact on the Council's capital programme, e.g. delays caused by government restrictions, and whether there is a need to re-phase work for other reasons.
- The impact on the Council's subsidiary and joint ventures.
- The impact of all of the above on the Council's cash flow and treasury management, including availability of liquid cash (as at mid-July 2020 the Council had around £40m short term investments, excluding the £20m held in property funds), impact on investment returns, and availability of external borrowing if required.
- The estimated overall impact on the Council's General Fund reserves.

This review has highlighted that COVID-19 poses a significant financial challenge for the Council, as it will for all local authorities. To reflect this, the Council will publish an update to its Medium Term Financial Plan in October 2020.

Based on the Council's assessment, being reported to the Executive in September 2020, the net total impact of COVID-19 on the General Fund for 2020/21 is currently estimated to be a reduction of £0.6 million. This is assuming no extra funding not already announced from central Government, no re-prioritisation of services or alternative service provision. By way of context, the General Reserves as at 31 March 2020 are £4.6 million (subject to year-end adjustments and audit). The Council also has £11.9 million in Earmarked Reserves.

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



### **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 valuations have been provided amidst the economic uncertainty created as a result of COVID-19 and thus the valuations have been reported subject to a Material Valuation Uncertainty clause.

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%		5%	
	Value	Value	Movement	Value	Movement
	£000	£000	£000	£000	£000
Other Land & Buildings	77,673	74,852	(2,821)	82,732	5,059
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>112,221</b>	<b>107,673</b>	<b>(4,548)</b>	<b>119,009</b>	<b>6,788</b>

## Depreciation

	31/03/2020	-5%		5%	
	Value	Value	Movement	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:

	General Fund balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
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	Other Land & Buildings	Vehicles, Plant, Furniture & Equip.	Infrastructure	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment
	£000	£000	£000	£000	£000	£000	£000
<b>2018/19</b>							
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	(2,603)	-	-	-	(269)	(5)	(2,877)
<b>Total as at 31/03/2019</b>	<b>77,630</b>	<b>20,015</b>	<b>8,533</b>	<b>2,843</b>	<b>2,546</b>	<b>1,345</b>	<b>112,912</b>
<b>2019/20</b>							
As at 01/04/2019	77,630	20,015	8,533	2,843	2,546	1,345	112,912
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>77,673</b>	<b>20,381</b>	<b>8,540</b>	<b>3,056</b>	<b>2,571</b>	<b>5,740</b>	<b>117,961</b>
<b>Depreciation &amp; Impairment</b>							
<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>
<b>Net Book Value</b>							
<b>Balance Sheet as at 31/03/19</b>	<b>48,357</b>	<b>2,349</b>	<b>2,241</b>	<b>2,752</b>	<b>2,546</b>	<b>1,345</b>	<b>59,590</b>
<b>Balance Sheet as at 31/03/20</b>	<b>46,774</b>	<b>2,151</b>	<b>1,995</b>	<b>2,965</b>	<b>2,571</b>	<b>5,740</b>	<b>62,196</b>

## Reconciliation of Additions in the year to Capital Spend

	2019/20	2018/19
	£000	£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.

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No other financial guarantees were identified in 2019/20.

## Financial Instruments Balances

	Non-Current		Current	
	31 March '20 £000	31 March '19 £000	31 March '20 £000	31 March '19 £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	21,222	21,935	-	-
- accrued interest	186	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>	<b>-</b>	<b>527</b>	<b>-</b>	<b>(403)</b>
<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>	<b>(1,161)</b>	<b>-</b>	<b>(1,265)</b>	<b>-</b>
<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>	<b>762</b>	<b>-</b>	<b>790</b>	<b>-</b>

### 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	1,967	2,748
Other local authorities	622	585
Bodies external to general government (ie all other bodies)	9,340	7,921
Bad debt provision	(1,831)	(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)	2,483	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	15,688	14,977
<b>Total Cash and Cash Equivalents</b>	<b>15,688</b>	<b>14,977</b>

## 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.

<b>Assets Held for Sale</b>	<b>31 March '20</b>	<b>31 March '19</b>
	<b>£000</b>	<b>£000</b>
Additions	255	-
	<b>255</b>	<b>-</b>

## 18. Creditors

<b>Short Term Creditors</b>	<b>31 March '20</b>	<b>31 March '19</b>
	<b>£000</b>	<b>£000</b>
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
	<b>20,414</b>	<b>14,078</b>

## 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	21,355	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	(21,610)	(34,568)
Collection Fund Adjustment Account	997	502
Accumulated Absences Account	(202)	(126)
<b>Total Unusable Reserves</b>	<b>81,418</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		2018/19
	£000	£000	£000
<b>Balance at 1 April</b>		23,142	25,257
2018/19 Adjustment	603		
Downward revaluation of assets	(1,927)		(1,150)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services			(603)
<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>		(1,324)	(1,753)
Difference between fair value depreciation and historical cost depreciation		(337)	(362)
Amount written off to the capital adjustment account		(126)	-
<b>Balance at 31 March</b>		<b>21,355</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		2018/19
	£000	£000	£000
<b>Balance at 1 April</b>		1,929	1,526
Upward revaluation of investments			403
Downward revaluation of investments not charged to the Surplus/Deficit on the provision of Services	(526)		-
		(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		2018/19
	£000	£000	£000
<b>Balance at 1 April</b>		77,069	76,561
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		-
		(1,272)	(3,092)
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
		3,530	3,600
<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	15,263	(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	(4,763)	(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>(21,610)</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 Hertsmere 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 £107k, 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)	Expenses Allowances	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	274	-	98,941	18,873	117,814
Chief Executive (left 31/05/2019)	25,223	1,312	-	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

and a charge 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	31 March '19
	£000	£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	2018/19
	£000	£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	2018/19
	£000	£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>4,763</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	2,744	(4,647)
Actuarial gains/(losses) arising on changes in demographic assumptions	(3,373)	-
Actuarial gains/(losses) arising on changes in financial assumptions	(11,017)	7,575
Other actuarial gains or losses	(3,617)	-
<b>Total post employment benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>(15,263)</b>	<b>2,928</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>

In the prior year financial statements, the closing balance for Employers contribution was shown as 2,786 which was updated from 1st version of Schedule of results. In current year the opening balance is shown as 2,397 which was updated from the final version of schedule of results to which the opening balance doesnt tie to prior year closing balance.

## 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	(2,744)	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>109,963</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	(3,373)	-
Actuarial gains/(losses) arising on changes in financial assumptions	(11,017)	7,575
Other actuarial gains or losses	(3,617)	-
Benefits paid	(4,600)	(4,039)
<b>31 March</b>	<b>131,573</b>	<b>146,116</b>

	2019/20 £000	2018/19 £000
<b>Scheme history</b>		
Present value of the defined benefit obligation	(131,573)	(146,116)
Fair value of assets	109,963	111,554
<b>(Deficit) in the scheme</b>	<b>(21,610)</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:

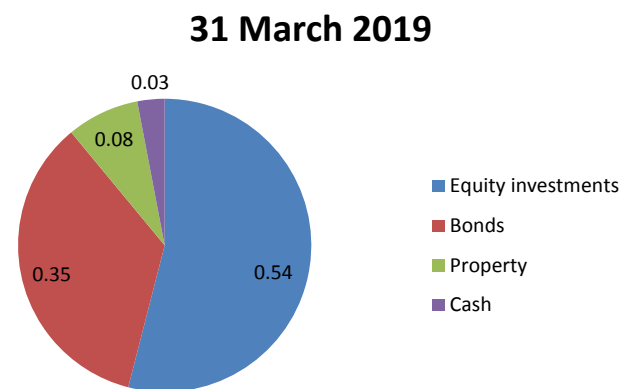
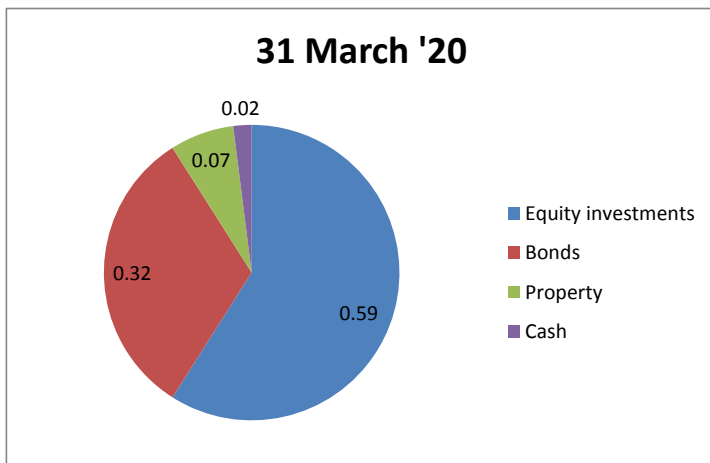
the deficit on the Local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

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	2,099	-	2,099	2	4,962	-	4,962	4
Manufacturing	1,676	-	1,676	2	4,326	-	4,326	4
Energy & Utilities	0	-	-	0	1,151	-	1,151	1
Financial Institutions	1,611	-	1,611	1	4,600	-	4,600	4
Health & Care	989	-	989	1	907	-	907	1
Information Technology	3,767	-	3,767	3	3,490	-	3,490	3
Other	180	-	180	-	298	-	298	-
Debt Securities								
Corporate Bonds (investment grade)	-	-	-	-	-	-	-	-
Corporate Bonds (non investment grade)	-	-	-	-	-	-	-	-
UK Government	-	-	-	-	-	-	-	-
Other	-	2,850	2,850	3	-	51	51	-
Private Equity	-	5,883	5,883	5	-	5,230	5,230	5
Real Estate								
UK Property	-	3,325	3,325	3	-	3,952	3,952	4
Overseas Property	-	6,562	6,562	6	-	4,231	4,231	4
Investment Funds & Unit Trusts:								
Equities	34,208	-	34,208	32	28,147	-	28,147	25
Bonds	36,052	-	36,052	33	38,809	-	38,809	36
Commodities	-	-	-	-	-	-	-	-
Infrastructure	-	101	101	-	-	1,081	1,081	-
Other	928	7,473	8,401	8	942	5,895	6,837	6
Derivatives								
Foreign Exchange	-	(116)	(116)	0	-	(133)	(133)	-
Cash and Cash Equivalents	2,375	-	2,375	2	3,609	-	3,609	3
<b>TOTALS</b>	<b>83,885</b>	<b>26,078</b>	<b>109,963</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

<b>Change in assumptions as at 31 March 2020:</b>	<b>Approximate % increase to Employer Liability %</b>
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 Tax	NDR	Total	Council 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:

Band	Estimated no. of taxable properties 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
<b>Estimated collection rate</b>			<b>98.9%</b>
<b>2019/20 Estimated Council Tax base</b>			<b>60,721.9</b>
<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>(879)</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>569</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>569</b>	<b>13,414</b>	<b>13,983</b>	<b>(21)</b>	<b>13,962</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	2,035	-	(1,892)	(49)	-	94	(94)	-	-	-
<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>13,320</b>	<b>13,930</b>	<b>32</b>	<b>13,962</b>
Transfers to/(from) Earmarked Reserves	(2,551)	2,631	-	-	(80)	-	-	-	-	-
Increase/Decrease in Year	-	2,631	(1,892)	(49)	(80)	610	13,320	13,930	32	13,962
<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>81,418</b>	<b>98,203</b>	<b>101</b>	<b>98,304</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		Net Expenditure £000
	Gross Expenditure £000	Gross Income £000	
Chief Executive, PA's & Directors	589	-	589
Communications, Strategy & Policy	1,601	(140)	1,461
Human Resources & Organisation Development	645	(30)	615
Strategic Finance & Property	5,708	(1,290)	4,418
Democratic & Legal Services	1,983	(450)	1,533
Housing & Health	4,030	(1,236)	2,794
Planning & Building Control	3,535	(1,924)	1,611
Operations	15,670	(10,095)	5,575
Shared Revenues & Benefits Service	32,792	(31,602)	1,190
Shared Business & Technology Services	2,113	(81)	2,032
<b>NET COST OF SERVICES</b>			<b>21,818</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		<i>Note 1</i>	(1,025)
Direct expenditure incurred on investment properties		<i>Note 1</i>	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>(504)</b>
Millstream Capital contribution			(40)
Tax expenses of subsidiaries			(4)
<b>GROUP (SURPLUS)/DEFICIT</b>			<b>(548)</b>
(Surplus) or Deficit on revaluation of PPE assets			1,322
Reclassification of Grant			-
Remeasurements of the net defined benefit liability			(15,263)
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES</b>			<b>(13,941)</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>(13,414)</b>
<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(13,962)</b>

## 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	£000
Property, Plant & Equipment			
- Other land and buildings		46,774	
- Vehicles, plant, furniture and equipment		2,151	
- Infrastructure assets		1,995	
- Community assets		2,965	
- Surplus assets		2,571	
- Assets under Construction		5,740	
			62,196
Investment Properties		17,835	
Intangible Assets		785	18,620
			<b>80,816</b>
Long Term Investments		21,448	
Long Term Debtors	Note 2	249	21,697
<b>TOTAL LONG TERM ASSETS</b>			<b>102,513</b>
Assets Held For Sale		255	
Short Term Investments		21,921	
Short Term Debtors	Note 2	10,037	
Cash and Cash Equivalents		15,723	
<b>CURRENT ASSETS</b>			<b>47,936</b>
Provisions		(401)	
Short Term Creditors	Note 2	(20,427)	
<b>CURRENT LIABILITIES</b>			<b>(20,828)</b>
Provisions		(2,130)	
Long Term Borrowing		(1,522)	
Long Term Creditors	Note 2	-	
Net Pension Liability		(21,610)	
Grant Receipts in Advance	- Capital	(1,997)	
	- Revenue	(4,058)	
<b>LONG TERM LIABILITIES</b>			<b>(31,317)</b>
<b>NET ASSETS</b>			<b>98,304</b>
<b>USABLE RESERVES</b>			
- General Fund		3,854	
- General Reserve		772	
- Earmarked Reserves		11,859	
- Capital Receipts Reserve		-	
- Capital grants Unapplied		300	
- Profit and Loss Reserve	Note 3	101	
			<b>16,886</b>
<b>UNUSABLE RESERVES</b>			
- Revaluation Reserve		21,355	
- Financial Instrument Revaluation Reserve		1,403	
- Pensions Reserve		(21,610)	
- Capital Adjustment Account		79,327	
- Deferred Capital Receipts		148	
- Collection Fund Adjustment Account		997	
- Short-term Accumulating Compensated Absences Account		(202)	
			<b>81,418</b>
<b>TOTAL RESERVES</b>			<b>98,304</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	
	£000	£000
<b>OPERATING ACTIVITIES</b>		
<b>Cash Inflows</b>		
Council Tax receipts	(10,706)	
NNDR Receipts	(14,687)	
DWP grants for benefits	(28,483)	
Other Government grants	(8,365)	
Cash received for goods and services	(16,012)	
Interest received	(1,260)	
<b>Cash inflows generated from operating activities</b>	<b>(79,513)</b>	
<b>Cash Out Flows</b>		
Cash paid to and on behalf of employees	14,647	
Housing Benefit paid out	28,499	
Other operating cash payments	18,702	
Precepts paid to other authorities	4,182	
Interest paid	660	
<b>Cash outflows generated from operating activities</b>	<b>66,690</b>	
<b>Net Cash Inflow from operating activities</b>		<b>(12,823)</b>
<b>INVESTING ACTIVITIES</b>		
- Purchase of property plant and equipment, investment property and intangible assets	11,731	
- Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,588)	
- Capital grants	(2,495)	
- Proceeds from short-term and long-term investments	(4,791)	
<b>Net cash inflow from investing activities</b>		<b>2,857</b>
<b>FINANCING ACTIVITIES</b>		
- Cash Payments for the reduction of the outstanding liabilities relating to finance leases (Principal)	302	
- Other payments for financing activities	8,934	
<b>Net cash outflow from financing activities</b>		<b>9,236</b>
Net decrease in cash and cash equivalents		(730)
Cash and cash equivalents at the beginning of the reporting period		(14,993)
		<b>(15,723)</b>
Millstream opening balance		
<b>Cash and cash equivalents at the end of the reporting period</b>		<b>(15,723)</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
<b>Opening balance at 31 March 2019</b>	<b>69</b>
Profit or loss for 2019/20	(8)
Capital contribution	40
<b>Closing balance at 31 March 2020</b>	<b>101</b>

## 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 Monitoring Officer keeps Codes of Conduct up to date and any suspected breaches are investigated by the Standards Sub-Committee.

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. The Council will not tolerate fraud or corrupt behaviour in any form and will take whatever steps are necessary to prevent it.

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 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 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.

### **Impact of Covid-19 on Governance**

Covid-19 has not had a significant impact on the governance structures and processes of the Council. The method of conducting meetings has changed but both officer and Member meetings have continued to take place to allow the business of the Council to be transacted.

No changes have been necessary to the Council's Constitution or Financial Regulations. It was necessary to suspend the work of SIAS for a short period of time. This has resulted in a reduced programme of work for 2020/21 but it is still a programme that will allow assurance opinions to be provided on both financial and non-financial systems.

### **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 were adopted by the Executive at its meeting on 7 July 2020.</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:

- 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 .....

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

## East Herts Council Report

### Audit & Governance Committee

**Date of Meeting:** 22<sup>nd</sup> September 2020

**Report by:** Councillor Geoff Williamson, Deputy Leader & Executive Member for Financial Sustainability

**Report title:** Quarterly Corporate Budget Monitor – Quarter 1 June 2020

**Ward(s) affected:** ALL

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### Summary

- To provide a report on financial monitoring for East Herts Council for 2020/21 as at 30<sup>th</sup> June 2020.
- The net revenue budget for 2020/21 is £10.667m as set out in Table 1, this is funded by Council Tax. The forecast outturn as at 30<sup>th</sup> June 2020 predicts an overspend of £100k at the year end.
- The revised capital budget for 2020/21 is £73.985m, of which £100k is estimated to be carried forward to future years.

### RECOMMENDATIONS FOR AUDIT & GOVERNANCE COMMITTEE:

- (a) The net revenue budget forecast overspend of £100k in 2020/21 be noted (Table 1);**
- (b) The revised capital budget for 2020/21 is £73.985m, of which £100k is estimated to be carried forward to future years be noted (paragraph 5.1.1);**

## **1.0 Proposal(s)**

1.1 Not applicable

## **2.0 Background**

2.1 This report sets out the financial position for the financial year 2020/21 to date and provides forecasts for the outturn position.

2.2 The Council's revenue budget is made up of 5 areas; these are shown in table 1. The report that follows provides details of the forecast outturn position against these areas.

2.3 The 2020/21 Budget was set by Council on 29<sup>th</sup> January 2020. The Council's income and expenditure has been impacted by the Covid-19 pandemic, as previously reported to Executive. This report contains estimates of the Covid-19 income loss scheme funding from the government to support the loss of fees and charges income and also Local Authority support grant.

2.4 The income loss scheme will involve a 5% deductible rate, whereby councils will absorb losses up to 5% of their planned sales, fees and charges income, with the government compensating them for 75p in every pound of relevant loss thereafter.



Table 1 – 2020/21 Revenue Forecast Outturn

	<b>Original Budget 2020/21 £'000</b>	<b>Forecast outturn £'000</b>	<b>Variance £'000</b>
Total Net Cost of Services	15,511	17,228	1,717
Corporate Budgets Total	830	930	100
Capitalising Salaries	(150)	(50)	100
Net Use of Reserves	732	618	(114)
Funding	(6,256)	(7,959)	(1,703)
<b>Net Revenue Spend</b>	<b>10,667</b>	<b>10,767</b>	<b>100</b>
Funded by Council Tax	(10,667)	(10,667)	-
<b>Overspend</b>	<b>-</b>	<b>100</b>	<b>100</b>

2.5 The report contains the following sections and Appendices:

Background Report Sections	
2.6	Net Cost of Services
2.18	Corporate budgets
3.0	Reserves
4.0	Funding
5.0	Capital budgets
6.0	Debtors

Appendices	
A	Capital
B	Debtors

2.6 Net Cost of Services

2.7 The Council's net cost of services budget for 2020/21 is £15.511m. An overspend of £1.717m is forecast in 2020/21. Table 2 overleaf shows this current forecast outturn position broken down by service area.

Table 2 – Net Cost of Services

	<b>Original Budget 2020/21</b>	<b>Forecast outturn</b>	<b>Fees &amp; Charges Grant</b>	<b>Revised outturn</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Chief Executive & Directors	383	386	-	386	3
Communications, Strategy & Policy	1,255	1,244	-	1,244	(11)
HR & Organisational Development	540	503	-	503	(37)
Strategic Finance & Property	1,556	1,910	-	1,910	354
Housing & Health	2,764	2,826	(13)	2,813	49
Democratic and Legal	1,269	1,338	(41)	1,297	28
Planning & Building Control	915	1,686	(296)	1,390	475
Operations	3,665	5,583	(994)	4,589	924
Shared Revenues & Benefits Service	1,683	1,716	-	1,716	33
Revenues & benefits retained costs	(386)	(604)	-	(604)	(218)
Housing Benefit Subsidy	(550)	(455)	-	(455)	95
Shared Business & Technology Services	2,417	2,439	-	2,439	22
<b>Total Net Cost of Services</b>	<b>15,511</b>	<b>18,572</b>	<b>(1,344)</b>	<b>17,228</b>	<b>1,717</b>

2.8 The use of reserves to fund Net Cost of Services expenditure is included in section 3.0.

## 2.9 Communications, Strategy & Policy

Due to reception areas being closed since the end of March, vacant customer service advisor posts have not been filled and use of agency support has stopped. As a result a significant underspend in salaries is forecast. The majority of this will be used to fund project management costs that were budgeted to be capitalised, this is reflected in the figures in table 2.

## 2.10 HR & organisation development

A forecast underspend of £37k is reported. Most of this relates to an underspend on salary budgets due to having a lower number of apprentices than initially expected.

## 2.11 Strategic Finance & Property

A forecast shortfall in income of £354k is reported. This relates to:

- £50k reduced rental income from Charrington's House in relation to the current nationwide pandemic
- £64k underachievement in expected income from Millstream, as the company have not been able to buy properties in line with the business plan due to the pandemic
- £200k underachievement of the financial sustainability saving target due to delays in acquisitions, again caused by the pandemic

## 2.12 Housing and Health

A forecast shortfall in income of £49k is reported for the

service. This almost exclusively relates to the negative impact of Covid-19 on commercial activity leading to a projected under recovery of premises licence fees, environmental health licence fees and taxi licence fees. The shortfall is net of anticipated compensation due under the Government scheme.

#### 2.13 Democratic and Legal

A forecast shortfall in income of £28k is reported. This is due to reduced land charges fee income following restrictions placed on the housing market, net of Government compensation.

#### 2.14 Planning & Building Control

A forecast shortfall in income of £475k is reported against the service. This is net of anticipated grant income received to cover losses in fees and charges.

#### 2.15 Operations

A forecast shortfall in income of £924k is reported against the Operations service as a result of the impact of covid 19 on income streams, particularly car parking income. This is net of anticipated grant income received to cover losses in fees and charges. Not all income streams are eligible to receive government funding, for example kerbside dry recycling and penalty charge notices.

#### 2.16 Shared revenue and benefits

A forecast overspend of £33k is reported against the Shared revenues and benefits service, this is due to staff turnover and the associated vacancy saving being lower than anticipated.

## 2.17 Revenues and benefits retained costs

The revenues and benefits retained costs budget is forecast to overachieve by £218k. This is primarily due to additional central government new burdens funding.

## 2.18 Corporate Budgets

Corporate budgets are costs and income received by the Council that are not service specific, these include income from the Council's investments, pension deficit contributions and New Homes Bonus grants to Town and Parish Councils. Table 3 shows the forecast outturn position against the corporate budgets.

Table 3 – Corporate budgets 2020/21 forecast outturn

	<b>Original Budget 2020/21</b>	<b>Forecast outturn</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
NHB Grants to Town & Parish Councils	708	708	-
Interest Payments	207	207	-
Interest & Investment Income	(800)	(700)	100
Pension Fund Deficit contribution	715	715	-
<b>Corporate Budget Total</b>	<b>830</b>	<b>930</b>	<b>100</b>

2.18.1 The interest and investment income budget forecasts an underachievement in income of £100k. This is an estimate based on the current Covid 19 impact on interest rates and property fund returns.

2.18.2 The Interest Equalisation Reserve has a balance of £1.785m as

at 31<sup>st</sup> March 2020. This reserve will be utilised to smooth the impact of any under achievement of interest income. Table 4 includes use of this reserve to cover the £100k shortfall.

### 3.0 Reserves

3.1.1 The Council holds earmarked reserves to fund unpredictable financial pressures and to smooth the effect of known spending over time. Table 4 reflects the forecast outturn position as at 30<sup>th</sup> June 2020.

3.1.2 In previous years the use of reserves to fund Net Cost of Services expenditure has been shown in table 2. A different presentation is being used in 2020/21, to aid transparency, and the use of reserves to fund Net Cost of Services expenditure is now shown in table 4.

Table 4: Use of reserves 2020/21

	<b>2020/21 Budget</b>	<b>2020/21 Forecast Outturn</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Contributions to reserves	42	42	-
Contributions from reserves	(817)	(931)	(114)
Use of General reserve	(96)	(96)	-
Contribution to Priority spend Reserve	1,603	1,603	-
<b>Use of Reserves:</b>	<b>732</b>	<b>618</b>	<b>(114)</b>

3.1.3 It is forecasted that there will be a contribution from reserves of £931k in 2020/21. This is made up of:

- £831k to fund items included in the Net Cost of Services such as Gilston Garden town project costs, expenditure on the IT shared service and the smoothing of the leisure contract costs, approved as part of the 2020/21 budget setting
- £100k use of the interest equalisation reserve to smooth the impact of anticipated shortfall in investment returns

#### 4.0 Funding

These income budgets are general and non-service specific income sources. The table below shows the value and source of these funding streams as at 30<sup>th</sup> June 2020.

Table 5: 2020/21 funding

	<b>Original Budget 2020/21</b>	<b>Forecast Funding 2020/21</b>	<b>Variance</b>
Business Rates	(3,124)	(3,124)	-
(Surplus)/Deficit on collection fund	(300)	(300)	-
Government support grant	-	(1,703)	(1,703)
New Homes Bonus	(2,832)	(2,832)	-
<b>Total Funding</b>	<b>(6,256)</b>	<b>(7,959)</b>	<b>(1,703)</b>

4.1.1 The impact on collection rates for both Council Tax and Business Rates as a result of covid-19 is being closely monitored by officers. A contribution to the Collection fund



reserve of £2.554m was made in 2019/20. This can be utilised in this and future years to mitigate the impact of reduced collection in year.

- 4.1.2 The Council received £1.703m grant from central government, as Local Authority support grant to enable us to manage increased expenditure as a result of covid-19.

## 5.0 Capital Programme

- 5.1.1 The revised capital budget for 2020/21 is £73.985m, this includes £30.898m carried forward from 2019/20. It is currently forecast that £100k is to be carried forward to future years. Appendix A provides an analysis of the projects and their budgets.

- 5.1.2 A review of the capital programme is currently being undertaken, and any resulting amendments to the budget or spend profiling will be reported in the Quarter 2 budget monitoring report.

## 6.0 Debtors

- 6.1.1 The total outstanding debt as at 30<sup>th</sup> June 2020 is £1.778m, which has increased by £578k from the 19/20 outturn position.

- 6.1.2 The outstanding debt over 120 days totals £868k.

Due to the current nationwide pandemic there has been an increase in aged debt. However officers have been proactively working by agreeing payment plans/deferrals with debtors in order to pursue the debt.

In calculating the bad debt provision as at 31 March 2020, officers were prudent and allowed for potential non collection of debts due to the pandemic.

Appendix B analyses the profile of aged debtors

## **7.0 Reason(s)**

7.1 As part of its budget monitoring process, the Council is required to produce budget monitoring reports in order to provide effective financial and performance management.

## **8.0 Options**

8.1 Not applicable

## **9.0 Risks**

9.1 Not applicable

## **10.0 Implications/Consultations**

Consultation was undertaken with budget managers/finance contacts to assist in writing this report.

### **Community Safety**

No

### **Data Protection**

No

### **Equalities**

No

### **Environmental Sustainability**

No

### **Financial**

All financial implications are included in this report.

### **Health and Safety**

No

## **Human Resources**

No

## **Human Rights**

No

## **Legal**

All statutory requirements have been considered in preparing this report.

## **Specific Wards**

No

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

Appendix A: Capital

Appendix B: Debtors

## **Contact Member**

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## **Contact Officer**

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## **Report Authors**

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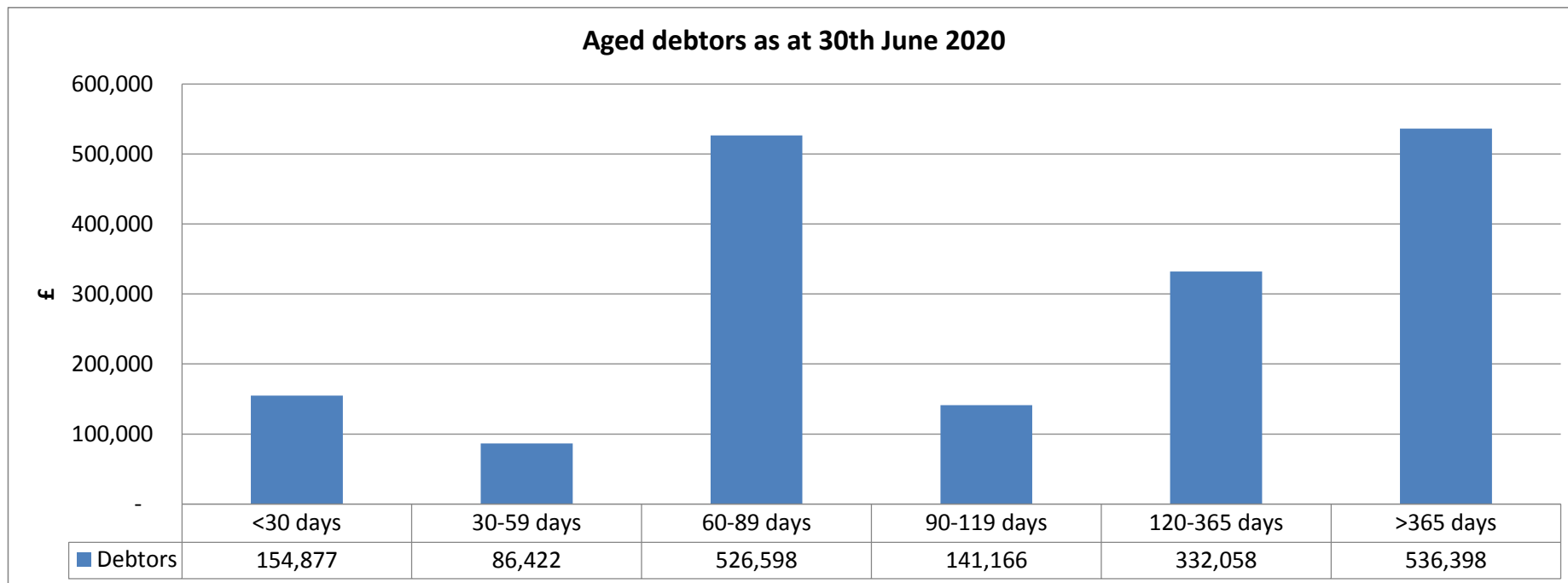
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<b>Capital Forecast Outturn Quarter 1 June 2020</b>
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	<b>Revised Budget 2020/21</b>	<b>Forecast Outturn 2020/21</b>	<b>Variance 2020/21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Strategic Finance &amp; Property</b>			
Investment in operational assets	319	319	0
Car Park Resurfing	155	155	0
LED Lighting Upgrades	290	290	0
Improve & renew structures along rivers and watercourses	82	82	0
Land Management Asset Register & Associated Works	50	50	0
ORL - LEP	6,081	6,081	0
Arts Centre - ORL	250	250	0
Northgate End	19,033	19,033	0
Financial Sustainability	6,120	6,120	0
Repayment of Loan	6,000	6,000	0
<b>Shared Business &amp; Technology Services</b>			
Rolling programme to be utilised on ICT projects subject to ITSG review	1,164	1,164	0
<b>Operations</b>			
Grange Paddocks Leisure Centre	15,612	15,612	0
Bridge Works	250	250	0
Hartham Leisure Centre	9,185	9,185	0
Hartham pool filtration works	420	420	0
Ward Freman Leisure Centre	881	881	0
Hertford Theatre	1,066	1,066	0
Hertford & Beyond	8	8	0
Replacement play equipment across the district (in response to the Condition Audit to be reviewed in 2018/19)	50	50	0
Play Area and other projects, Hartham Common, Hertford	280	280	0

Castle Park - HLF	1,509	1,509	0
Trinity Close - Open Space Project	100	100	0
Buntingford Depot site works for Residual Waste	208	208	0
Heat Detection Unit at Buntingford Depot	305	305	0
<b>Housing &amp; Health</b>			
Decent Home Grants	120	120	0
Future Housing Schemes (6 Water Lane, Hertford)	5	5	0
Colebrook Court (Network Housing)	33	33	0
Energy Grants	20	20	0
Community Capital Grants	155	155	0
<b>Planning &amp; Building Control</b>			
Historic Building Grants -	20	20	0
Improvements to The Wash, Maidenhead Street & Bull Plain, Hertford	2	2	0
<b>Communications, Strategy &amp; Policy</b>			
Launch Pad 2	202	102	(100)
<b>Millstream Property Company</b>			
Capital Loan (10 x properties per annum)	4,010	4,010	0
<b>Current Capital Programme Budget Total</b>	<b>73,985</b>	<b>73,885</b>	<b>(100)</b>

The following graph shows the age of the £1.778m of debts outstanding as at 30th June 2020



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## East Herts Council Report

### Audit and Governance Committee

**Date of Meeting:** 22 September 2020

**Report by:** Chairman of Audit and Governance Committee

**Report title:** Audit and Governance Committee - Draft Work Programme 2020/21

**Ward(s) affected:** All

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### Summary

- To invite Members to review and determine the future work programme of Audit and Governance Committee and any proposed amendments to the ongoing Work Programme.

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

- (a) the main agenda items for the next meeting be agreed;**
- (b) the proposed consolidated work programme, at Appendix A, be agreed.**

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

- 1.1 Items previously required, identified or suggested for the work programme are as set out in Appendix A. The Appendix is now presented as a consolidated report to include also, those issues for consideration by Overview and Scrutiny Committee. It was felt that consolidating the work of both Committees in one report would give Members of both committees a better perspective from the viewpoint of scrutiny.

## **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 Audit and Governance Committee and also O&S Committee. Whilst the timing of some items shown may have to change depending on availability of essential data (eg. from central government), etc members are asked to consider the future programme and add, remove or move items as they see fit.
- 2.3 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. This meeting, to consider the work programmes of both Committees will be held on a quarterly basis and will also consider the items included in the Forward Plan. The aim of this is to provide a longer lead in time for consideration of key items which may require scrutiny.

## **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

**Contact Member** Mark Pope, Chairman of Performance Audit and Governance Oversight Committee  
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**Overview and Scrutiny Committee and Audit and Governance Committee - Consolidated Work Programmes 2020/21**

*(this is a working document and is subject to regular amendment)*

<b>Meeting Date</b> <b>Overview and scrutiny</b>	<b>Topic and Notes</b>	<b>Lead Member and Officer</b>	<b>Meeting Date</b> <b>Audit and Governance</b>	<b>Topic and Notes</b>	<b>Lead Member and Officer</b>
<b>15 September 2020</b>	<p>Update on the progress in relation to the Climate Change Action Plan and progress in relation to the 2030 Carbon neutrality aspirations.</p> <p><i>With the agreement of Members at the last (June 2020) meeting, updates would be presented prior to each meeting.</i></p>	<p>Executive Member for Environmental sustainability and David Thorogood</p>	<b>22 September 2020</b>	<p>External Audit Update</p>	<p>Suresh Patel, Ernst Young</p>

**Overview and Scrutiny Committee and Audit and Governance Committee - Consolidated Work Programmes 2020/21**  
*(this is a working document and is subject to regular amendment)*

Meeting Date <b>Overview and scrutiny</b>	Topic and Notes	Lead Member and Officer	Meeting Date <b>Audit and Governance</b>	Topic and Notes	Lead Member and Officer
	<p>Social Housing – Report of the Task and Finish Group.</p> <p><i>Report and recommendations following the Task and Finish Group’s review of collaborative arrangements with two housing associations and a sample of their tenants.</i></p>	Head of Housing and Health		SIAS Update	Simon Martin SIAS Audit Manager
	Large Scale Projects – Project	Respective Project Managers		SAFs Update	Nick Jennings Head of Service (SAFs)

**Overview and Scrutiny Committee and Audit and Governance Committee - Consolidated Work Programmes 2020/21**  
*(this is a working document and is subject to regular amendment)*

Meeting Date <b>Overview and scrutiny</b>	Topic and Notes	Lead Member and Officer	Meeting Date <b>Audit and Governance</b>	Topic and Notes	Lead Member and Officer
	<p>Management in terms of Expenditure Vs Budget, delivery timescales</p> <p><i>Members' briefing provided on 16 July on Hertford Theatre. Request by Councillor Goldspink for an update on Hartham Leisure</i></p> <p><b><i>(request for information later withdrawn by the</i></b></p>	.			

**Overview and Scrutiny Committee and Audit and Governance Committee - Consolidated Work Programmes 2020/21**  
*(this is a working document and is subject to regular amendment)*

<b>Meeting Date</b> <b>Overview and scrutiny</b>	<b>Topic and Notes</b>	<b>Lead Member and Officer</b>	<b>Meeting Date</b> <b>Audit and Governance</b>	<b>Topic and Notes</b>	<b>Lead Member and Officer</b>
	<i>Member on 31 July 2020) as there would be briefing to all members "Shaping Hertford" on 20 August 2020</i>				
	Policy for Enforcing Standards for Private Sector Landlords	Head of Housing and Health		Strategic Risk Register Quarterly Update	Graham Mulley Risk Assurance Manager
	Council Tax Reduction Scheme 2021/22	Head of Revenues and Benefits Shared Services		Annual Governance Statement	Head of Strategic Finance and property
				Statement of Accounts 2019/20	Head of Strategic Finance and Property



**Overview and Scrutiny Committee and Audit and Governance Committee - Consolidated Work Programmes 2020/21**  
*(this is a working document and is subject to regular amendment)*

<b>Meeting Date</b> <b>Overview and scrutiny</b>	<b>Topic and Notes</b>	<b>Lead Member and Officer</b>	<b>Meeting Date</b> <b>Audit and Governance</b>	<b>Topic and Notes</b>	<b>Lead Member and Officer</b>
	Work Programme	Lorraine Blackburn, Scrutiny Officer		Financial Monitoring Quarter 1	Head of Strategic Finance and Property
<b>3 Nov 2020</b>	How the Council reacted to the Corona Virus  <i>Requested by the Chairman of OS Committee at the meeting on 16 June. At the request of the CE and with the agreement of the Chairman this would be provided to</i>	Invitation to the Leader and CE to present an interim report	<b>17 November 2020</b>	Section 106 Agreements: a) review of policy and also of the receipt and b) the utilisation of funds received	Helen Standen Dep CE and Jackie Bruce Infrastructure and Contributions Spend Manager

## Overview and Scrutiny Committee and Audit and Governance Committee - Consolidated Work Programmes 2020/21

*(this is a working document and is subject to regular amendment)*

Meeting Date Overview and scrutiny	Topic and Notes	Lead Member and Officer	Meeting Date Audit and Governance	Topic and Notes	Lead Member and Officer
	<i>Members on 3 November 2020.</i>				
	Work Programme	Lorraine Blackburn, Scrutiny Officer		Corporate Budget Monitoring Quarter 1	Ben Wood, Head of Communications Strategy and Policy and Steven Linett Head of Strategic Finance and Property
	Annual Complaints Report	Head of Communications, Strategy and Policy		Constitution Review	James Ellis Head of Legal and Democratic Services
	Cultural Strategy	Head of Housing and Health		Standards Update	James Ellis Head of Cultural Strategy Cultural Strategy Legal and Democratic Services

**Overview and Scrutiny Committee and Audit and Governance Committee - Consolidated Work Programmes 2020/21**  
*(this is a working document and is subject to regular amendment)*

<b>Meeting Date</b> <b>Overview and scrutiny</b>	<b>Topic and Notes</b>	<b>Lead Member and Officer</b>	<b>Meeting Date</b> <b>Audit and Governance</b>	<b>Topic and Notes</b>	<b>Lead Member and Officer</b>
	Performance Report Quarters 1 and 2	Head of Communications Strategy and Policy		Work Programme	Lorraine Blackburn, Scrutiny Officer
	Revenues and Benefits Annual Report	Head of Revenues and Benefits Shared Services		Data Retention	Head of Legal and Democratic Services

**Updates**

<b>Overview and Scrutiny Committee</b>	<b>Audit and Governance</b>
<p><b>Parking Policies - Report of the Task and Finish</b>                      Group following consideration by the Executive:                      Update</p> <p>Members will recall that this was considered by the Executive on 11 February. At that meeting it was</p>	<p>Complaints lodged with the Monitoring Officer (Head of Democratic and Legal Support Services).                      When there are updates.</p> <p>Changes to Constitution Review Update (Head of</p>

**Overview and Scrutiny Committee and Audit and Governance Committee - Consolidated Work Programmes 2020/21**  
*(this is a working document and is subject to regular amendment)*

<b>Overview and Scrutiny Committee</b>	<b>Audit and Governance</b>
<p>agreed that Head of Operations, in consultation with the Chairman of the Overview and Scrutiny Committee and Chairman of the Parking Task and Finish Group, and with the Executive Member for Environmental Sustainability were tasked with assessing the full viability of the recommendations by the Executive and report back to the Executive setting out cost implications. This matter was to be reported back to the Executive in the context of the MTFP i.e. a £200k uplift in parking income. Due to COVID-19 the council ceased parking charges and have lost a significant level of income (approx. £900k). Furthermore, parking behaviour has changed in the short term i.e. with less commuters in our car parks. The Head of Operations is reviewing the position with the portfolio holder weekly but fundamentally the landscape of parking has changed and Officers need to explore how best the Council can respond to that.</p>	<p>Democratic and Legal Support Services): When there are updates.</p> <p>Shared Anti-Fraud Service Report (SAFs). At every meeting.</p> <p>Shared Internal Audit Service (SIAS). At every meeting.</p>

**Overview and Scrutiny Committee and Audit and Governance Committee - Consolidated Work Programmes 2020/21**  
*(this is a working document and is subject to regular amendment)*

<b>Overview and Scrutiny Committee</b>	<b>Due date</b>	<b>Audit and Governance</b>	<b>Due Date</b>
Review of capital projects in the Council's Capital Programme (Project Managers)	3 November 2020 or 8 December 2020		
Annual Scrutiny Report (Head of Legal and Democratic Services and Scrutiny Officer)	November or 8 December 2020		
RIPA and Use of Social Media - report back (Head of Legal and Democratic Services)	June 2021		

**Notes:**

*Members will note the new format of the Consolidated Work Programme. It was felt that by combining both work programmes might provide Members with a better insight into the issues to be considered by both committees and respective timeframes and so aid the process of scrutiny. Additionally, Members should note that the Chairman and Vice Chairman of both Committees are now meeting quarterly with the Leader and Deputy Leader to consider both work programmes in the context of the Council's Forward Plan to facilitate better scrutiny and review where necessary.*

**Overview and Scrutiny Committee and Audit and Governance Committee - Consolidated Work Programmes 2020/21**  
*(this is a working document and is subject to regular amendment)*