



# Public Document Pack

*James Ellis  
Head of Legal and  
Democratic Services*

**MEETING** : AUDIT AND GOVERNANCE COMMITTEE  
**VENUE** : COUNCIL CHAMBER, WALLFIELDS, HERTFORD  
**DATE** : TUESDAY 9 NOVEMBER 2021  
**TIME** : 7.00 PM

## **MEMBERS OF THE COMMITTEE**

Councillor M Pope (Chairman)  
Councillors A Alder, R Fernando, A Huggins, T Stowe, R Townsend and  
A Ward-Booth (Vice-Chairman)

## **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)*

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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
2. Minutes - 14 September 2021 (Pages 7 - 20)
3. Chairman's Announcements
4. Declarations of Interest
5. Training: Treasury Management
6. Budget 2022/23 and Medium Term Financial Plan 2022/23 - 2026/27  
(Pages 21 - 36)
7. Annual Treasury Report 2020/21 (Pages 37 - 40)
8. Treasury Management 2021/22 Mid Year review (Pages 41 - 84)
9. Annual Infrastructure Funding Statement report 2020/21 (Pages 85 - 118)
10. Strategic Risk Register Monitoring - Quarter 2: 2021/22 (Pages 119 - 158)
11. Anti-Fraud and Corruption Policy (Pages 159 - 198)
12. Shared Internal Audit Service - Internal Audit Plan Progress Report  
(Pages 199 - 222)
13. External Audit National Procurement Opt in (Pages 223 - 230)

14. Data Protection Update (Pages 231 - 238)
15. Standards Update (Pages 239 - 244)
16. Audit and Governance - Work Programme (Pages 245 - 260)
17. Urgent Items

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MINUTES OF A MEETING OF THE  
AUDIT AND GOVERNANCE COMMITTEE  
HELD IN THE COUNCIL CHAMBER,  
WALLFIELDS, HERTFORD ON TUESDAY 14  
SEPTEMBER 2021, AT 7.00 PM

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PRESENT: Councillor M Pope (Chairman)  
Councillors R Fernando, A Huggins,  
T Stowe, R Townsend and A Ward-Booth

OFFICERS IN ATTENDANCE:

Steven Linnett	- Head of Strategic Finance and Property
Graham Mully	- Insurance and Risk Business Advisor
Nanci Pomfrett	- Trainee Environmental Health Practitioner
William Troop	- Democratic Services Officer
Ben Wood	- Head of Communications, Strategy and Policy

147 APOLOGIES

There were no apologies.

148 MINUTES - 29 JULY 2021

It was moved by Councillor Townsend and seconded by Councillor Stowe, that the Minutes of the meeting of the Committee held on 29 July 2021 be confirmed as a correct record and signed by the Chairman. After being put to the meeting and a vote taken, this motion was declared CARRIED.

**RESOLVED** – that the Minutes of the Committee meeting held on 29 July 2021 be confirmed as a correct record and signed by the Chairman.

149 CHAIRMAN'S ANNOUNCEMENTS

The Chairman said that this was the last meeting the Democratic Services Officer would facilitate as he was leaving the Council. He thanked the Democratic Services Officer for his work with the Committee and wished him luck for the future.

150 DECLARATIONS OF INTEREST

There were no declarations of interest.

151 PROGRESS WITH DELIVERY OF THE 2021/22 ANTI-FRAUD PLAN

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The Shared Anti-Fraud Service (SAFS) Officer briefly introduced the report. Assurance work on the various COVID-19 grant schemes had made up a large part of the recent workload, as well as work resulting from the National Fraud Initiative, which was often administrative or related to data which was now outdated. After this work was completed, work to feed

data into the fraud hub would be prioritised.

The SAFS Officer addressed several questions which were sent to him prior to the meeting by Members. In response to a question about response times to referrals, he said that there had been some slippage on the target set out in key performance indicator (KPI) three. However, considering the previous year's average response times, he was confident this would be recovered to a two day average. In response to a question about the low number of proactive referrals, the SAFS Officer said that most of the referrals were resolved by administrative tasks and were therefore not passed on for fraud investigation.

Members were advised that SAFS had procured a number of services from external providers to constitute a four year framework. This would allow different local authorities to access a bespoke service suited to their needs. There had also been work done on ensuring long-term empty homes were still empty and therefore entitled to tax discounts. This work was funded by Hertfordshire County Council, with the various districts then responsible for ensuring data was accurate. Data analytics had been carried out using various systems including CIFAS and Spotlight to provide assurance over grant schemes, including working with other local authorities to share information about fraud. Only four attempts of fraud had been made against the Council and none had been successful, which Officers should be commended on.

The SAFS Officer responded to a prior question regarding the resumption of investigations using face-

to-face interviews, which had been suspended during the pandemic. These interviews were now ongoing. However, work in partnership with the Department for Work and Pensions (DWP) had yet to resume as DWP staff were still deployed elsewhere and had not been working on housing benefit fraud.

The SAFS Officer responded to a prior question regarding the cost of the Council's membership to SAFS and a comparison of this against the savings and recovery of fraud losses. He assured Members that this subject was raised at regular meetings with Council staff, including the Head of Strategic Finance and Property. There had been considerable measurable financial savings, as well as soft prevention delivered by way of training, advice, anti-money laundering expertise and fraud awareness campaigns.

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

#### 152 STRATEGIC RISK REGISTER MONITORING Q1 2021/22

The Insurance and Risk Business Advisor briefly introduced the report. He said that the content of the report had now been standardised following the previous changes to formatting.

Councillor Stowe asked about the viability of attaining insurance to cover the Council's major projects and said that the rising costs of materials and labour were a risk.

The Insurance and Risk Business Advisor said that for some projects there were some specific legal risks, which could not be disclosed in an open meeting. He

said that Officers were working to mitigate against these risks. There was also cover for project delay, some unexpected costs as well as planning and drainage problems. However, less policies were now available and the cost was high due to Brexit and COVID-19.

Councillor Townsend asked about the £2.9m government support received so far and whether any further funds were expected.

The Head of Strategic Finance and Property said the government had committed to the income support scheme for transactional income for quarter one, but the amount to be claimed was still being assessed. Government were also asking retrospective questions regarding controls and assurance on grant schemes. There was a further £1m in Additional Restrictions Grant which would be distributed to businesses in the district.

The Chairman asked about the risk of performance, resilience and security of IT systems. He suggested that the likelihood should be higher and asked that the Committee's concern about this be minuted.

The Insurance and Risk Business Advisor said that the Committee's comments on this in the past had been considered. The Deputy Chief Executive had reviewed this and the likelihood score had remained the same; the risk had been considered to 'probably occur' annually, rather than 'expected to occur or occurs regularly' monthly as per the likelihood scoring matrix in the report.

The Head of Strategic Finance and Property said that the Shared Internal Audit Service (SIAS) were currently conducting an audit on cyber security, which would be presented to the Committee in due course. It was agreed that the Committee would await the conclusion of this audit before exploring this point further.

The Insurance and Risk Business Advisor said that the Committee may wish to consider recommending to the Executive that it receives the Risk Register as an appendix to financial reports, as had previously been the case. The Committee agreed there was merit in this proposal.

The Chairman said that he thought it unnecessary that the Committee receive both a clean and tracked changes version of the register, unless there was a significant amount of change, and a tracked changes version only would be sufficient. This was agreed.

It was moved by Councillor Fernando and seconded by Councillor Huggins 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 report be received and considered; and

(B) the Committee recommend to the Executive that it receive the quarterly Strategic Risk Register as an appendix to financial reports.

The Head of Communications, Strategy and Policy briefly introduced the report and explained the context and purpose of the register of Community Assets, as well as outlining some case studies detailed in the report. He said that it was always made clear to community groups that registering something as an asset did not prevent planning applications being considered, but the community interest would be noted and taken into account by planning inspectors. However, it had become clear that the legislation lacked the means to allow effective enforcement if contact was ignored by land owners.

Councillor Stowe said that the owner of the Rose and Crown in his ward had ignored attempts by the community to engage and, as part of the conditions, would need to prove that they had actively marketed the property for sale.

Councillor Ward-Booth and the Chairman said that some of the assets were either coming to the end of the five year term or had already expired. They asked whether the Council would contact community groups about this.

Councillor Huggins and Councillor Townsend said that new Members should also be made aware of assets in their ward when elected.

The Head of Communications, Strategy and Policy said that the Interim Policy Officer had been assigned actions relating to the register and would take forward the requests of the Committee.

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

154 FINANCIAL MANAGEMENT 2021/22 – QUARTER 1  
FORECAST TO YEAR END

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The Head of Strategic Finance and Property briefly introduced the report and addressed several questions which were sent to him prior to the meeting by Members. He said there had been a small overspend on revenue and some slippage on the capital budget. There would be a claim made on the government's income support scheme, the Council would absorb losses up to 5% of the budgeted sales, fees and charges income, with the government compensating for 75p in every pound of relevant loss thereafter.

Property rents were holding up and fewer claims of lower council tax support were received than forecasted. There was an overspend within Strategic Finance and Property, this was largely due to rent reductions which were agreed for Charringtons House for tenants in financial difficulty, although this opportunity was used to favourably change the terms of the leases.

In response to a prior question, the Head of Strategic Finance and Property said that sundry debts related to things like pest control work where the Council had not received payment. Further details could be given to Members outside of the meeting should they require it.

Councillor Stowe asked if a report on the debts could be presented to the Committee.

The Head of Strategic Finance and Property said he was happy to provide a summary report to the Committee, but it should be borne in mind that regarding debt write offs, this would only be done where it was impossible for the debt to be recovered, such as in the case of bankruptcy.

The Chairman asked about the unspent £4.1m from the capital budget. He also asked whether the underspend in revenues and benefits masked problems elsewhere within the Council.

The Head of Strategic Finance and Property said that the unspent budget would be carried forward. Revenues and benefits had a devolved budget, the positive result in this area was largely due to new burdens funding from government to support changes and processes around business rates.

It was moved by Councillor Ward-Booth 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 net revenue budget forecast over spend of £0.082 million in 2021/22 be noted; and

(B) the revised capital budget for 2021/22 of £50.039million, which included £4.171m carried forward from 2020/21 to be approved as part of the Provisional Outturn report, and the forecast zero variance to that budget, be noted.

155 2020/21 PROVISIONAL OUTTURN

The Head of Strategic Finance and Property briefly introduced the report. He said that the external audit was still awaited. The overspend of approximately £116,000 could be considered as a positive outcome in light of the significant difficulties of the previous year.

The Chairman said that the net cost of services had increased and asked if was related to the impact of COVID-19.

The Head of Strategic Finance and Property highlighted his earlier points about reduced rental income and the terms of the income support scheme claim again. Some costs related to the cost of refuse staff being replaced by agency workers when they were required to self-isolate.

Councillor Townsend asked whether assigned but unspent community grants would remain allocated to the relevant groups.

The Head of Strategic Finance and Property said that it would. The Council had previously required work to start before the funds were allocated. However, this was not widely accepted practise and going forward funds would be allocated and monitoring done to ensure they were used as agreed.

Councillor Pope asked how prospective changes to the New Homes Bonus (NHB) would affect the Council.

The Head of Strategic Finance and Property said that the government wanted to remove the 'dead weight'

factor whereby it was paying bonuses on new homes that would likely have been built in any case. Once this happened, it was unlikely the Council would receive any NHB. Caution had been taken and this was the assumption that had been made in the financial forecast. Financial pressure would continue; there had been only a 0.6% increase in the Council's resources despite the increase in council tax.

The Chairman asked about positive windfalls on property funds that the Council had invested in and the contribution to the section 31 national non-domestic rates (NNDR) reserve.

The Head of Strategic Finance and Property said that the diversified property fund had outperformed expectations and the Bank of England base rate, so the decision had been made to keep it. The NNDR contribution related to the government's irrecoverable losses grant scheme on business rates. The rules had been changed around this so the numbers were slightly lower than expected, but this could be mitigated elsewhere.

The Chairman asked about the capital underspend of approximately £30m. He also asked for a general update on reserves.

The Head of Strategic Finance and Property said that this was due to the Council's previous practice of carrying forward bulk underspends, once the new practice of showing profiled expenditure across years was implemented, much smaller variance would be seen. Planning costs for Harlow and Gilston had been funded from reserves in the past and this was not

sustainable going forward. Applications would soon begin to be heard, which created further budget and staff pressures in the Planning Service.

It was moved by Councillor Ward-Booth 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 General Fund revenue outturn of £116k overspend funded from the general reserve be noted;

(B) the carrying forward of the revenue budgets of £414k from 2020/21 to 2021/22 be noted; and

(C) the carrying forward of capital budgets of £4.271m to 2021/22 to fund ongoing capital scheme be approved.

## 156 CHANGES TO THE COMMITTEE WORK PROGRAMME

The Head of Strategic Finance and Property briefly introduced the report. The external audit was expected to be completed in December 2021. It was recommended that the Committee agree to form a Sub-Committee to approve the statement of accounts in December. Training prior to meetings of the Committee was also recommended.

Councillor Stowe said oversight of the Council's commercial projects would be welcome.

Councillor Townsend asked if the training would immediately precede meetings and whether this would

be open to the public.

The Head of Strategic Finance and Property said that this was the Committee's prerogative, but this had been done in public at previous local authorities where he had worked.

The Chairman and Councillor Stowe said that it would be useful to have the training in open session so any members of the public could also benefit from it.

Members agreed that the Sub-Committee would need a minimum of three Members to be quorate, although all Members that were available were welcome. Training relating to the statement of accounts was also requested.

It was moved by Councillor Stowe and seconded by Councillor Huggins 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 creation of the Statement of Accounts Approval Sub-Committee be approved and the quorum set at a minimum of three Members;

(B) that the work programme as set out in the report be approved; and

(C) training requirements be specified.

It was moved by Councillor Stowe and seconded by Councillor Huggins 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 main agenda items for the next meeting be agreed; and

(B) the proposed work programme, at Appendix A, in relation to Audit and Governance matters, be agreed.

158 URGENT ITEMS

There was no urgent business.

The meeting closed at 8.14 pm

Chairman .....

Date .....

## **East Herts Council Report**

### **Audit & Governance Committee**

**Date of meeting: 9 November 2021**

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

**Report title: Budget 2022/23 and Medium Term Financial Plan 2022 – 2027 Preparation**

**Ward(s) affected: All**

**Summary** – This report sets out the revised Medium Term Financial Plan (MTFP) which is based on a more favourable economic climate than when the current MTFP was prepared and approved by Council in March 2021. The report also seeks guidance to officers for preparing the detailed budget estimates and preparing a new MTFP to cover the period 2022 to 2027

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

- a)** Note the Executive has agreed, as guidance to officers, that the budget proposals should be based on a Council Tax increase of £5, contract inflation up to 4%, no inflation in other goods and services budgets and that the provision for the national pay award will be up to 3% (effectively 2.75% as 0.25% of the pay provision this year will be carried forward as a result of the 1.75% final pay offer from the employer's side);
- b)** Note the comprehensive spending review savings to be implemented in 2022/23 and 2023/24 as agreed by Council in March 2021 and acknowledge the requirement of Council that

compensating savings, delivered to the same timescales, have to be put in place and reported to the next Council meeting should the Executive decide that any savings proposals should not proceed, or are reduced by 10% or more;

- c)** Welcome the Collection Fund updated estimate that the Business Rates deficit being spread over 3 years will be met in full by changes to the appeals provision removing a £0.900 million pressure on the General Fund and the forecast increase in Local Council Tax Support cases has not materialised and the Council Tax Base is now forecast to increase in future years;
- d)** Note the assumption that the Transforming East Herts Programme will not start to result in revenue savings until the latter half of 2022/23 and into 2023/24
- e)** Note Executive agreed: the re-phasing of the capital programme and revenue impacts of capital financing; that existing minor projects should be subject to a full value for money test before proceeding; and that no new projects may come forward for the capital programme unless they are able to cover the capital financing costs in full or mitigate significant increases in revenue costs;
- f)** Note the revised savings requirements of £0.967 million in 2022/23, £1.520 million in 2023/24 – 2025/26 rising to £1.901million in 2026/27; and
- g)** Note Executive agreed that all service areas should review fees and charges and ensure that, where the council has discretion to set the charge, that charges should be set so as to: recover full costs; concessions should be explicitly linked to an Equalities Impact Assessment; and that services which are not currently charged for the introduction of a charge should be considered unless the service is provided generally under a statutory provision.

## **1.0 Proposal(s)**

- 1.1 The Medium Term Financial Plan (MTFP) presented to Council in March 2021 has been updated to reflect the emerging environment and financial situation as far as it is possible in the current uncertain times. The revised MTFP position is shown in Appendix A. This takes into account the rise in employer's national insurance contributions to fund the NHS and social care announced on 7 September 2021 which will cost the council £0.105 million initially.
- 1.2 The agreed comprehensive spending review savings are key to delivery of the budget strategy and the second year of the savings plan must be delivered in 2022/23. The savings plans are attached as Appendix B. Executive are recommended to acknowledge the requirement of Council that that compensating savings, delivered to the same timescales, have to be put in place and reported to the next Council meeting should the Executive decide that any savings proposals should not proceed, or are reduced by 10% or more. This acts to reinforce across the council the requirement to deliver the savings plan.
- 1.3 Following a review of the Collection Fund the £0.900 million deficit on Business Rates in 2022/23 and 2023/24 can be met by changes in the provision for appeals and uncollectible amounts. The assumption that Local Council Tax Support cases would increase substantially has not occurred as the economy has opened up and the furlough scheme wound down therefore additional growth in the council tax base is now forecast resulting in additional Council Tax income of £0.459 million.
- 1.4 Although 2022/23 is anticipated to be a one year settlement only and the business rates reset has been deferred, the

assumption going forward is that the business rates reset will occur in 2023/24 and the baseline for retention will be adjusted to take into account business rates freezes, so that the retention amount replaces the current section 31 grants.

Section 31 grants are paid by MHCLG under section 31 of the Local Government Act 2003 (power of the Secretary of State to pay grants to local authorities). These section 31 grants compensate local authorities for business rates freezes and also additional reliefs awarded in past budgets. When business rates are reset it is assumed that these section 31 grants amounts will be rolled into the baseline retention amount (they are paid from the 50% business rates share MHCLG receives).

- 1.5 In line with expectations around the Fairer Funding Formula the council's share of business rates are forecast to reduce by £0.050 million per annum as the council is anticipated to be on the floor of the system and protected by transitional protection as it moves towards a lower funding settlement as the system is predicted to treat East Herts as a wealthy area which requires less funding to provide services.
- 1.6 The anticipated cash contribution to pay off the past service deficit arising in the pension fund has been reduced by £0.126 million to reflect stock market performance and the assumption that life expectancy is predicted to remain steady against the national backdrop of life expectancy falling, as a result of Covid 19, from 80 years to 78.7 years for men and from 83.7 years to 82.7 years for females. The lower life expectancy figures are the same as a decade ago.
- 1.7 The cumulative effect of the changes to planning assumptions is an improvement in the council's financial position of £0.375 million in 2022/2023 and £1.301 million in 2023/24. The original planning assumptions in March were suitably prudent

but the success of the NHS vaccination programme, the removal of most pandemic related restrictions and the better than anticipated economic recovery now means that the planning assumptions can be changed to reflect the current state of the national picture. There does however remain the risk that the virus mutates to become vaccine resistant and the financial and economic outlooks deteriorates rapidly, national lock-down is ordered, and the financial planning assumptions return to requiring significant savings in-year.

- 1.8 The council is committed to delivering 10,000 new homes as part of the Harlow and Gilston Garden Town Partnership. Currently planning costs for this are being funded by reserves. The reserves cannot continue to fund this as the scale and complexity of the proposals and the timescales for development delivery at Gilston are exceptional. There is an ambitious planning programme covering multiple work streams over the next two years, including: the preparation of the strategic landscape masterplan and masterplans for village 1 and 7 alongside the CPO process for the river crossings; discharge of conditions relating to the outline permissions; and submission of the first reserved matters application for village 1. There is also a complex and extensive s106 legal agreement that will need to be actively monitored and managed in parallel. The total cost of the development management cost pressure is £0.620 million after Planning Performance Agreements and Section 106 contributions.
- 1.9 There has been slippage on the capital programme in 2020/21 and therefore the capital programme requires re-phasing to reflect this and therefore the capital financing costs require re-profiling which may reduce costs in earlier years and increase them in later years. This will be done alongside work on the

capital programme during the budget estimate exercise to be completed during September and October and reported to the Audit & Governance Committee and Executive during November.

- 1.10 The council's capital programme has traditionally been financed through the significant capital resources that were achieved through the large scale voluntary transfer of the housing stock in 2002. Those resources have now been fully expended and capital expenditure can only be funded by either revenue or borrowing (with revenue implications in terms of Minimum Revenue Provision and interest costs). The current capital programme has effectively used up the borrowing headroom that the revenue account is able to sustainably resource in the medium term and it is vital that the capital programme is tightly controlled and that any additions should not increase revenue costs. Newly emerging policies and strategies should be framed in the light of capital resources being scarce and not creating a revenue pressure in future years. In the current environment a large number of councils are contemplating cancelling capital projects. East Herts is not in that position but there is no further capacity for additional significant projects in the medium term. Therefore the Executive is recommended to mandate that existing minor projects should be subject to a full value for money test before proceeding; and that no new projects may come forward for the capital programme unless they are able to cover the capital financing costs in full or mitigate significant increases in revenue costs. This may necessitate extending maintenance schedules and allowing some assets to deteriorate in the short term but the value for money review will take this into account and ensure that delay does not significantly increase costs in a few years' time.

1.11 The Transforming East Herts Programme will modernise the council and deliver services that are digital by default ensuring end to end services are available 24/7 on the web. Adopting hybrid working and adopting modern workspaces should result in space being available in Wallfields to rent out. Initial indications from letting agents are that after some modernisation the council could expect in the region of £0.090 million per annum for letting out a floor but that is subject to the office accommodation being modernised. Subject to benefits realisation plans being produced for projects it is anticipated that savings of £0.100 million will be achieved in 2022/23, a further £0.800 million in 2023/24 and the final £0.100 million in 2024/25. The £1.0 million savings target remains the minimum target for the Transforming East Herts Programme and further savings may result assisting with the savings targets in future years.

1.12 News Homes Bonus is forecast to end as a revenue stream to the council in this MTFP. The Government consulted on a changed New Homes Bonus distribution mechanism (the Government's response is awaited) but the new mechanism makes it unlikely that more than a handful of councils would be awarded any bonus due to the large increase in the "dead weight factor" (the assumed number of houses that would be built anyway) so that councils would have to specifically have awarded permission for significant numbers of houses which were built very quickly (probably through modern methods of prefabricated construction) in order to qualify.

## **2.0 Background**

2.1 Significant uncertainty continues to dominate the context within which we are working towards delivering a balanced budget over the medium term. The ongoing impact of Covid-19

remains hard to predict, both in terms of the potential for further waves of infection, and the scale and nature of the undoubtedly far-reaching implications on our residents and businesses which will influence need and therefore demand for our services. The financial outlook remains unclear with a further one-year financial settlement anticipated for 2022/23 and key national reforms having been subject to further delay. The national policy agenda continues to evolve rapidly, with legislative and policy changes that respond to the UK's departure from the EU and new global positioning, societal changes brought and exacerbated by the pandemic, and the climate emergency. This is alongside a range of public service reforms signalled by Government, the impacts of which are not yet fully clear.

2.2 In developing our medium and longer term plans we will need to have regard to the broader context in which we will be working. This includes:

- 2.2.1 The impact of operating in an economy recovering from the Covid driven recession. The Government will have to consider how it begins to pay off the borrowing it has undertaken during the pandemic – this could mean a mixture of higher taxation, with possible impact on economic recovery, and reductions in public service expenditure. Both would impact on the Council's income and ability to spend;
- 2.2.2 The shape of the post-Brexit and post-Covid economic and policy agenda, the impact of new post-EU funding regimes and the Government's Levelling Up programme;
- 2.2.3 Specific uncertainty over the future of local government funding, and delays to key reforms. The level of Government funding that the council will receive from

2022/23 onwards is not confirmed; Spending Review 2020 was for a single year and therefore funding for this planning period will be announced at Spending Review 2021 which is likely to be in the autumn. Additionally, the Fair Funding Review and Business Rate Retention reform have now been confirmed delayed until at least 2022/23. These are significant areas of change that currently are not fully understood and cannot be fully quantified but will have potentially significant financial impact.

- 2.2.4 The lasting impact the pandemic will have on young people in terms of education and employment opportunities;
- 2.2.5 The growing impact of climate change, the national and local commitments to achieve carbon neutrality and the introduction of a range of new measures through the Environment Bill;
- 2.2.6 The impact of Government reviews and reforms of public services and changes in policy- for example changes to infrastructure, transport and planning and potential structural changes;
- 2.2.7 The ongoing need to support post-Covid recovery and adjustment, both in our services and for society and the economy, against a backdrop of residual risk of further waves of infection and the potential need for an ongoing vaccination programme; and
- 2.2.8 Reviewing the way that we work and accelerating our planned changes to move towards a more hybrid way of working, and evolving our working practices to ensure we have modern, flexible workspaces and workstyles as part of the Transforming East Herts Programme.

- 2.3 The Council's business and financial planning is underpinned by the Corporate Plan and its four priorities, which provide a clear focus for decisions about spending and savings and direct activity across the Council.
- 2.4 The four priorities are:
  - 2.4.1 **S**ustainability at the heart of everything we do;
  - 2.4.2 **E**nabling our communities;
  - 2.4.3 **E**ncouraging economic growth; and
  - 2.4.4 **D**igital by default.
- 2.5 Officers will continue to explore options to further reduce net cost to meet the savings target for submission in the November Executive report. This will include examining non-statutory service provision levels and also reviewing and benchmarking contracts to ensure the prices remain competitive. A recent review of the office furniture contract resulted in an indicative 68% saving by switching to an alternative framework. A procurement strategy and indicative procurement timeline both featured in the improvements identified in the Annual Governance Statement endorsed by Audit & Governance Committee.

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

- 3.1 The Council is required to set a balanced budget each year. The Local Government Finance Act 1992 requires the Council to estimate revenue expenditure and income for the forthcoming year from all sources, together with contributions from reserves, in order to determine a net budget requirement to be met by government grant, Business Rates and Council Tax.

### **4.0 Options**

- 4.1 Given the financial outlook the Executive have very few options available to ensure a balanced budget. Any growth the

Executive wish to propose must be balanced by reductions elsewhere.

- 4.2 The Executive may propose a lower rate of Council Tax but this will result in additional savings requirements which will require significant changes to the service offer.
- 4.3 In order to draw up the detailed budget and MTFP the Executive were recommended to agree, as guidance to officers, that the budget proposals should be based on a Council Tax increase of £5, contract inflation up to 4%, no inflation in other goods and services budgets and that the provision for the national pay award will be up to 3% (effectively 2.75% as 0.25% of the pay provision this year will be carried forward as a result of the 1.75% final pay offer from the employer's side).
- 4.4 The Executive were also recommended to agree that all service areas should review fees and charges and ensure that, where the council has discretion to set the charge, that charges should be set so as to: recover full costs; concessions should be explicitly linked to an Equalities Impact Assessment; and that services which are not currently charged for the introduction of a charge should be considered unless the service is provided generally under a statutory provision. Where charges recover full cost they should rise by a minimum of 5%.

## **5.0 Risks**

- 5.1 Significant uncertainty continues to dominate the context within which we are working towards delivering a balanced budget over the medium term. The ongoing impact of Covid-19 remains hard to predict, both in terms of the potential for further waves of infection, and the scale and nature of the undoubtedly far-reaching implications on our residents and businesses which will influence need and therefore demand for our services. The financial outlook remains unclear with a

further one-year financial settlement anticipated for 2022/23 and key national reforms having been subject to further delay. The national policy agenda continues to evolve rapidly, with legislative and policy changes that respond to the UK's departure from the EU and new global positioning, societal changes brought and exacerbated by the pandemic, and the climate emergency. This is alongside a range of public service reforms signalled by Government, the impacts of which are not yet fully clear.

- 5.2 The council faces contract cost pressures from shortages of HGV drivers as refuse freighters are classified as HGVs and the haulage of waste from waste transfer stations requires HGV drivers which means costs pressures from short notice requirements to tip at alternate waste transfer stations. Costs may also increase due to supply chain shortages as a result of HGV driver shortages, Brexit trade delays and import/export documentation and global delays as a result of the Suez Canal being blocked earlier in the year causing shipping schedule delays.
- 5.3 The Harlow and Gilston Garden Town Partnership central staff has been funded by MHCLG but this has been on the basis of a bid basis and funding is not certain. MHCLG has indicated it may not continue to provide funding and there is a high risk that the central costs of £1 million per year may fall on the partners or that the policy and co-ordination work will have to stop which may be detrimental to the overall delivery and vision for the Garden Town.
- 5.4 The adequacy of the General Fund balance to meet unexpected expenditure will be considered by the Head of Strategic Finance and Property and be reported to Council as part of his report under Section 25 Local Government Act 2003 on the

robustness of the estimates made in drawing up the budget and the adequacy of the proposed level of reserves.

## **6.0 Implications/Consultations**

- 6.1 The council is required to consult with Business Ratepayers under s.34 Local Government Finance Act 1988.
- 6.2 Consultation with the public will involve asking about perceptions of value for money and the importance of services to them but not specifics of the budget proposals due to the technical nature of the budget papers and resource pressures within the council.

## **Community Safety**

The budget underpins delivery of the Council's policies and priorities in relation to community safety.

## **Data Protection**

No

## **Equalities**

The Council has a statutory duty under the Equalities Act 2010, in particular s149. This includes the requirements on the Council to have due regard to the need to eliminate discrimination and harassment, to advance equality of opportunity, to foster good relations and to remove or minimise disadvantages suffered by persons who share protected characteristics.

Compliance with these duties in the Equalities Act does permit the Council to treat some persons more favourably than others, but only to the extent that such conduct is not otherwise prohibited.

In setting the budget, decisions on some matters may be particularly relevant to the discharge of this duty, particularly fees and charges concessions and an equalities impact assessment will be undertaken to assess and ensure compliance with this duty.

## **Environmental Sustainability**

The budget underpins policies and priorities in relation to the environmental and sustainability areas.

## **Financial**

These are contained in the main body of the report.

## **Health and Safety**

No

## **Human Resources**

The budget will provide a provision for a pay award of up to 3% but the actual award is subject to national NJC negotiations. This provision is set in the light of forward inflation estimates for September 2021 in the Bank of England Monetary Policy Report August 2021.

## **Human Rights**

No

## **Legal**

The Council is required to set a balanced budget each year. The Local Government Finance Act 1992 (as amended by the Localism Act 2011) requires the Council to estimate revenue expenditure and income for the forthcoming year from all sources, together with government grant and contributions from reserves, in order to determine a basic Council Tax Requirement.

Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the estimates and adequacy of reserves to the Council when it is considering the budget.

Section 114 of the Local Government Finance Act 1988 requires the Chief Finance Officer to report to the Full Council if there is or is likely

to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year. The issuing of a Section 114 report requires the Full Council to meet within 21 days to consider the report and during that period the Council is prohibited from entering into new agreements involving the incurring of expenditure.

### **Specific Wards**

No

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

Appendix A – Medium Term Financial Plan Initial Projection

Appendix B – Savings Plan agreed at Full Council March 2021

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## East Herts Council Report

**Date: 9 November 2021**

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

**Report title: Annual Treasury Management Review 2020/21**

**Ward(s) affected: None**

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### **Summary**

The report reviews the Council's treasury management activities for 2020/21, including the prudential indicators and identifies the associated impact on the 2021/22 treasury management strategy.

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

**(a) That Members examine and comment on the 2020/21 Treasury Management Activity and Prudential Indicators.**

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

1.1 That Members examine and comment on the Treasury Management Activity and Prudential Indicators for 2020/21 (Appendix A).

### **2.0 Background**

2.1 Treasury management is defined as: 'The management of the Council's investments and cash flows, its banking arrangements, money market and capital transactions; the effective control of the risks associated with these activities; and the pursuit of optimum returns consistent with the Council's risk management policy for treasury management.'

2.2 This activity is supported by the council's appointed independent advisors – Link Asset Services.

2.3 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance

and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

- 2.4 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

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

- 3.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020/21.

### **4.0 Options**

- 4.1 Members can suggest amendments or additions to the Annual Treasury Management Review 2020/21.

### **5.0 Risks**

- 5.1 Risk management is embedded in treasury management operations through the adoption of the CIPFA Treasury Management Code. Credit ratings, other market intelligence and counterparty limits assist to assess and mitigate risk.

### **6.0 Implications/Consultations**

- 6.1 No.

#### **Community Safety**

No

#### **Data Protection**

No

#### **Equalities**

No

## **Environmental Sustainability**

No

## **Financial**

Yes.

The costs of treasury operations, debt management expenses and investment income are included in the 2020/21 Budget Outturn.

## **Health and Safety**

No

## **Human Resources**

No

## **Human Rights**

No

## **Legal**

The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code for Capital Finance in Local Authorities 2017 Edition and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Council also has to 'have regard' to the MHCLG's Guidance on Local Government Investments 3rd Edition effective for financial periods commencing on or after 1st April 2018, and to CIPFA's Treasury Management in the Public Services: Code of Practice 2017 Edition and Guidance Notes for Local Authorities 2018 Edition.

## **Specific Wards**

No

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

- 7.1 The Local Government Act 2003 -  
<https://www.legislation.gov.uk/ukpga/2003/26/contents>

- 7.2 CIPFA Prudential Code for Capital Finance in Local Authorities 2017 Edition
- 7.3 CIPFA's Treasury Management in the Public Services: Code of Practice 2017 Edition
- 7.4 Appendix A – Annual Treasury Management Review 2019-20

## **Contact Member**

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## East Herts Council Report

**Date: 9 November 2021**

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

**Report title: Treasury Management Mid-Year Review 2021/22**

**Ward(s) affected: None**

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### **Summary**

The report reviews the Council's treasury management activities for the first 6 months of 2020/21 financial year, including the prudential indicators.

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

**(a)That Members examine and comment on the Treasury Management Activity and Prudential Indicators for the first 6 months of 2021/22. (Appendix A)**

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

1.1 This report proposes that Members examine and comment on the Treasury Management Activity and Prudential Indicators for the first 6 months of 2020/21.

### **2.0 Background**

2.1 Treasury management is defined as: 'The management of the Council's investments and cash flows, its banking arrangements, money market and capital transactions; the effective control of the risks associated with these activities; and the pursuit of optimum returns consistent with the Council's risk management policy for treasury management.'

2.2 This activity is supported by the council's appointed independent advisors – Link Asset Services.

- 2.3 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).
- 2.4 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

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

- 3.1 This Council is required by regulations issued under the Local Government Act 2003 to produce a mid-year review of its treasury management activities and prudential and treasury indicators for 2021/22.
- 3.2 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:
  - An economic update for the first half of the 2021/22 financial year;
  - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
  - The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
  - A review of the Council's investment portfolio for 2021/22;
  - A review of the Council's borrowing strategy for 2021/22;
  - A review of any debt rescheduling undertaken during 2021/22;
  - A review of compliance with Treasury and Prudential Limits for 2021/22.

## **4.0 Options**

- 4.1 Members can suggest amendments or additions to the Treasury Management Mid-Year Review for 2021/22.

## **5.0 Risks**

- 5.1 Risk management is embedded in treasury management operations through the adoption of the CIPFA Treasury Management Code. Credit ratings, other market intelligence and counterparty limits assist to assess and mitigate risk.

## **6.0 Implications/Consultations**

- 6.1 No.

### **Community Safety**

No

### **Data Protection**

No

### **Equalities**

No

### **Environmental Sustainability**

No

### **Financial**

Yes.

The costs of treasury operations, debt management expenses and investment income are included in the 2021/22 Budget.

### **Health and Safety**

No

### **Human Resources**

No

## **Human Rights**

No

## **Legal**

The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code for Capital Finance in Local Authorities 2017 Edition and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Council also has to 'have regard' to the MHCLG's Guidance on Local Government Investments 3rd Edition effective for financial periods commencing on or after 1st April 2018, and to CIPFA's Treasury Management in the Public Services: Code of Practice 2017 Edition and Guidance Notes for Local Authorities 2018 Edition.

## **Specific Wards**

No

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

- 7.1 The Local Government Act 2003 -  
<https://www.legislation.gov.uk/ukpga/2003/26/contents>
- 7.2 CIPFA Prudential Code for Capital Finance in Local Authorities 2017 Edition
- 7.3 CIPFA's Treasury Management in the Public Services: Code of Practice 2017 Edition
- 7.4 Appendix A – Treasury Management Mid-Year Review 2021/22

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# East Herts District Council Treasury Management Strategy Statement and Annual Investment Strategy

**Mid-Year Review Report  
2021/22**

# 1. Background

## 1.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

## 1.2 Treasury management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

# 2. Introduction

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Audit and Governance Committee:

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2021/22 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2021/22;
- A review of the Council's borrowing strategy for 2021/22;
- A review of any debt rescheduling undertaken during 2021/22;
- A review of compliance with Treasury and Prudential Limits for 2021/22.

### 3. Economics and interest rates

#### 3.1 Economics update

##### MPC meeting 24.9.21

- The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.
- There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, **the MPC had been prepared to look through a temporary spike in inflation.**
- So, in August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to **faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected.** Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement; this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.
- Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.
- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
  1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
  2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
  3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.
- **COVID-19 vaccines.** These have been the game changer which have enormously boosted confidence that **life in the UK could largely return to normal during the summer** after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate

having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

**US.** See comments below on US treasury yields.

**EU.** The slow roll out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.

German general election. With the CDU/CSU and SDP both having won around 24-26% of the vote in the September general election, the composition of Germany's next coalition government may not be agreed by the end of 2021. An SDP-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.

**China.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

**Japan.** 2021 has been a patchy year in combating Covid. However, after a slow start, nearly 50% of the population are now vaccinated and Covid case numbers are falling. After a weak Q3 there is likely to be a strong recovery in Q4. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was negative in July. New Prime Minister Kishida has promised a large fiscal stimulus package after the November general election – which his party is likely to win.

**World growth.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of **world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

**Supply shortages.** The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

### 3.2 Interest rate forecasts

The Council's treasury advisor, Link Group, provided the following forecasts on 29<sup>th</sup> September 2021 (PWLB rates are certainty rates, gilt yields plus 80bps):

Link Group Interest Rate View 29.9.21		Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE		0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings		0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings		0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings		0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB		1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB		1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB		2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB		2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

*Additional notes by Link on this forecast table: -*

- *LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.*
- *Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.*

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24.

#### Significant risks to the forecasts

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that suppresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market sell-offs on the general economy.
- Geo-political risks are widespread e.g. German general election in September 2021 produces an unstable coalition or minority government and a void in high-profile leadership in the EU when Angela Merkel steps down as Chancellor of Germany; on-going global power influence struggles between Russia/China/US.

### **The balance of risks to the UK economy: -**

- The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

### **Forecasts for Bank Rate**

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to which way to face.
- Will some current key supply shortages e.g., petrol and diesel, spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation. Then we have the Government's upcoming budget in October, which could also end up in reducing consumer spending power.
- On the other hand, consumers are sitting on around £200bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- There are 1.6 million people coming off furlough at the end of September; how many of those will not have jobs on 1<sup>st</sup> October and will, therefore, be available to fill labour shortages in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.
- There is a risk that there could be further nasty surprises on the Covid front, on top of the flu season this winter, which could depress economic activity.

In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is.

It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

### **Forecasts for PWLB rates and gilt and treasury yields**

As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within our forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

### **Gilt and treasury yields**

Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. During the first part of the year, US President Biden's, and the Democratic party's determination to push through a \$1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the \$900bn support package already passed in December 2020 under President Trump. This was then followed by additional Democratic ambition to spend further huge sums on infrastructure and an American families plan over the next decade which are caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus, which is much bigger than in other western economies, was happening at a time in the US when: -

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy had already been growing strongly during 2021.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries. A combination of shortage of labour and supply bottle necks is likely to stoke inflationary pressures more in the US than in other countries.
4. And the Fed was still providing monetary stimulus through monthly QE purchases.

These factors could cause an excess of demand in the economy which could then unleash stronger and more sustained inflationary pressures in the US than in other western countries. This could then force the Fed to take much earlier action to start tapering monthly QE purchases and/or increasing the Fed rate from near zero, despite their stated policy being to target average inflation. It is notable that some Fed members have moved forward their expectation of when the first increases in the Fed rate will occur in recent Fed meetings. In addition, more recently, shortages of workers appear to be stoking underlying wage inflationary pressures which are likely to feed through into CPI inflation. A run of strong monthly jobs growth figures could be enough to meet the threshold set by the Fed of "substantial further progress towards the goal of reaching full employment". However, the weak growth in August, (announced 3.9.21), has spiked anticipation that tapering of monthly QE purchases could start by the end of 2021. These purchases are currently acting as downward pressure on treasury yields. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards in the US will invariably impact and influence financial markets in other countries. However, during June and July, longer term yields fell sharply; even the large non-farm payroll increase in the first week of August seemed to cause the markets little concern, which is somewhat puzzling, particularly in the context of the concerns of many commentators that inflation may not be as transitory as the Fed is expecting it to be. Indeed, inflation pressures and erosion of surplus economic capacity look much stronger in the US than in the UK. **As an average since 2011, there has been a 75% correlation between movements in 10 year treasury yields and 10 year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to keep an eye on.

### **The balance of risks to medium to long term PWLB rates: -**

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

### **A new era – a fundamental shift in central bank monetary policy**

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' and the ECB now has a similar policy.
- **For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.**
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

## 4. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement, (TMSS), for 2021/22 was approved by this Council on 2<sup>nd</sup> March 2021.

- There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

## 5. The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

## 5.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure by Service	2021/22 Original Estimate £m	Current Position £m	2021/22 Revised Estimate £m
Total capital expenditure	45.8	14.2	40.5

The current position is lower than expected, due to delays in major projects. The revised estimate, is likely to reduce after further major project re-profiling.

## 5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2021/22 Original Estimate £m		2021/22 Revised Estimate £m
<b>Total capital expenditure</b>	<b>45.8</b>		<b>40.5</b>
<b>Financed by:</b>			
Capital receipts	(7.2)		(7.2)
Capital grants	(3.4)		(3.4)
Capital reserves			
Revenue	(0.2)		(0.2)
<b>Total financing</b>	<b>(10.8)</b>		<b>(10.8)</b>
<b>Borrowing requirement</b>	<b>35.0</b>		<b>29.7</b>

## 5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

### Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement (or *explain any significant changes*).

## Prudential Indicator – the Operational Boundary for external debt

	2021/22 Original Estimate £m		2021/22 Revised Estimate £m
<b>Prudential Indicator – Capital Financing Requirement</b>			
<b>Total CFR</b>	42.2		35.8
<b>Net movement in CFR</b>	<b>35.0</b>		<b>29.7</b>
<b>Prudential Indicator – the Operational Boundary for external debt</b>			
Borrowing	40.0		40.0
Other long term liabilities*	10.0		10.0
<b>Total debt (year end position)</b>	<b>50.0</b>		<b>50.0</b>

\* On balance sheet PFI schemes and finance leases etc.

### 5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose\*. **Gross external borrowing** should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

\* The management of transferred debt should be excluded from net borrowing.

	2021/22 Original Estimate £m		2021/22 Revised Estimate £m
Borrowing	26.0		29.7
Other long term liabilities*	-		-
<b>Total debt</b>	<b>26.0</b>		<b>29.7</b>
<b>CFR* (year end position)</b>	<b>42.2</b>		<b>35.8</b>

\* Includes on balance sheet PFI schemes and finance leases etc.

\*\* Estimated £15m internal borrowing.

A further prudential indicator controls the overall level of borrowing. This is the **Authorised Limit** which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2021/22 Original Indicator £m		2021/22 Revised Indicator £m
Borrowing	150.0		150.0
Other long term liabilities*	10.0		10.0
<b>Total</b>	<b>160.0</b>		<b>160.0</b>

\* Includes on balance sheet PFI schemes and finance leases etc.

The authorised borrowing level was set prior to the change in the PWLB borrowing regulations and when there was a different proposal for the Old River Lane project. As per the expenditure figures quoted above, we are not due to borrow at the original estimated high levels and the limit will be reduced in the 2022/23 Treasury Management Strategy.

## 6. Borrowing

The Council's estimated capital financing requirement (CFR) for 2021/22 is £35.8m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 5.4 shows the Council has estimated borrowings, at year end of £29.7m and is looking to utilise £15m of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

Due to the overall financial position and the underlying need to borrow for capital purposes (the CFR), no new external borrowing has been undertaken, as we are currently still utilising cashflow. The capital programme is being kept under regular review due to the effects of coronavirus and shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.

It is anticipated that external borrowing will be undertaken during this financial year.

### **PWLB maturity certainty rates (gilt plus 80bps) year to date to 30th September 2021**

*(See graphs and table provided in Appendix1)*

Gilt yields and PWLB rates were on a falling trend between May and August. However, they rose sharply towards the end of September.

The 50 year PWLB target certainty rate for new long-term borrowing started 2021/22 at 1.90%, rose to 2.00% in May, fell to 1.70% in August and returned to 2.00% at the end of September after the MPC meeting of 23<sup>rd</sup> September.

- The current PWLB rates are set as margins over gilt yields as follows: -
  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

## 7. Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

## 8. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30<sup>th</sup> September 2021, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2021/22. The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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

## 9. Annual investment strategy

The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by the Council on 2<sup>nd</sup> March 2021. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown by the interest rate forecasts in section 3.2, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10% in March 2020 until the MPC meeting on 24<sup>th</sup> September 2021 when 6 and 12 month rates rose in anticipation of Bank Rate going up in 2022. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before mid-2023, investment returns are expected to remain low.

### **Creditworthiness.**

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

### **Investment Counterparty criteria**

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function OR *insert any changes to the criteria you wish to make, with supporting criteria.*

### **CDS prices**

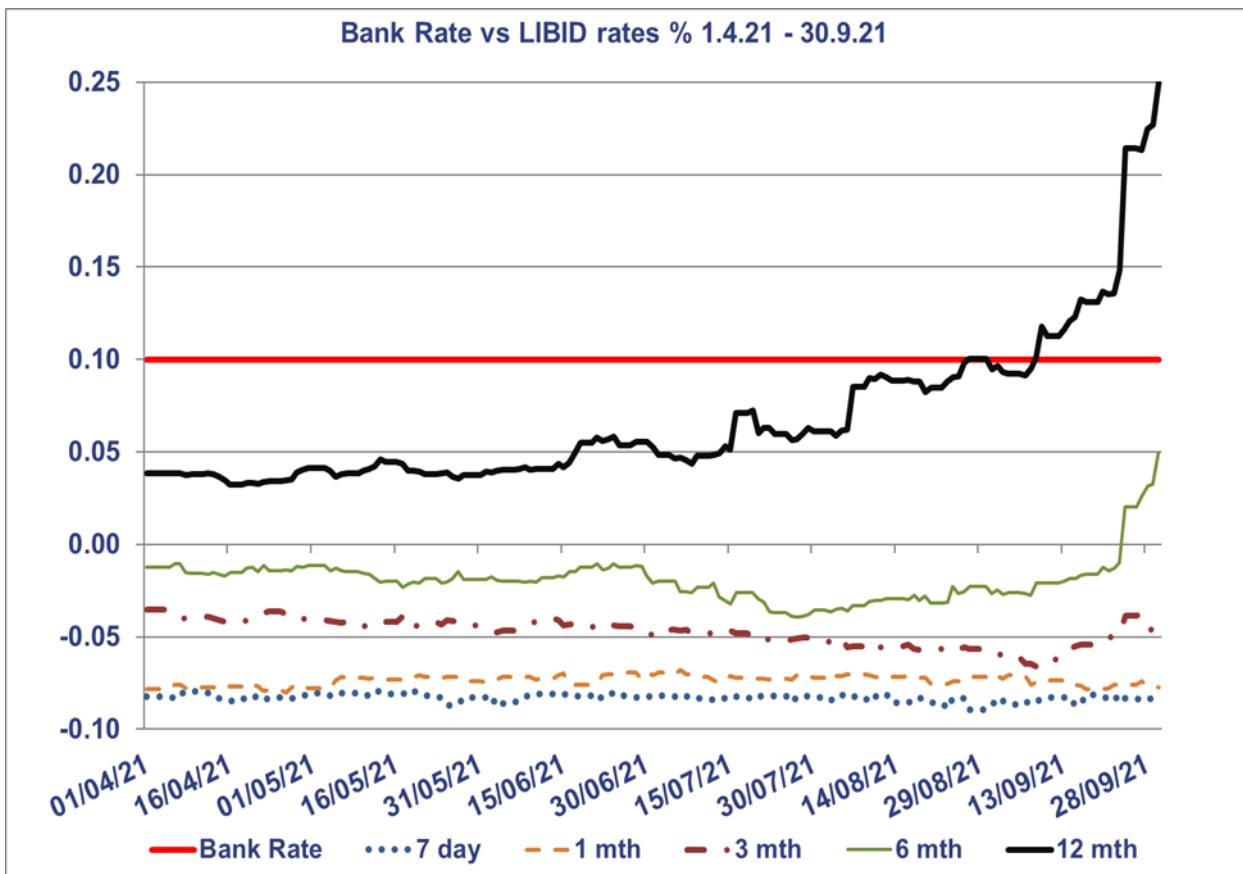
Although CDS prices (these are market indicators of credit risk) for banks (including those from the UK) spiked at the outset of the pandemic in 2020, they have subsequently returned to near pre-pandemic levels. **However, sentiment can easily shift, so it remains important to undertake continual monitoring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

### **Investment balances**

The average level of funds available for investment purposes during the quarter was **£15.4m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Council holds **£20.0m** core cash balances for investment purposes (i.e. funds available for more than one year).

### **Investment rates during half year ended 30<sup>th</sup> September 2021**

*As highlighted earlier in this report, the levels shown below use the traditional market method for calculating LIBID rates – i.e., LIBOR – 0.125%. Given the ultra-low LIBOR levels this year, this produces negative rates across some periods.*



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	-0.08	-0.07	-0.04	0.05	0.25
High Date	01/04/2021	09/04/2021	06/07/2021	01/04/2021	30/09/2021	30/09/2021
Low	0.10	-0.09	-0.08	-0.07	-0.04	0.03
Low Date	01/04/2021	27/08/2021	26/04/2021	08/09/2021	27/07/2021	16/04/2021
Average	0.10	-0.08	-0.07	-0.05	-0.02	0.07
Spread	0.00	0.01	0.01	0.03	0.09	0.22

#### Investment performance year to date as at 30<sup>th</sup> September 2021

(Please see our note in section 3.2 underneath the table, on the current divergence between the calculation of LIBID rates using market convention and average rates actually being earned by local authorities.)

Period	LIBID benchmark return
7 day	<b>-0.08%</b>
1 month	<b>-0.07%</b>
3 month	<b>-0.05%</b>
6 month	<b>-0.02%</b>
12 month	<b>0.07%</b>

The Council has kept its cashflow investments liquid, investing for no longer than 3 months but has still outperformed the LIBID benchmark, achieving a positive average return of 0.05%. The Council's budgeted

investment return for 2021/22 is £750k, which includes returns from our property funds and commercial loans. Performance for the year is currently estimated to return £800k, but if property funds continue to perform well, this figure could be higher.

#### **Fund investments**

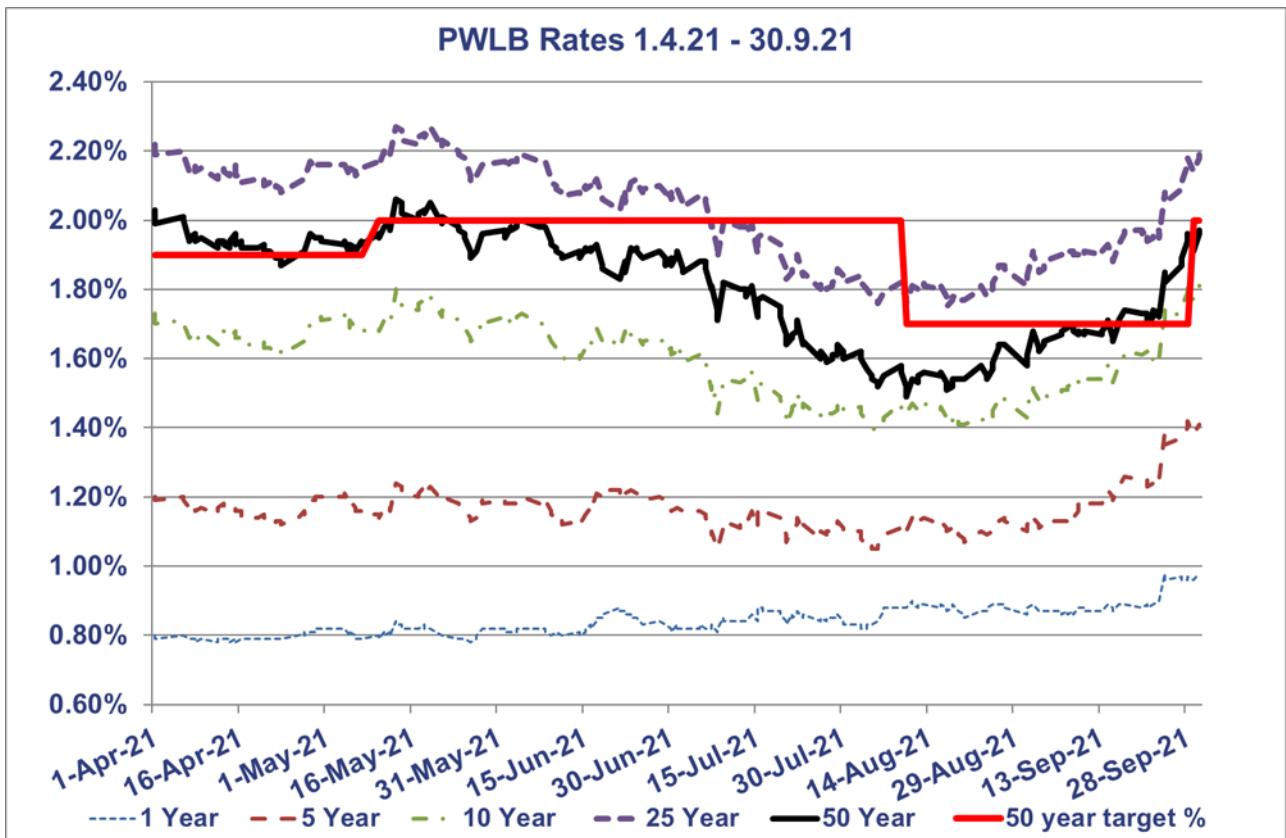
- Property Funds have continued to perform well, under COVID, with the current average, net rate of return as 3.69% and good capital appreciation.

#### **Approved limits**

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period ended 30th September 2021.

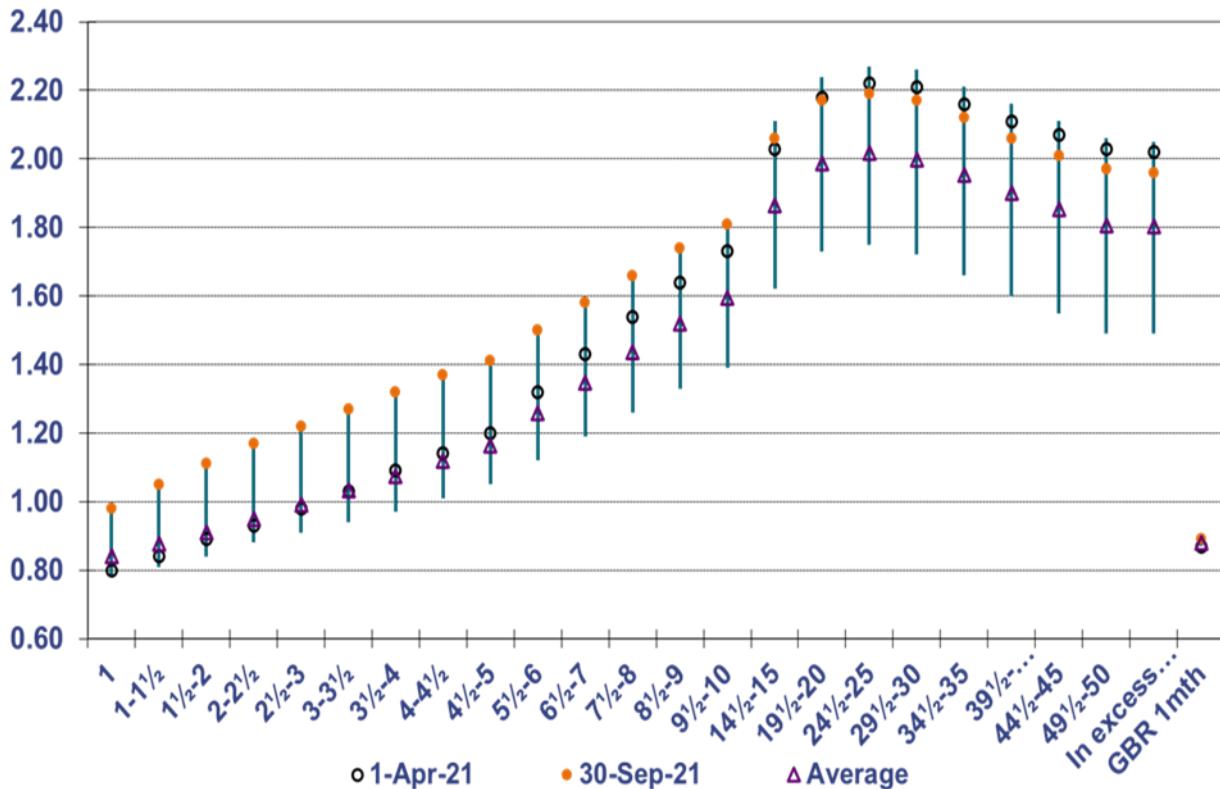
## APPENDIX 1: Borrowing rates

The following graph and tables are optional for clients to use if they wish.



	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	0.78%	1.05%	1.39%	1.75%	1.49%
<b>Date</b>	08/04/2021	08/07/2021	05/08/2021	17/08/2021	10/08/2021
<b>High</b>	0.98%	1.42%	1.81%	2.27%	2.06%
<b>Date</b>	24/09/2021	28/09/2021	28/09/2021	13/05/2021	13/05/2021
<b>Average</b>	0.84%	1.16%	1.60%	2.02%	1.81%
<b>Spread</b>	0.20%	0.37%	0.42%	0.52%	0.57%

## PWLB Certainty Rate Variations 1.4.21 to 30.9.2021



**PWLB RATES.** There was much speculation during the **second half of 2019** that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been **the gradual lowering of the overall level of interest rates and bond yields in financial markets**. Over the year prior to the coronavirus crisis, this resulted in many bond yields up to 10 years turning negative in the Eurozone. In addition, there was, at times, an inversion of bond yields in the US whereby 10 year yields fell below shorter-term yields. In the past, this has been a precursor of a recession.

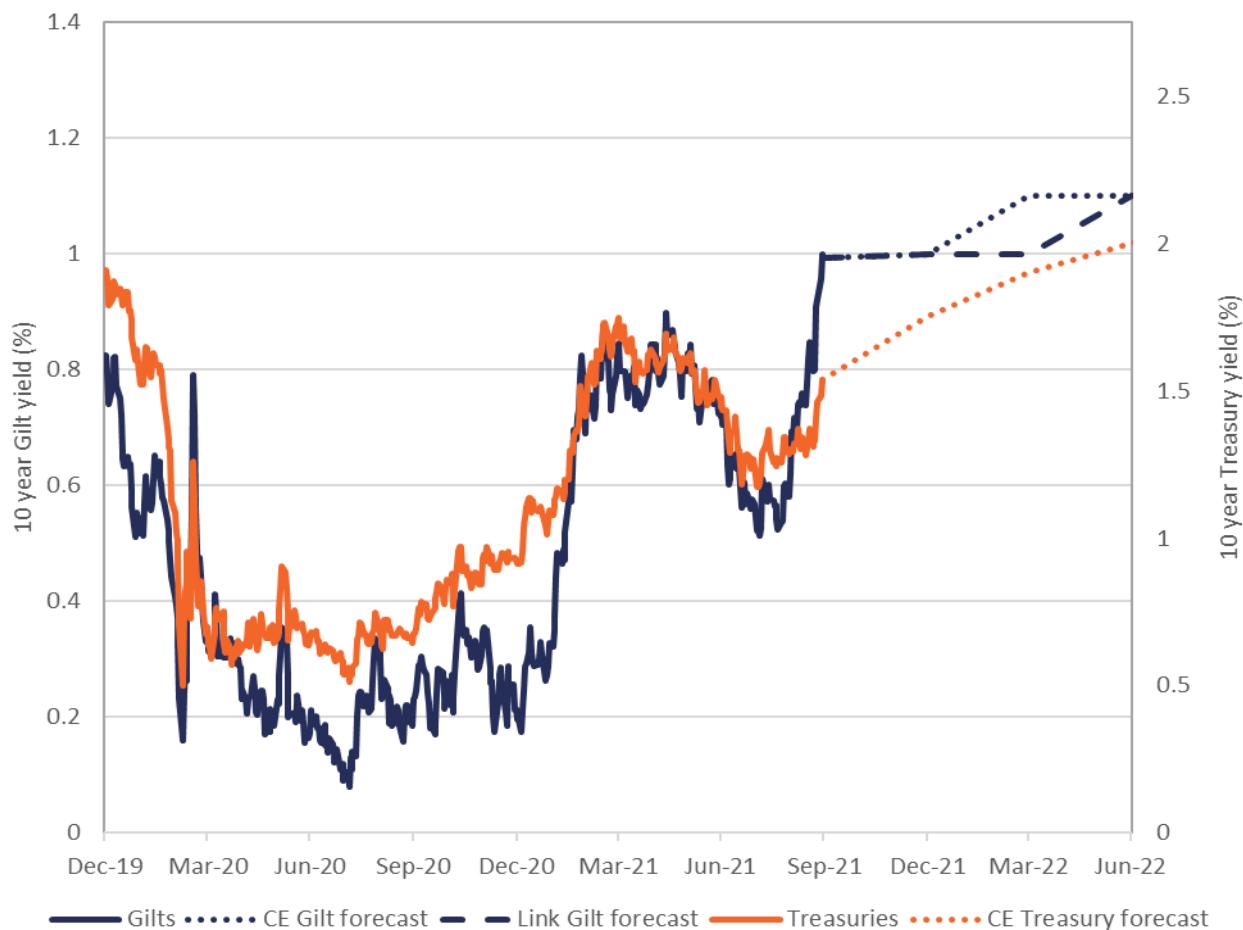
**Gilt yields had, therefore, already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020 which caused gilt yields to spike up.** However, yields then fell sharply in response to major western central banks taking rapid policy action to deal with excessive stress in financial markets during March and starting massive quantitative easing driven purchases of government bonds: these actions also acted to put downward pressure on government bond yields at a time when there was a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply.

**At the start of January 2021**, all gilt yields from 1 to 8 years were negative: however, since then all gilt yields have become positive and rose sharply during the spring, especially in medium and longer-term periods, until starting a significant decline since May which was then sharply reversed in August / September. Repeated assurances by the Fed in the US, and by other major world central banks, that inflation would spike up after Covid restrictions were abolished, but would only be transitory, allayed investor fears until August / September when high inflation was again seen as a growing danger and both central banks in the US and UK gave indications that monetary policy tightening was now on the horizon. **There is considerable concern that the US Fed is taking a too laid-back view that inflation pressures in the US are purely transitory and that they will subside without the need for the Fed to take significant action**

to tighten monetary policy. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that rates will end up rising faster and further in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields.

#### Correlation between 10 year US treasury yield and 10 year gilt yield

The Link Group forecasts have included a risk of a 75% correlation between movements in US treasury yields and gilt yields over 10 years since 2011. As US treasury yields are expected to rise faster and further than UK gilt yields, there is an upside risk to forecasts for gilt yields due to this correlation. The graph below shows actual movements in both 10 year yields and forecasts by Link (gilt only) and Capital Economics.



- Yields on 10 year Gilts and Treasuries initially both fell during the first quarter of 2020, as signs emerged that the COVID-19 virus would become a global pandemic which would lead to a sharp downturn in economic growth.
- The correlation between 10 year yields in the UK and the US lessened during the second half of 2020 when US yields displayed an increasing tendency to rise, whilst UK yields remained more range bound. This divergence was consistent with the relatively better economic performance registered by the US during the pandemic, which was aided by historically low US business inventory levels needing to be rebuilt.
- During late 2020 gilt yields rose significantly, reflecting optimism that the fast vaccine roll-out in the UK would support a strong economic recovery during 2021.
- During September 2021, treasury yields rose sharply in response to growing investor concerns around high inflation and indications from the Fed that tapering of quantitative easing purchases of treasuries are likely to occur in the near future. Gilts also rose sharply, as did investor concerns around a sharp increase in inflation in the UK which is now likely to go over 4%. In addition, the MPC meeting on 23rd September flagged up major concerns around the strength of inflation which may require Bank Rate to go up much faster than had previously been expected.

## APPENDIX 4: Approved countries for investments as at 30th September 2021

***Based on lowest available rating***

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- U.K.

## Appendix A

# East Herts District Council Annual Treasury Management Review 2020/21

*Outturn Report 2020/21*

## ABBREVIATIONS USED IN THIS REPORT

*This is an optional area which clients may wish to include in their report if they feel that members would appreciate having this list of abbreviations and definitions.*

**ALMO:** an Arm's Length Management Organisation is a not-for-profit company that provides housing services on behalf of a local authority. Usually an ALMO is set up by the authority to manage and improve all or part of its housing stock.

**LAS:** Link Group, Treasury solutions – the council's treasury management advisers.

**CE:** Capital Economics - is the economics consultancy that provides Link Group, Treasury solutions, with independent economic forecasts, briefings and research.

**CFR:** capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

**CIPFA:** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

**CPI:** consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

**ECB:** European Central Bank - the central bank for the Eurozone

**EU:** European Union

**EZ:** Eurozone -those countries in the EU which use the euro as their currency

**Fed:** the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

**FOMC:** the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

**GDP:** gross domestic product – a measure of the growth and total size of the economy.

**G7:** the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

**Gilts:** gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.

**HRA:** housing revenue account.

**IMF:** International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

**LIBID:** the London Interbank Bid Rate is the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).

**MHCLG:** the Ministry of Housing, Communities and Local Government -the Government department that directs local authorities in England.

**MPC:** the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

**MRP:** minimum revenue provision -a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

**PFI:** Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.

**PWLB:** Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

**QE:** quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

**RPI:** the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – CPI. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

**TMSS:** the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

**VRP:** a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).

# Annual Treasury Management Review 2020/21

## 1. Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2020/21 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 29/01/2020)
- a mid-year (minimum) treasury update report (Council 16/12/2020)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Governance Committee before they were reported to the full Council.

## 2. The Council's Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m	31.3.20 Actual	2020/21 Budget	31.3.21 Actual
<b>Capital expenditure</b>	<b>10,762</b>	<b>64,614</b>	<b>31,525</b>
Financed in year	-6,231	-	-6,870
<b>Unfinanced capital expenditure</b>	<b>4,531</b>	<b>-</b>	<b>24,655</b>

### 3. The Council's Overall Borrowing Need

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2020/21. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31.3.20 Actual	31.3.21 Actual
Total CFR General Fund (£m)	-23,079	-18,548
Gross borrowing position	4,531	24,655
Under / over funding of CFR	-18,548	6,107

**The authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2020/21 the Council has maintained gross borrowing within its authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

**Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2020/21
Authorised limit	£27m
Operational boundary	£24.5m
Financing costs as a proportion of net revenue stream	0.94%

## 4. Treasury Position as at 31st March 2021

At the beginning and the end of 2020/21 the Council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

DEBT PORTFOLIO	31.3.20 Principal	Rate/ Return	Average Life yrs	31.3.21 Principal	Rate/ Return	Average Life yrs
Fixed rate funding:						
-PWLB	£1.5m	8.875%	35	£1.5m	8.875%	34
-Market	£6.0m	8.785%		-		
Variable rate funding:						
-PWLB	-			-		
-Market	-			-		
<b>Total debt</b>	<b>£7.5m</b>	<b>8.83%</b>		<b>£1.5m</b>	<b>8.875%</b>	
CFR	(£18.6m)			£6.1m		
<b>Over / (under) borrowing</b>	<b>£7.5m</b>			(£4.6m)		
<b>Total investments</b>	<b>£59.0m</b>			<b>£33.3m</b>		
<b>Net debt</b>	<b>(£51.5m)</b>			(£37.9m)		

The maturity structure of the debt portfolio was as follows:

	31.3.20 actual	31.3.21 actual
Under 12 months	£6.0m	£0.0m
12 months and within 24 months	£0.0m	£0.0m
24 months and within 5 years	£0.0m	£0.0m
5 years and within 10 years	£0.0m	£0.0m
10 years and within 20 years	£0.0m	£0.0m
20 years and within 30 years	£0.0m	£0.0m
30 years and within 40 years	£1.5m	£1.5m
40 years and within 50 years	£0.0m	£0.0m

INVESTMENT PORTFOLIO	31.3.20 Actual £	31.3.20 Actual %	31.3.21 Actual £m	31.3.21 Actual %
<b>Treasury investments</b>				
Banks	23.2m	38.3%	11.5m	20.4%
Building Societies - rated	-	-	-	-
Building Societies – unrated	-	-	-	-
Local authorities	6.5m	11.0%	-	-
DMADF (H M Treasury)	-	-	-	-
<b>Total managed in house</b>	<b>29.7m</b>	<b>49.3%</b>	<b>11.5m</b>	<b>20.4%</b>
Bond funds	-	-	-	-
Property funds	20.0m	36.3%	20.0m	62.8%
Cash fund managers	8.5m	14.4%	5.6m	16.8%
<b>Total managed externally</b>	<b>28.5m</b>	<b>50.7%</b>	<b>25.6m</b>	<b>79.6%</b>
Accrued interest/timing difference	0.8m		(3.8m)	
<b>TOTAL TREASURY INVESTMENTS</b>	<b>59.0m</b>	<b>100%</b>	<b>33.3m</b>	<b>100%</b>

<b>Non Treasury investments</b>				
Third party loans	-	-	-	-
Subsidiaries	-	-	-	-
Companies	2.3m	12.9%	5.0m	35.5%
Property	15.5m	87.1%	9.1m	64.5%
<b>TOTAL NON TREASURY INVESTMENTS</b>	<b>17.8m</b>	<b>100%</b>	<b>14.1</b>	<b>100%</b>

<b>Treasury investments</b>	59.0m	76.8%	33.3m	70.3%
<b>Non Treasury investments</b>	17.8m	23.2%	14.1m	29.7%
<b>TOTAL OF ALL INVESTMENTS</b>	<b>76.8m</b>	<b>100%</b>	<b>47.4m</b>	<b>100%</b>

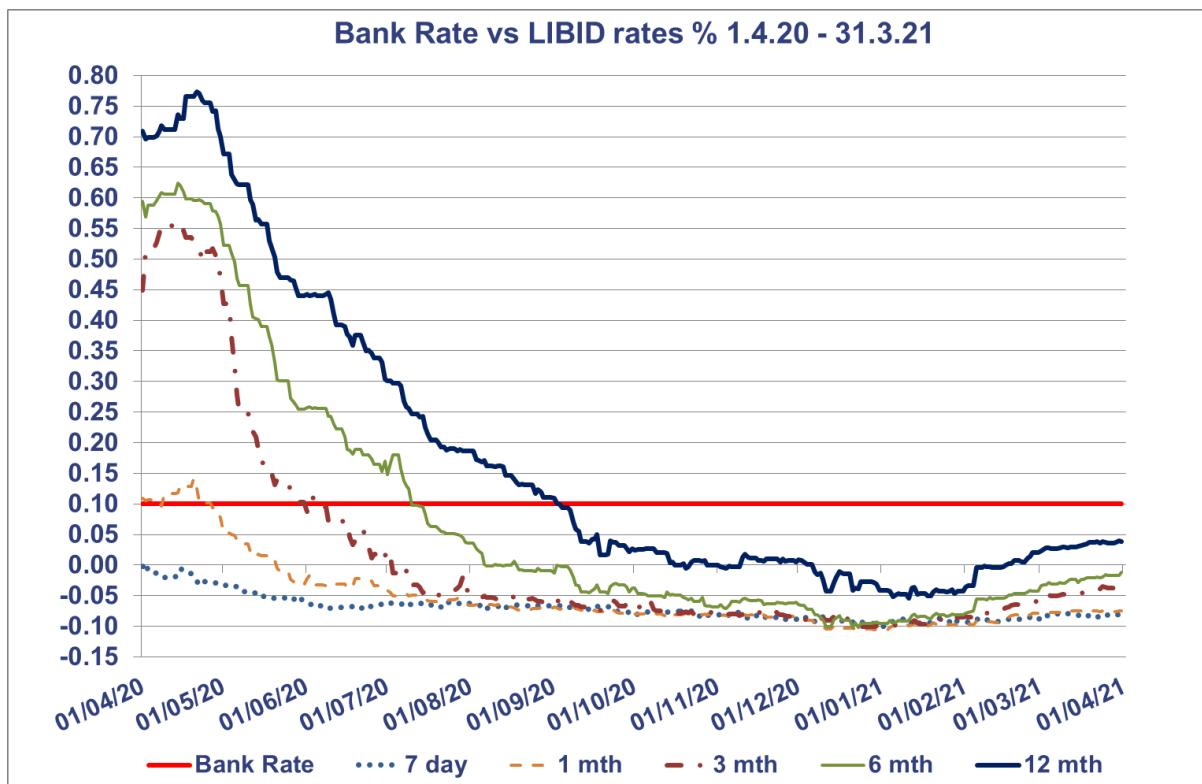
Treasury Investments As at 31.03.21	£	Rate
Santander (95 day notice)	1.0m	0.08%
Lloyds (32 day notice)	3.7m	0.05%
Santander (Instant Access)	4.5m	0.04%
Morgan Stanley (Instant Access)	5.6m	Variable MMF cash fund
NatWest (Instant Access EHDC main bank)	2.3m	0.01m
<b>Total actual Investments held as at 31.03.21</b>	<b>17.1m</b>	

The maturity structure of the investment portfolio was as follows:

	31.3.20 Actual £	31.3.21 Actual £
<b>Investments</b>		
Longer than 1 year	39.2m	35.0m
Up to 1 year	37.6m	12.4m
<b>Total</b>	<b>76.8m</b>	<b>47.4m</b>

## 5. The Strategy for 2020/21

### 5.1 Investment strategy and control of interest rate risk



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
<b>High</b>	0.10	0.00	0.14	0.56	0.62	0.77
<b>High Date</b>	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
<b>Low</b>	0.10	-0.10	-0.11	-0.10	-0.10	-0.05
<b>Low Date</b>	01/04/2020	31/12/2020	29/12/2020	23/12/2020	21/12/2020	11/01/2021
<b>Average</b>	0.10	-0.07	-0.05	0.01	0.07	0.17
<b>Spread</b>	0.00	0.10	0.25	0.66	0.73	0.83

Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of

supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

## 5.2 Borrowing strategy and control of interest rate risk

During 2019-20, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world

economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020/21 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

*Forecasts at the time of approval of the treasury management strategy report for 2020/21 were as follows: -*

### 31.1.20

Link Asset Services Interest Rate View													
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80

*The following tables show how interest rate forecasts changed during 2020/21: -*

### 31.3.20

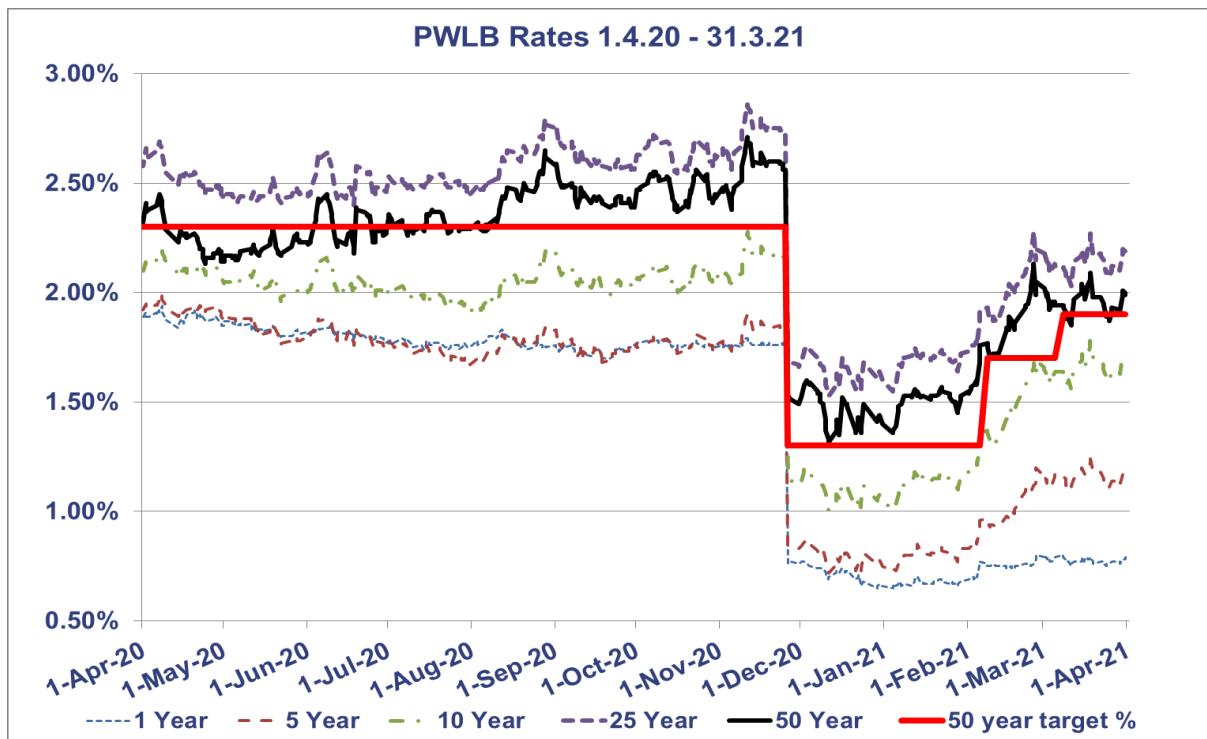
Link Asset Services Interest Rate View								
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50

Link Group Interest Rate View 11.8.20												
	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month average earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
6 Month LIBID	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 Month LIBID	0.20	0.20	0.20	0.20	0.20	0.20	0.20	-	-	-	-	-
5yr PWLB Rate	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50

Link Group Interest Rate View		9.11.20													
		Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings		0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB		1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB		2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB		2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB		2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60	2.60

Link Group Interest Rate View		8.2.21													
		Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	
BANK RATE		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings		0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB		0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20
10 yr PWLB		1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60	1.60
25 yr PWLB		1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20	2.20
50 yr PWLB		1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00	2.00

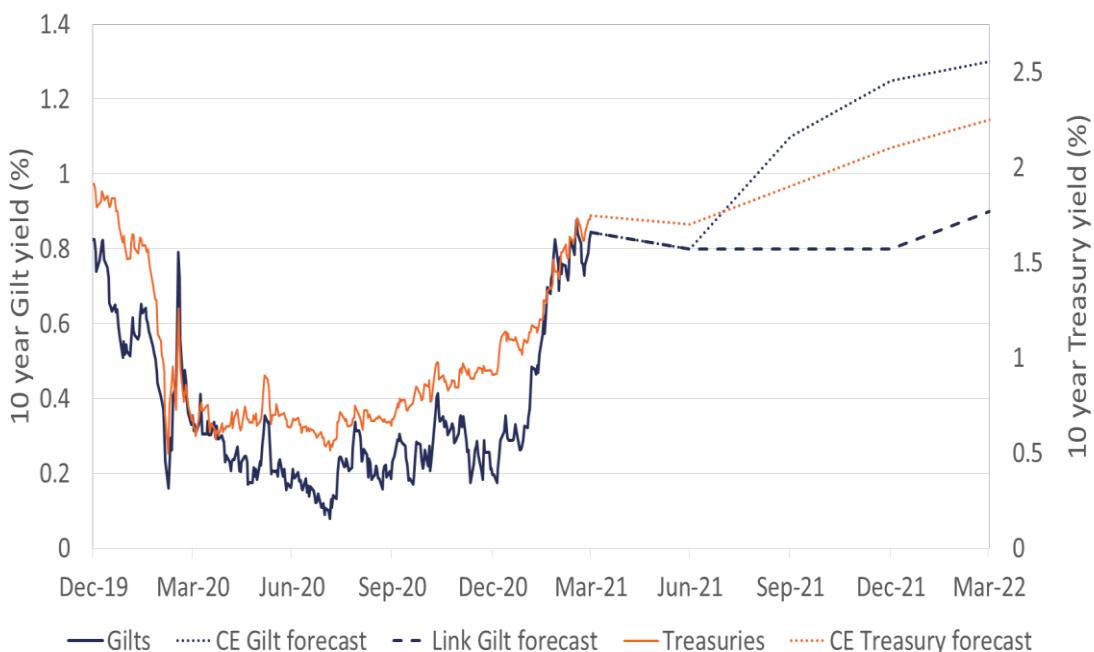
Link Group Interest Rate View		8.3.21													
		Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	
BANK RATE		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings		0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB		1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40	1.40
10 yr PWLB		1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90	1.90
25 yr PWLB		2.10	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50	2.50
50 yr PWLB		1.90	1.90	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30



	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	0.65%	0.72%	1.00%	1.53%	1.32%
<b>Date</b>	04/01/2021	11/12/2020	11/12/2020	11/12/2020	11/12/2020
<b>High</b>	1.94%	1.99%	2.28%	2.86%	2.71%
<b>Date</b>	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
<b>Average</b>	1.43%	1.50%	1.81%	2.33%	2.14%
<b>Spread</b>	1.29%	1.27%	1.28%	1.33%	1.39%

PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession.

### Graph of UK gilt yields v. US treasury yields



Gilt yields fell sharply from the start of 2020 and then spiked up during a financial markets melt down in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. While US treasury yields do exert influence on UK gilt yields so that the two often move in tandem, they have diverged during the first three quarters of 2020/21 but then converged in the final quarter. Expectations of economic recovery started earlier in the US than the UK but once the UK vaccination programme started making rapid progress in the new year of 2021, gilt yields and gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report.

At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.

HM Treasury imposed **two changes of margins over gilt yields for PWLB rates in 2019/20** without any prior warning. The first took place on 9<sup>th</sup> October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11<sup>th</sup> March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and **on 25<sup>th</sup> November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates**; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

**Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2020/21 approved by the Council on 29<sup>th</sup> January 2020, was subject to revision during the year due to delays in major capital project spend, reducing the 2020/21 borrowing requirement.

## 6. Borrowing Outturn

### Treasury Borrowing

No borrowing was undertaken during the year.

### Borrowing in advance of need

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

### Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

### Repayments

On 22<sup>nd</sup> May 2020 a historic, club loan / bond of £6m, with a fixed rate of 8.785%, matured and was repaid.

## 7. Investment Outturn

**Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 29<sup>th</sup> January 2020. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

**Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31.3.20	31.3.21
Balances	£46.8m	£9.2m
Earmarked reserves	£11.9m	£23.9m
Usable capital receipts / Capital grants	£0.3m	£0.2m
<b>Total</b>	<b>£59.0m</b>	<b>£33.3m</b>

### Investments held by the Council

- The Council maintained an average balance of £31.8m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.30%, which exceeds comparable performance indicators listed below:

7 day LIBID uncompounded	-0.0706%
7 day LIBID compounded weekly	-0.0699%
1 month uncompounded	-0.0526%
1 month compounded monthly	-0.0471%
3 month uncompounded	0.0150%
3 month compounded quarterly	0.1092%

- Total investment income was £1.086m compared to a budget of £1.090m, being just £4k below budget, which was an excellent return, considering the budget was set pre-COVID 19 and all funds other than property funds, were kept liquid.

### Investments held by fund managers

The Council uses two external property funds to invest part of its cash balances. The performance of these funds was as follows:

Fund Manager	Investments Held	Unit Value 31.03.21	Gross Total Rental Return and Interest 2020/21*	Return on initial investment
Lothbury Property Trust	£10.000m	£10.319m	£0.392m	3.92%
Hermes Property Unit Trust	£10.000m	£10.606m	£0.457m	4.57%
Total	£20.000m	£10.925m	£0.849m	4.24%

\* Before management fees.

Performing exceedingly well against a benchmark of:

12 month uncompounded	0.1731%
12 month compounded	0.7086%

### Non-treasury Investments held

The council holds an investment property portfolio which is valued each year at its fair value, to ensure compliance under IFRS 9. Their value and performance are as follows:

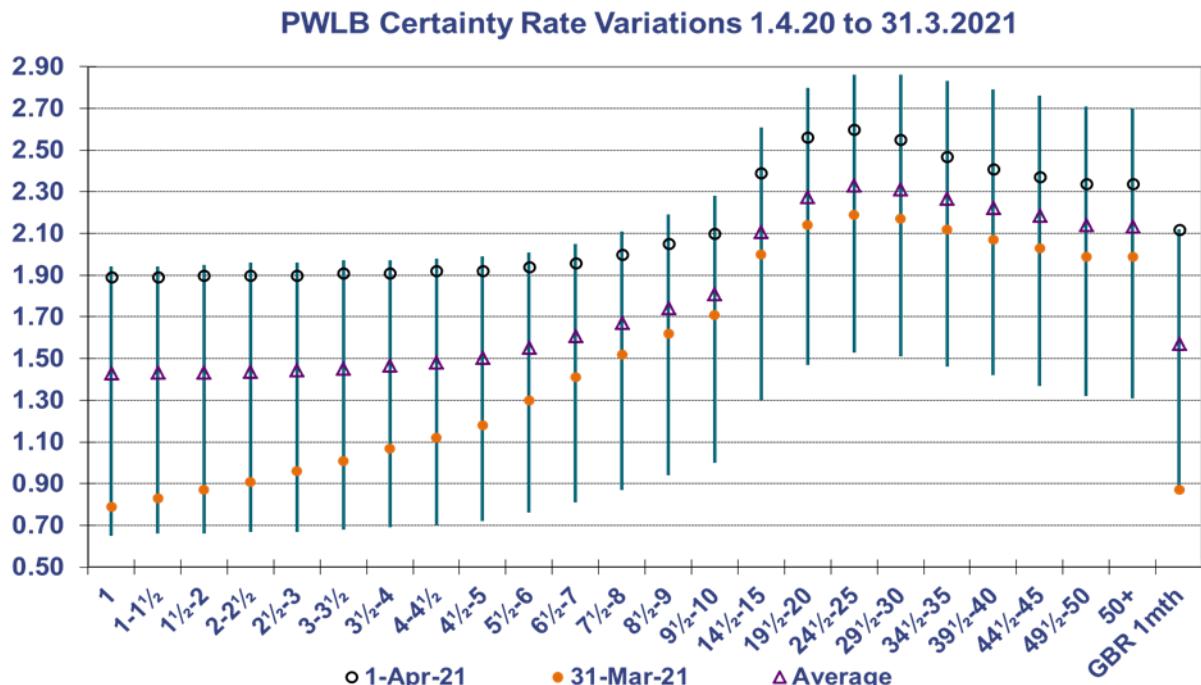
	Fair Value 31.03.20	Gross Rental Return 31.03.20	Return on Fair Value 31.03.20	Fair Value 31.03.21	Gross Rental Return 31.03.21	Return on Fair Value 31.03.21
Investment Property Portfolio	£15.486m	£0.956m	6.17%	£9.070m	£0.882m	9.72%

The financial sustainability programme, set up to increase our investment property portfolio, has been frozen, due to the change in PWLB borrowing rules.

## Appendix 1: Graphs

Please find below a selection of graphs and tables for your information.

### a) PWLB borrowing rates

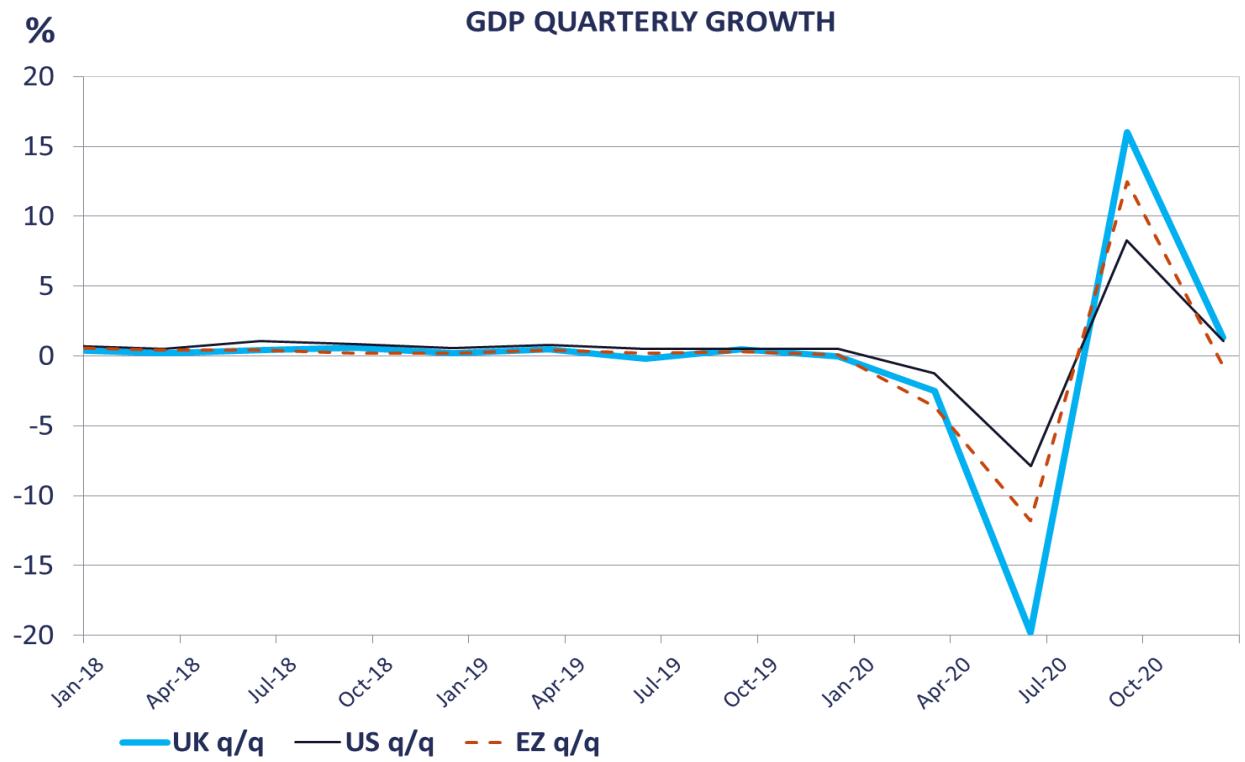


	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	0.65%	0.72%	1.00%	1.53%	1.32%
<b>Low date</b>	04/01/2021	11/12/2020	11/12/2020	11/12/2020	11/12/2020
<b>High</b>	1.94%	1.99%	2.28%	2.86%	2.71%
<b>High date</b>	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
<b>Average</b>	1.43%	1.50%	1.81%	2.33%	2.14%
<b>Spread</b>	1.29%	1.27%	1.28%	1.33%	1.39%

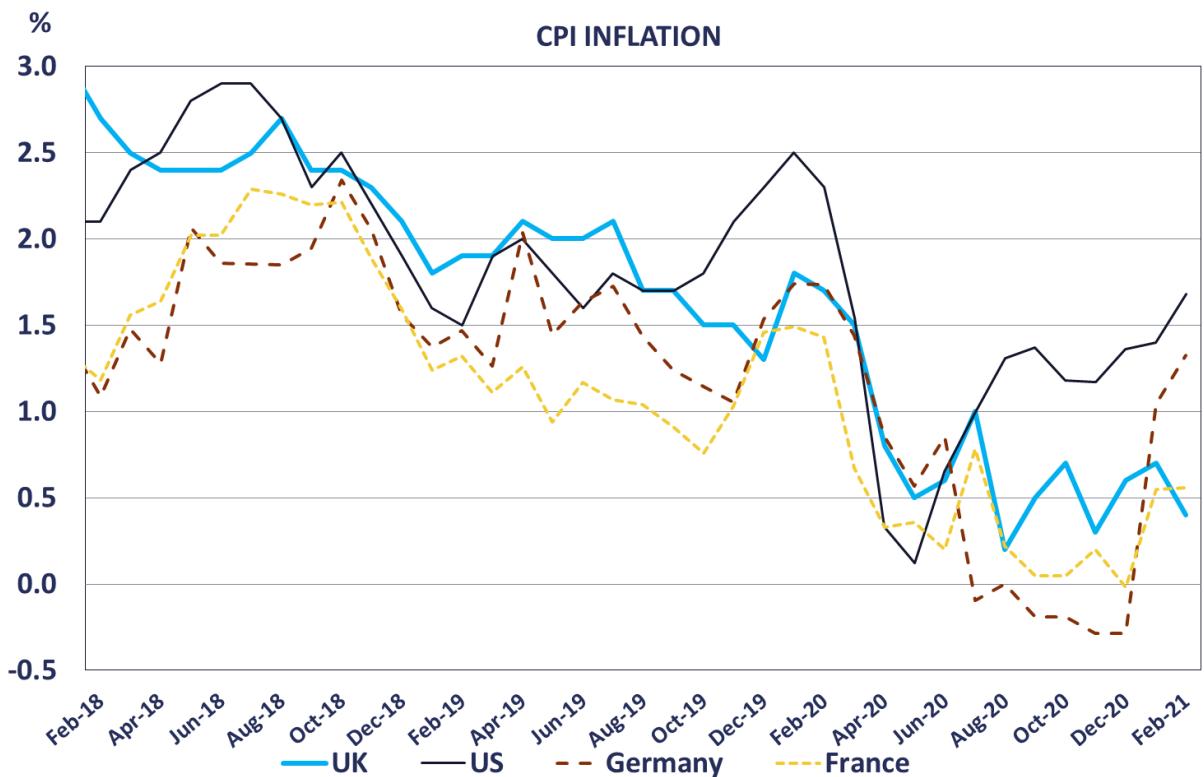
### b) Money market investment rates and forecasts 2020/21

	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
<b>High</b>	0.10	0.00	0.14	0.56	0.62	0.77
<b>High Date</b>	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
<b>Low</b>	0.10	-0.10	-0.11	-0.10	-0.10	-0.05
<b>Low Date</b>	01/04/2020	31/12/2020	29/12/2020	23/12/2020	21/12/2020	11/01/2021
<b>Average</b>	0.10	-0.07	-0.05	0.01	0.07	0.17
<b>Spread</b>	0.00	0.10	0.25	0.66	0.73	0.83

**c) UK, US and EZ GDP growth**



**d) Inflation UK, US, Germany and France**



## Appendix 4: Approved countries for investments as at 31<sup>st</sup> March 2021

*Based on lowest available rating*

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- U.K.

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## East Herts Council Report

### Audit & Governance Committee

**Date of meeting: 9 November 2021**

**Report by: Councillor Jan Goodeve – Executive Member for Planning & Growth**

**Report title: Annual Infrastructure Funding Statement Report 2020 – 21**

**Ward(s) affected: All**

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### **Summary**

- This report provides Committee Members with information on the 'Infrastructure Funding Statement Report 2020/21', an update on the collection and allocation of Section 106 contributions and the additional work undertaken by the Infrastructure Contributions & Spend Manager over the last year.

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

(a) **To note and comment on the annual 'Infrastructure Funding Statement 2020/21' report, the update on the collection and allocation of Section 106 financial contributions and the work of the Infrastructure Contributions and Spend Manager.**

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

1.1 As above.

#### **2.0 Background**

- 2.1 On 24 September 2019, the Performance Audit and Governance Oversight Committee received a report on Section 106 agreements contribution collection and allocation, and an interim update on the Internal Audit Report follow up. A copy of this [report](#) is available on the council's website .
- 2.2 The follow up progress report in November 2020 provided information on Section 106 policy and practise at East Herts, along with information on the initial 'Infrastructure Funding Statement 2019/20'. A copy of this [report](#) is available on the council's website.
- 2.3 Members requested a further update report on Section 106 to come to Committee in Autumn 2021 – this report provides that information below.

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

- 3.1 This report provides information on the second 'Infrastructure Funding Statement 2020/21' prior to publication on the council's website, along with an update on the identification, collection and allocation of Section 106 contributions and the additional work undertaken by the Infrastructure Contributions & Spend Manager.
- 3.2 Members should also note that in line with the council's key priorities, work is being undertaken with fellow Officers and external organisations to promote sustainability and secure this approach in any new Section 106 funding bids to assist with the aim of being carbon neutral by 2030.

### **Infrastructure Funding Statement 2020/21**

- 3.3 As per the Community Infrastructure Levy (Amendment) (England) (No 2) Regulations 2019) East Herts Council is required to produce and publish an annual 'Infrastructure

Funding Statement'.

- 3.4 The 'Infrastructure Funding Statement 2020/21' report and the three (3) required CVS files have been compiled by the Infrastructure Contributions & Spend Manager in line with the Legislation requirements and will be published on the dedicated [Infrastructure Funding Statement webpage](#) in December 2021.
- 3.5 The 'Infrastructure Funding Statement 2020/21' report provides a summary of the Section 106 legal agreements signed, along with detailed information on contribution income and expenditure for the financial year 2020/21.
- 3.6 Members are invited to comment on the 'Infrastructure Funding Statement 2020/21' report attached as Appendix A

**Update on Section 106 contribution identification, collection and allocation:**

- 3.7 Details are provided below on the work undertaken by the Infrastructure Contributions & Spend Manager to identify projects for inclusion in new Section 106 agreements, the ongoing collection of triggered contributions and the allocation of received financial contributions.
- 3.8 The Infrastructure Contributions and Spend Manager continues to ensure that all Section 106 agreements are identified and updated on the 'Master Section 106 Contributions Spreadsheet' to ensure a single central record is maintained on held and future contributions, and this information is updated on the Development Management module of the Uniform IDOX system.
- 3.9 Information on Section 106 agreements, the annual Infrastructure Funding Statement and how to apply for funding for projects is now available on a dedicated [Section](#)

[106 funding](#) webpage.

- 3.10 Members should also note that in line with the council's key priorities, work is being undertaken with fellow Officers and external organisations to promote sustainability and carbon reduction, and to secure this approach in any new Section 106 funding bids.
- 3.11 New Section 106 Agreements and Contributions - Members will be aware that Section 106 contributions cannot be seen as an income source for the council, as all identified contribution uses have to conform with the three (3) tests set out in Regulation 122 of the Community Infrastructure Levy (CIL) Regulations 2010 to be included in any new Section 106 Agreement.
- 3.12 The Infrastructure Contributions & Spend Manager continues to work with Planning Officers on potential new Section 106 Agreements from forthcoming developments and work is undertaken with developers to ensure that all potential contribution obligations are appropriate and sustainable.
- 3.13 To assist with this, a list of potential projects for inclusion in future Section 106 agreements has been created with input from Officers, Members, Town and Parish Councils along with many local groups and organisations. This ensures that any projects / groups identified for inclusion in new Section 106 agreements are an appropriate and sustainable use of the received contributions, and that all parties are happy with them.
- 3.14 To facilitate the funding of council projects, Officers are consulted on their potential projects and future funding requirements. This information is collated and used to assist Planning Officers with their pre-app discussions with

developers. Officers are also advised of the anticipated timescale for the receipt of identified contributions to allow for capital programme planning and staffing allocation.

- 3.15 Significant work is undertaken with Legal prior to the confirmation of the new Section 106 agreements, to ensure that the individual contribution wording allows for a spread of projects to ensure resilience and that the funding is available for the potential applicants.
- 3.16 All current Section 106 agreements and associated developments are actively monitored to ensure that contribution trigger points are identified and the contributions are collected on time. As a consequence of this proactive engagement with developers no late payment fees were charged in the last financial year.
- 3.17 The Infrastructure Funding Statement 2020/21 (Appendix A) provides detailed information on the collection and allocation of Section 106 contributions including successful submitted funding applications, internal capital spends, revenue maintenance spends and transfers of specific contributions to the recycling budget and planning monitoring budget for the 2020/21 financial year.
- 3.18 The complex background work required to create the Infrastructure Funding Statement document and the associated CVS files, as required by the CIL Legislation, has identified the following financial highlights:
- 3.19 Total received Section 106 income & expenditure from 01/04/1996 up to 31/03/2021:
  - Received contributions - £12,102,565.98
  - Spent contributions - £5,435,619.26

- Allocated contributions\* - £6,101,413.39
- Unallocated contributions\*- £565,533.33

3.20 \*Allocated contributions include contributions identified for future allocation/transfer to Revenue budgets for ongoing maintenance, Capital budgets for major projects, Affordable Housing, specific named uses / projects and for transfer to external bodies (e.g. NHS).

3.21 \*Unallocated contributions are available for internal and external funding application bids, but Legal advice has confirmed these contributions can only be allocated in accordance with the specified contribution use wording in the individual legal agreement and within the vicinity of the associated development.

3.22 Although the Infrastructure Funding Statement provides further detailed information, Members should note the following figures for the financial year 2020/21:

- £1,518,285.73 collected from contributions triggered from thirty-six (36) contributions from thirteen (13) individual Section 106 Agreements.
- £715,242.95 allocated to individual projects or uses from twenty (27) individual received contributions.

3.23 Update on Section 106 in 2021/22 to date – the information below provides a snapshot on the current amount of collected Section 106 contributions triggered and collected to date in the current financial year (from 01/04/2021 to date (September 2021)). Information is also given below on the contributions identified and allocated for spend / transfer in this financial year to date.

- £1,261,137.52 has been collected to date as contributions

triggered from ten (10) separate developments.

- £1,652,730.42 identified for allocation / transfer in 2021/22 to date\*.

3.24 \*More detailed information on the actual allocations will be provided in the next Infrastructure Funding Statement for the financial year 2021/22 (this year) which will be published in December 2022.

3.25 Allocated Section 106 funding in 2021/22 - As members will be aware, the council is legally bound to allocate / use received Section 106 contributions in accordance with the individual contribution wording as any deviation or non-conforming use may be subject to challenge and potential reclaim by the developer.

3.26 Significant work is ongoing to confirm the allocation of received Section 106 contributions for identified purposes / projects and organisations use. This currently includes collaborative work with Ware and Buntingford Town Councils on major sports projects and with fellow EHC Officers on the use of contributions for environmental bio-diversity and sustainability projects.

3.27 However, Section 106 funding applications are currently being signed off for the following projects:

- Bishop's Stortford Rugby Football Club - £150,000 towards the 'New Changing Rooms Project'.
- Standon and Puckeridge Lawn Tennis Club - £16,600 towards the provision of a new toilet block.
- Aspenden Parish Council - £17,403.11 towards the play area refurbishment.
- Ware Town Council - £86,615.74 towards the 'New Skate

Park Project'.

- Hunsdon Parish Council - £2,164.90 towards improvements to the village hall

3.28 To ensure the appropriate use of Section 106 funding - once paid out following a successful funding bid - a new funding use agreement form has been devised with the Planning Lawyer. This provides an audit trail that ensures the contribution is only used for the identified funding purpose and allows for clawback by the council should this not be the case.

3.29 Members should note that major council capital projects also have Section 106 contributions allocated to them, and work is ongoing with Officers to identify all potential Section 106 funding available to support future council projects. As identified in the 'Infrastructure Funding Statement 2020/21' council projects funded in 2020/21 include Hartham Leisure Centre (£286,900.03), Grange Paddocks Leisure Centre (£19,863.39), Hartham Common new play area (£52,538.73) and the revamp of the Trinity play area in Bishop's Stortford (£69,863.39).

3.30 Further Section 106 funding has been identified and allocated for both Hartham and Grange Paddocks Leisure Centres Capital projects and will be used to offset council borrowing when the contributions are triggered for payment. Section 106 contributions have also been identified and allocated for Pinehurst Community Centre in Hertford and the Parsonage Lane play area in Bishop's Stortford - these will be added into the Capital Programme for future planned use.

3.31 In addition to funding council capital projects, specific Section 106 contributions are used to fund the provision of refuse and recycling containers to new properties on the associated

developments. In 2020/21 a total of £9,109.41 was collected and allocated to the Waste budgets for this provision. In this financial year £50,248.30 has been collected to date.

- 3.32 East Herts Council also acts as the collection authority for NHS health contributions and financial contributions due to Hertfordshire County Council from developments where the county council is the land owner. To date in this financial year (2021/22) a total of £111,551.82 has been collected on behalf of the NHS and £670,985.54 has been collected and transferred to Hertfordshire County Council.
- 3.33 Unallocated Section 106 contributions - Significant work has been undertaken to identify and allocate all unspent Section 106 contributions to potential projects that would benefit from funding and comply with the contribution use.
- 3.34 Unallocated Section 106 Maintenance Contributions have been reviewed with the Business Finance Manager responsible for Section 106. This highlighted a misclassification of a historic maintenance contribution as being spent annually and therefore the figures in the latest Infrastructure Funding Statement have been amended to show this amendment. As a result of this review a programme of drawdowns from held revenue maintenance contributions has been devised. These contributions are to be used over ten years from the date of receipt of the individual contribution. This has identified £329,676.73 for allocation and use in the 2021/22 Revenue Budget – this amount includes amalgamated contributions backdated to cover the years since receipt of the individual contributions.
- 3.35 Work is ongoing with the Environmental Sustainability Co-ordinator and the Sustainability Policy and Projects Officer to

identify contributions that could be used to support both internal and external sustainability and biodiversity projects. This collaborative approach is also being used to provide sustainability advice to potential Section 106 funding applicants.

## **Section 106 income generation and information**

3.36 Monitoring Fee Income - the inclusion of a Monitoring Fee Contribution in new Section 106 agreements, following a change in the legislation in 2019, has generated significant income totalling £19,476.20 to date, which is fed back into the planning budget. This income is itemised per financial year below:

- 2019/20 - £3,100
- 2020/21 - £9,336.99
- 2021/22 - £7,039.21(to date)

3.37 Section 106 Contribution Status Confirmation - Income continues to be generated from the provision of Section 106 status confirmation letters to solicitors and housing associations – the fee charged for the letter increased to £89.10 in 2021/22. This income is itemised per financial below:

- 2019/20 – £2,229.00
- 2020/21 – £2,693.00
- 2021/22 – £1,690.80 (to date)

3.38 Section 106 information requests - In addition, in the previous twelve months the Infrastructure Contributions & Spend Managers has responded to three (3) Freedom of Information (FOI) requests and three (3) Member inquiries (via “Infreemation”) regarding Section 106 contribution collection and allocation.

## **4.0 Options**

4.1 Members are invited to note and comment on the 'Infrastructure Funding Statement 2020/21' report, and the ongoing work of the Infrastructure Contributions & Spend Manager.

## **5.0 Risks**

5.1 The 'Infrastructure Funding Statement Report 2020/21' must be published on the East Herts website before 31/12/2021. To not do so would put the Council in contravention of the Community Infrastructure Levy (Amendment) (England) (No 2) Regulations 2019 and would be a reputational and legal risk for the Council. As the report has been written and is ready to be published this is a minor risk and the likelihood is unlikely.

5.2 The main risk of non-allocation of received Section 106 contributions within the timescale set out in the individual legal agreements is reputational as it could result in public challenge and potential reclaim by the developer.

5.3 Significant work continues to be undertaken to ensure that this will not happen and that all contributions are identified, allocated and used within the time period stated within the Section 106 agreement – this is usually 10 years from the date of actual receipt of the financial contribution.

## **6.0 Implications/Consultations**

6.1 Feedback on the 'Infrastructure Funding Statement 2020/21' was sought from Senior Planning Officers.

## **Community Safety**

No

## **Data Protection**

No

## **Equalities**

No

## **Environmental Sustainability**

No

## **Financial**

No

## **Health and Safety**

No

## **Human Resources**

No

## **Human Rights**

No

## **Legal**

No

## **Specific Wards**

No

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

- 7.1 24/09/2019 - Performance, Audit and Governance Scrutiny Committee - [Section 106 Agreements Update Report](#)
- 7.2 17/11/2020 - Audit & Governance Committee – [Section 106 Policy and Financial Contributions Update Report](#)
- 7.3 Appendix A – East Herts Council Annual Infrastructure Funding Statement Report 2020/21

## **Contact Member**

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# East Herts Council – Annual Infrastructure Funding Statement 2020/21

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# East Herts Council – Annual Infrastructure Funding Statement for 2020/21

As part of recent changes to legislation Community Infrastructure Levy (Amendment) (England) (No 2) Regulations 2019) East Herts Council is now required to produce an Annual Infrastructure Funding Statement.

This report is the second Annual Infrastructure Funding Statement produced by East Herts Council and provides a summary of the income and expenditure of the financial contributions the Council has secured through Section 106 Agreements for the financial year 2020/21. It does not include information on contributions listed within Section 106 Agreements payable directly to Hertfordshire County Council or on infrastructure that is delivered under Section 78 agreements, or directly by developers.

Hertfordshire County Council is producing their own Annual infrastructure Funding Statement to provide this information which will be available on the [Hertfordshire County Council](#) website.

Further detailed information on the new Section 106 Agreements signed and the contributions received in 2020/21, along with information on the allocation and expenditure of historic contributions in the financial year 2020/21 can be found later in this report.

Please note that the information provided in this report is the most robust available at the time of publication, and will be updated annually and published on the Council's website along with the required CVS files before 31/12/2021 in accordance with the legislation.

# Section 106 Agreements

Under Section 106 of the Town and Country Planning Act 1990, East Herts Council can seek obligations, both on-site and off-site, to mitigate the impacts of development and ensure that the Council's planning policy requirements are fulfilled.

These obligations can be financial and non-financial, and are set out in legal agreements between the developer and the Council. They support the funding and development of new infrastructure and services to benefit the community and to mitigate the impacts of the proposed development.

East Herts Council has set out its infrastructure needs in its Infrastructure Delivery Plan (IDP) and in its District Plan. Further information on these and Section 106 can be found on the planning pages of the [Councils website](#)

Section 106 contributions and obligations can vary on a site by site basis depending on a range of factors such as the viability of the development and site-specific considerations. Section 106 Contributions and Obligations can include:

- Site-specific financial contributions – these are secured for specific purposes as per the individual agreement wording and Community Infrastructure Levy (CIL) guidance. E.g. education facilities, health services, transport / highways works, community facilities, and leisure, arts, sports and open spaces provision.
- Provision of on-site affordable housing (or financial contribution in lieu of on-site provision if applicable).
- Non-financial obligations such as employment strategies and travel plans.
- Monitoring fees.

However, they must comply with the requirements of [Regulation 122](#) of the Community Infrastructure Levy Regulations 2010 and be:

- a) necessary to make the development acceptable in planning terms;
- b) directly related to the development; and
- c) fairly and reasonably related in scale and kind to the development.

# **Historic Section 106 Contributions received and allocated up to 31/03/2021:**

East Herts Council has collected information on all Section 106 Agreements to which it was a party and has monitored the receipt and allocation of Section 106 financial contributions from the financial year 1996/97 to the present date.

The Council is required by the Community Infrastructure Levy (Amendment) (England) (No 2) Regulations 2019 legislation to report on the historic collection and allocation of the total amounts of Section 106 contributions for the previous financial years to the financial year this report covers (2020/21). The Legislation also requires more details on the previous financial year to the year being reported on in this report i.e. 2019/20.

For the 2020/21 Infrastructure Funding Statement (this report), and in line with the requirements of the Legislation, the Council has provided an overview on Section 106 receipt and spend information for the last three financial years and for the report year (2020/21), along with more detailed information for the previous financial year (2019/20) in the following section:

• 2017/18	received - £744,390.54	spent – £122,190.90*
• 2018/19	received - £842,855.20	spent – £861,049.03*
• 2019/20	received - £1,911,961.44	spent - £683,662.58*
• 2020/21	received - £1,518,285.73	spent - £715,242.95

\* Adjusted figures from those reported in the 2019/20 Infrastructure Funding Statement –spent figures reduced by £3,500.00 revenue contribution amendment as this was not actually used in that financial year. Overall contribution total remains the same as contributions are to be allocated in 2021/22 financial year once land ownership is confirmed and completed.

## **Total Section 106 contribution collection and allocation in the previous financial year (2019/20):**

Historically up to the end of the financial year 2019/20 (from 01/04/1996 to 31/03/2020) a total of £10,584,280.25 was received in Section 106 contributions by East Herts Council. Of this £4,950,230.99\* has been spent, with a further £3,730,100.31\* identified for allocation, leaving £74,772.95 unallocated as of 31/03/2019.

\*The overall spend figure and allocated figures have been amended from those reported in the 2019/20 Infrastructure Funding Statement to reallocate a Revenue Maintenance Contribution of £21,000 that was miss-classified as previously used for grounds maintenance and is now allocated for potential use in 2021/22. The total receipt and unallocated figures remain the same.

## **Overview of Section 106 in 2020/21**

This section provides information on the Section 106 Agreements signed in the financial year 2020/21, with details on the total amount of financial contributions and the number of affordable housing units listed within each agreement.

Further detailed information is also given on the contributions triggered for payment in 2020/21, along with details on the allocation and spends of these and any historic contributions held up by the Council up to 31/03/2021.

Since July 2019 the collection and allocation of Section 106 contributions payable to East Herts Council has been monitored by the Infrastructure Contributions & Spend Manager.

The Infrastructure Contribution and Spend Manager continues to work closely with developers, fellow Officers and local groups and organisations to ensure compliance with the agreements contributions collection triggers and identify projects for contribution funding and identified allocation use.

## New Section 106 Agreements signed in 2020/21

Eight (8) new Section 106 Agreements were signed and sealed in 2020/21 – this figure includes any Supplemental Agreements, Deed of Variations and Unilateral Undertakings agreed during this period.

These agreements have a total of £2,409,171.39 in financial contributions payable to East Herts Council, either as the beneficiary of the contribution or as the collection authority.

These new Section 106 Agreements also contain provision for the developers to provide 423 affordable housing units on the various sites as part of the individual developments planning permission. Further information is provided later in this report on the breakdown of these figures for each of the individual developments.

The table below lists all the Section 106 Agreements to which East Herts Council was a signatory in the financial year 2020/21. Information is also provided on the total financial contribution amount payable to the Council within each agreement. Please note that the figures shown will be subject to indexation and are due when the individual contribution payment triggers are reached:

Planning-application	Location	Date of Section 106	Total funding for East Herts Council
3/19/2001/VAR	Swains Mill, Crane Mead, Ware	Second Deed of Variation dated 23/04/2020	Variation of original planning application (3/14/1408/FP)
3/19/1826/FUL	Former Bengeo Nursery, Sacombe Road, Hertford - (HERT4)	Unilateral Undertaking dated 17/07/2020	£123,430.00
3/19/1024/FUL	West of Thieves Lane, Hertford - (HERT3)	S106 dated 31/07/2020	£522,471.00

Planning-application	Location	Date of Section 106	Total funding for East Herts Council
3/19/2614/FUL	Bircherley Green Shopping Centre, Hertford	S106 dated 06/11/2020	No financial contributions due unless triggered
3/19/2227/VAR	Southside of Froghall Lane, Walkern, Stevenage	Deed of Variation dated 24/11/2020	Variation of original planning application (3/14/2200/OP)
3/19/0118/OUT	Land East Of Gresley Way, Stevenage - (EOS1)	S106 dated 18/12/2020	£1,510,946.39
3/20/0245/FUL	Manor Links, Bishop's Stortford - (BISH9)	S106 dated 12/02/2021	£238,873.00
3/19/2626/FUL	Western Neighbourhood Local Centre Bishop's Stortford	S106 dated 22/03/2021	£13,451.00
<b>Total Financial contributions listed within the agreements</b>			<b>£2,409,171.39</b>

The figures quoted for the future contributions listed in the table above are subject to change due to the addition of indexation when the payment is triggered.

Each Section 106 Agreement provides details on the trigger points for payment and indexation of the individual contributions listed within it, along with details on the timescale within which the contribution must be allocated – usually ten years from date of receipt of the contribution.

Information on the individual Section 106 Agreement entered into with the developer can be found on the [planning portal](#) by using the planning application reference for the development to search.

## Affordable Housing

Five (5) of the eight new Section 106 Agreements signed in 2020/21 included a provision to provide affordable housing on site as part of the development planning consent, giving a total of 423 units.

The table below lists the individual developments with affordable housing included in the Section 106 Agreement:

Planning application ref:	Location of development:	Affordable Housing Units
3/19/1826/FUL	North of Hertford - Former Bengeo Nursery - (HERT4 - BENGEO)	21
3/19/1024/FUL	South of Welwyn Road / West of Thieves Lane, Hertford. (HERT3 - THIEVES LANE)	102
3/19/0118/OUT	Land East Of Stevenage, Gresley Way, Stevenage - (EOS1 - GRESLEY WAY)	247
3/20/0245/FUL	Manor Links, Bishop's Stortford - (BISH9 - MANOR LINKS)	24
3/19/2626/FUL	Western Neighbourhood Local Centre Bishop's Stortford North, Bishops Stortford	29
<b>Total units of Affordable Housing listed within the above agreements:</b>		<b>423</b>

## Monitoring fees:

The Community Infrastructure Levy (Amendment) (England) (No 2) Regulations 2019 now allows Local Authorities to charge a monitoring fee through Section 106 planning obligations. These fees are to cover the costs of monitoring and reporting on the delivery of Section 106 obligations, but they must be proportionate and reasonable and reflect the actual cost of monitoring.

All new Section 106 Agreements from applicable developments within the District are now able to include a provision for charging monitoring fees, which are payable to East Herts Council. These are individually negotiated on a site by site basis and not all agreements signed in 2020/21 included this provision.

Four (4) of the eight new Section 106 Agreements signed in 2020/21 included a provision to charge a Monitoring Fee Contribution.

The table below lists the individual developments with a Monitoring Fee Contribution included in the Section 106 Agreement and the amount:

<b>Planning application ref:</b>	<b>Location of development:</b>	<b>Monitoring Fee Contribution payable:</b>
3/19/1826/FUL	North of Hertford - Former Bengeo Nursery - (HERT4 - BENGEO)	£2,400.00
3/19/1024/FUL	South of Welwyn Road / West of Thieves Lane, Hertford. (HERT3 - THIEVES LANE)	£3,600.00
3/19/0118/OUT	Land East Of Stevenage, Gresley Way, Stevenage - (EOS1 - GRESLEY WAY)	£2,400.00
3/19/2626/FUL	Western Neighbourhood Local Centre Bishop's Stortford North, Bishops Stortford	£300.00
<b>Total amount of Monitoring Fee Contributions listed within the above agreements:</b>		<b>£8,700.00</b>

Further information on [Affordable Housing obligations](#) and the requirements for Section 106 financial contributions can be found on the Council's [Planning Policy web pages](#).

The individual Supplementary Planning Documents (SPD's) on the Planning Policy web pages provide more detail on the thresholds for contributions and the financial calculations of the individual contribution requirements.

# **Total Section 106 income and expenditure up to 31/3/2021:**

As previously explained East Herts Council has collected information and monitored the receipt and allocation of Section 106 contributions from the financial year 1996/97 to the present date.

The table below highlights the total amounts collected and the amounts spent and allocated from contributions received between 01/04/1996 to 31/03/2021:

<b>Section 106 Contributions from 01/04/1996 to 31/03/2020:</b>	<b>Amount:</b>
Received contributions – total to 31/03/2021	£12,102,565.98
Spent contributions – total to 31/03/2021	£5,435,619.26
<b>Unspent Section 106 Contributions:</b>	<b>Amount allocated:</b>
Allocated to Revenue for maintenance – total to 31/03/2021	£859,374.48
Allocated for Affordable Housing (payment in lieu) – total to 31/03/2021	£2,264,866.90
Allocated to named uses – total to 31/03/2021	£2,316,976.51
Allocated to NHS – total to 31/03/2021	£660,195.50
UNALLOCATED – total to 31/03/2021	£565,533.33

The unallocated balance of £565,533.33 is made up of contributions listed as unallocated because they do not have a specific project named in the contribution wording. These unallocated contributions are available for use only as per the

contribution specification within the individual Section 106 agreements, and to be allocated towards a project they have to be used in accordance with the individual contribution contractual wording.

For example of the £565,533.33 unallocated balance there is a total of £428,207.24 available for Outdoors Sports provision or facilities. However these contributions can only be used towards a project that conforms to the specified contribution use e.g. outdoor sports provision or projects in the locality of the development. Therefore any group or organisation looking for funding will need to comply with the individual agreement contribution wording and use the funding within the locality of the original development.

The East Herts Council website provides further information on how local groups and organisations can apply for Section 106 funding - <https://www.eastherts.gov.uk/planning-building/Section-106-agreements-funding-projects>

## **Section 106 contributions triggered in the financial year 2020/21:**

Payment was triggered from thirteen (13) individual Section 106 Agreements in 2020/21, resulting in receipt of £1,518,285.73 in financial contributions. (This figure includes the indexation added on to the original contribution amount).

The following table provides information on the developments from which these contributions were received and the total amount of contributions paid:

<b>Planning Application Ref:</b>	<b>Location of development:</b>	<b>Section 106 Contributions received:</b>
3/14/1408/FP	Swains Mill, Crane Mead, Ware, SG12 9PT	<b>£38,357.08</b>
3/13/1000/FP	Land north of Hare Street, off The Causeway, Buntingford	<b>£81,337.06</b>

<b>Planning Application Ref:</b>	<b>Location of development:</b>	<b>Section 106 Contributions received:</b>
3/14/0528/RP	AREA 1 - Land South of Hare Street	<b>£122,744.26</b>
3/18/0031/FUL	Brook Grove - Land at Junction of Rye Street & Farnham Road, Bishop's Stortford	<b>£38,357.08</b>
3/15/0561/FUL	20 Amwell Road, Ware, SG12 9HP	<b>£81,337.06</b>
3/18/2253/OUT	Land at Bishop's Stortford South off Whittington Way, Bishop's Stortford	<b>£122,744.26</b>
3/17/2588/OUT	Goods Yard (Blocks A1 - A5) Bishop's Stortford CM23 3BL	<b>£90,117.57</b>
3/14/0528/OP	Meadow Vale - Area 2 - Land South of Hare Street, Buntingford	<b>£25,887.87</b>
3/18/1234/FUL	Retirement Complex - Land at Coneybury Farm, Royston Road, Buntingford.	<b>£5,700.00</b>
3/19/1826/FUL	HERT4 - North of Hertford - Former Bengeo Nursery, Sacombe Road, Hertford	<b>£110,812.84</b>
3/17/0223/FUL & 3/20/0573/VAR	Walden Court, Parsonage Lane, Bishops Stortford	<b>£64,976.73</b>
3/19/1024/FUL	HERT3 - Land West of Thieves Lane, Hertford	<b>£570,590.17</b>
3/14/2200/OP	Midsummer Vale - Land South of Froghall Lane, Walkern	<b>£2,422.14</b>
<b>Total financial contributions received in 2020/21</b>		<b>£1,518,285.73</b>

The financial contributions identified within each of the new Section 106 Agreements signed in the financial year 2020/21 (listed above) have been broken down into individual use categories.

The use category breakdown and total amount for each of these is listed below:

<b>Section 106 Contribution use:</b>	<b>Amount received 2020/21</b>
Affordable housing - financial contribution in lieu of on-site affordable housing	£570,590.17
Amenity greenspace contributions (inc. allotments contributions)	£13,595.87
Children & young people contributions (including maintenance contributions)	£132,548.10
Community facilities contributions (inc. village halls)	£77,754.49
Employment - financial contributions towards employment provision and strategies	£0.00
Health services contributions - collected by East Herts Council on behalf of the NHS CCG*	£158,294.64
Monitoring contributions	£9,336.99
Open space contributions (inc. Towpath improvement contributions)	£38,357.08
Outdoor sports contributions (including maintenance contributions)	£500,241.48
Parks & gardens contributions (including maintenance contributions)	£8,457.50
Recycling contributions for the provision of waste and recycling receptacles	£9,109.41
Transport - including contributions towards community transport	£0.00
<b>TOTAL</b>	<b>£1,518,285.73</b>

\* General Medical Services is collected for NHS East and North Hertfordshire Clinical Commissioning Group, Community Healthcare is collected for Herts Community Trust (HCT) and Mental Health is collected for Herts Partnership Foundation Trust (HPFT)

# Section 106 expenditure in 2020/21:

East Herts Council is the body accountable for the spending and allocation of received Section 106 financial contributions and therefore must ensure that:

- The Section 106 funding is spent on facilities / projects that can be demonstrated to be required because of the new development or need in the locality of the development.
- The process is transparent and fair to all and follows a consistent procedure.
- Projects supported are necessary, viable, will deliver the required social and community benefits, and will be well managed and sustainable.

Allocation of identified Section 106 contribution funding to Capital and Revenue budgets to fund specific Council projects, affordable housing or recycling and refuse provision is undertaken at the end of the financial year.

Individual project funding is available for organisations and groups to bid for throughout the year – see section on applying for funding for further information.

In the financial year 2020/21 a total of £715,242.95 was allocated to individual projects or identified uses from twenty-seven (27) individual received contributions.

The table below gives further information on these individual funding allocations, the contribution source and the balance, if any, of the contribution total after the allocation:

Contribution obligation:	Year Received:	Section 106 Receipt:	Amount allocated:	Balance left:	Allocation details / projects funded:
Provision. of community facilities - 3/96/1012/OP & 3/99/0353/FO	2000/01	£200,000.00	£75,080.00	£0.00	Allocated from capital to Hartham Leisure Centre capital project

Contribution obligation:	Year Received:	Section 106 Receipt:	Amount allocated:	Balance left:	Allocation details / projects funded:
Community safety contribution - 3/08/1528/FP	2011/12	£5,000.00	<b>£5,000.00</b>	£0.00	Allocated to Hartham new play area crowd funding project
Sports facilities contribution - 3/11/0824/FP	2011/12	£9,651.00	<b>£7,651.00</b>	£0.00	Allocated to Hartham Leisure Centre capital project
Affordable housing contribution - 3/07/2005/FP	2012/13	£490,028.22	<b>£32,500.00</b>	£348,028.22	Allocated to affordable housing works
Affordable housing contribution - 3/10/0396/FP	2012/13	£574,000.00	<b>£946.55</b>	£0.00	Allocated to affordable housing works
Parks & public gardens maintenance contribution - 3/88/1349/OP	2012/13	£40,000.00	<b>£4,000.00</b>	£4,000.00	Revenue contribution for open space & grounds maintenance
Open space maintenance contribution - 3/11/0384/FP	2013/14	£31,946.61	<b>£3,195.00</b>	£12,776.61	Revenue contribution for open space & grounds maintenance
Affordable housing contribution - 3/10/0735/FO	2014/15	£20,512.80	<b>£2,112.00</b>	£18,400.80	Allocated to affordable housing works
Baldock St enhancement contribution - 03/10/0386/FP	2014/15	£43,681.30	<b>£4,373.18</b>	£1,872.00	Allocated to historic building works

Contribution obligation:	Year Received:	Section 106 Receipt:	Amount allocated:	Balance left:	Allocation details / projects funded:
Off-site improvements maintenance contribution - 3/10/1198/FP	2014/15	£53,772.00	<b>£5,370.00</b>	£21,550.00	Revenue contribution for open space & grounds maintenance
Play facilities contribution- '3/04/1892FP	2015/16	£40,022.36	<b>£40,022.36</b>	£0.00	Allocated to Stanstead Abbotts PC.
Outdoor sports facilities contribution- 3/10/1147FP	2015/16	£120,990.00	<b>£120,990.00</b>	£0.00	Allocated to Hartham Leisure Centre capital project
Sports facilities contribution- 3/13/0940/FP	2015/16	£1,191.62	<b>£1,191.62</b>	£0.00	Allocated to Hartham Leisure Centre capital project
Outdoor sports facilities contribution – 3/14/0509/FP	2015/16	£40,065.19	<b>£40,065.19</b>	£0.00	Allocated to Hartham Leisure Centre capital project
Outdoor sports facilities contribution – 3/14/0509/FP	2017/18	£41,922.22	<b>£41,922.22</b>	£0.00	Allocated to Hartham Leisure Centre capital project
Open space contribution - 3/15/1118/FUL	2017/18	£50,272.73	<b>£47,538.73</b>	£2,734.00	Allocated to Hartham new play area project
Open space contribution - 3/14/0978/FP	2017/18	£134,723.39	<b>£69,621.91</b>	£14,385.48	Allocated to Trinity Play Area, B.S.
Outdoor sports contribution- 3/19/0408/FUL	2019/20	£19,863.39	<b>£19,863.39</b>	£0.00	Allocated to Grange Paddocks Leisure Centre capital project

Contribution obligation:	Year Received:	Section 106 Receipt:	Amount allocated:	Balance left:	Allocation details / projects funded:
Hopper Bus contribution- 3/14/0528/OP	2019/20	£110,211.00	<b>£110,211.00</b>	£0.00	Allocated to BCAT Trust for Hopper Bus service in Buntingford
Business & employment strategy financial contribution - 3/13/0804/OP	2019/20	£47,307.98	<b>£16,000.00</b>	£31,306.98	Allocated for Business & Employment Strategy development work
Recycling & refuse contribution - 3/18/0031/FUL	2020/21	£2,118.35	<b>£2,188.35</b>	£0.00	Transferred to recycling & refuse budget
Recycling & refuse contribution - 3/15/0561/FUL	2020/21	£749.65	<b>£749.65</b>	£0.00	Transferred to recycling & refuse budget
Monitoring contribution - 3/18/2253/OUT	2020/21	£5,700.00	<b>£5,700.00</b>	£0.00	Transferred to planning monitoring budget
Offsite Sports Facilities contribution- 3/17/2588/OUT	2020/21	£49,142.40	<b>£49,142.40</b>	£0.00	Allocated to Grange Paddocks Leisure Centre capital project
Monitoring contribution - 3/19/1826/FUL	2020/21	£2,422.14	<b>£2,422.14</b>	£0.00	Transferred to planning monitoring budget
Monitoring contribution - 3/19/1024/FUL	2020/21	£1,214.85	<b>£1,214.85</b>	£0.00	Transferred to planning monitoring budget

Contribution obligation:	Year Received:	Section 106 Receipt:	Amount allocated:	Balance left:	Allocation details / projects funded:
Recycling & refuse contribution - 3/19/1024/FUL	2020/21	£6,171.41	<b>£6,171.41</b>	£0.00	Transferred to recycling & refuse budget
<b>Total amount allocated in 2020/2021</b>					<b>£715,242.95</b>

## Applying for Section 106 Funding

The East Herts Council website provides further information on how organisations and groups can apply for Section 106 funding - <https://www.eastherts.gov.uk/planning-building/Section -106-agreements-funding-projects>

By completing and submitting the online “Expressions of Interest form”, anyone looking for funding for their project can let the Council know who they are, what they have planned and how much funding they need. The Council can then use this information to check to see if any Section 106 funding is available that may be of use for the project. If no funding is currently available, the planned project will be added to the list of potential projects for new Section 106 Agreements from future local developments.

If there are Section 106 funds available and applicable, the organisation or group applying for funding will be contacted by the Infrastructure Contributions & Spend Manager and asked to complete a full application form for audit purposes. The completed application form will be checked against the identified Section 106 Agreement contribution wording to confirm the appropriate use of the funding. Officers and Councillors will then evaluate the completed funding application before it is agreed and signed off, and the funds transferred to the organisation /group.

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## East Herts Council Report

### Audit and Governance Committee

**Date of meeting: 9 November 2021**

**Report by: Executive Member for Corporate Services**

**Report title: Strategic Risk Register – Monitoring 2021/22 quarter two**

**Ward(s) affected: All**

**Summary** – The report provides details the changes to the Strategic Risk Register for quarter two.

### **RECOMMENDATIONS FOR Audit and Governance Committee:**

- a) The 2021/22 quarter two 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 This report details the controls introduced during quarter two.

#### **2.0 Background**

- 2.1 Leadership Team reviews the content of the Strategic Risk Register quarterly and provides updates that are relayed within this monitoring report to Audit and Governance Committee.

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

- 3.1 The Strategic Risk Register details significant business risks; essentially those that could prevent the council meeting its objectives.

3.2 Leadership Team has set a risk tolerance level. Risks above the tolerance levels are actively managed and regularly reviewed in order to ensure that contingency and mitigation action is being taken. Risks below the tolerance line are managed by Heads of Service but these are often delegated. (Heads of Service are responsible for keeping all risks under review and taking action to reduce the impact of the risk on the council.)

3.3 A summary of business risks and the risk tolerance line is shown in the matrix below. Risks in the red area of the grid are those actively managed by Leadership Team in accordance with the Risk Management Strategy.

<b>Impact</b>	<b>A</b>	7, 9, 13	10	3	1, 8, 12
	<b>B</b>		4, 11	2	
	<b>C</b>			6	5
	<b>D</b>				
		1	2	3	4
<b>Likelihood</b>					

<b>Likelihood</b>	<b>Description</b>	<b>Likelihood of occurrence</b>	<b>Probability of occurrence</b>
	4 High	Monthly	The event is expected to occur or occurs regularly
3 Medium	Annually		The event will probably occur
2 Low	1 in 5 years		The event may occur
1 Very Low	Less frequently than 1 in 5 years		The event may occur in exceptional circumstances
<b>Impact</b>	<b>Description</b>	<b>Financial</b>	<b>Reputation</b>
	A Critical	> £1m p.a.	Serious negative media
	B Significant	£400,000 to £1m p.a.	Adverse national media
	C Marginal	£100,000 to £400,000 p.a.	Adverse local media
	D Minor	< £100,000	Public concerns restricted to local complaints
<b>Service / operation</b>			
Catastrophic fall in service quality or long term disruption to services			
Major fall in service quality or serious disruption to services			
Significant fall in service quality			
Little impact to service quality			

1	Financial resources
2	Corporate governance and external political environment
3	Performance, resilience and security of IT systems
4	Staff capacity and skills to deliver services
5	Poor performance or failure of key partner or contractor
6	Judicial review and or major legal challenge
7	District Plan
8	Climate change
9	Child / vulnerable adult protection
10	Equalities
11	Internal control
12	Outbreak of disease in humans
13	Business Continuity Plan / Emergency Plan

## 4.0 Options

4.1 No new strategic risks have been identified in quarter two and no risks have become obsolete.

4.2 Leadership Team has not proposed any changes to scores.

The scoring of the IT risk (item 3) was considered specifically given the request at the last Audit and Governance Committee, plus the subsequent downtime. However it is proposed that the likelihood score remains the same, pending the outcome of the current cyber security audit. There has been a successful migration to the new network reducing single points of failure.

4.3 The council's most significant risks at present remain:

4.3.1 The current financial climate and the impact on the council's medium and long term financial planning.

4.3.2 The response to the pandemic has seen a higher demand for services. Managing the council's response has impacted productivity and some critical work. Supply chains have been affected and costs have increased. However there have been benefits such as a reduced carbon footprint due to blended working (working from home part of the week) and reduced commuting, and increased levels of self-service.

4.3.3 Climate change and the need to reduce the council's carbon footprint.

4.3.4 Performance, resilience and security of IT systems.

4.4 The impact of the pandemic continues to influence a number of risks:

4.4.1 Risk 1 - Financial resources: the uncertainty over post Covid economic and policy agenda, and the demand on council services.

4.4.2 Risk 2 – Corporate Governance and the external political environment: Administering Covid support grants, business rate relief and funding to support the safe reopening of high streets in the District. The pandemic has also presented an opportunity to develop customer self-help options given the reduction in visits to council offices.

4.4.3 Risk 4 – Staff capacity and skills to deliver services: The uncertainty over the future demand for council services, or support that the council may have to provide to partners including the NHS.

Staff turnover had reduced during the pandemic but there has been an increase as the employment market stabilised.

4.4.4 – Risk 5 – Poor performance or failure of key partner or contractor: Risk of business failure has increased due to the pandemic. The national shortage of HGV drivers places additional pressures on the waste contract and has caused supply chain difficulties and financial pressures for major projects.

4.4.5 – Risk 8 – Climate change: The pandemic had resulted in a reduction of the council's carbon footprint with fewer journeys to the office and reduced energy consumption. The blended

working proposition put forward means that most employees will remain at home for half of their work pattern.

4.4.6 – Risk 13 - Business continuity and emergency planning generally.

## **5.0 Risks**

5.1 This report details the top business risks facing the council.

## **6.0 Implications/Consultations**

6.1 Leadership Team reviewed on 12 October 2021. The Executive Member for Corporate Services has also been consulted.

### **Community Safety**

No

### **Data Protection**

None specific but the topic features within the Strategic Risk Register.

### **Equalities**

None specific but the topic features within the Strategic Risk Register.

### **Environmental Sustainability**

None specific but climate change features within the Strategic Risk Register.

### **Financial**

None specific but risk management can provide protection of budgets from unexpected losses. Better governance can be demonstrated and the annual audit plan is risk based.

## **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.

## **Human Resources**

No

## **Human Rights**

No

## **Legal**

None specific but legal matters feature within the Strategic Risk Register.

## **Specific Wards**

No

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

7.1 Please see the Strategic Risk Registers at Appendices 1 and 2.

## **Contact Member**

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No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
1	A 4	Financial Resources	<p>Reduction in government grant combined with higher demand for demand-led services such as homelessness, or failure to generate income.</p> <p>Failure to realise capital receipts from disposals to support capital expenditure.</p> <p>External auditor challenges MRP Policy and capital financing decisions</p> <p>Council Tax Referendum levels set too low to generate sufficient tax revenue. Sudden economic</p> <p>Down turn results in negative Tax Base figures because of increased local Council Tax support claims</p>	<ul style="list-style-type: none"> <li>• Reductions in services required</li> <li>• Performance against community expectations and targets reduced</li> <li>• Investment in improvement not possible or severely reduced</li> <li>• Failure to meet statutory duties with potential for legal action or Local Government Ombudsman finds significant cases of maladministration</li> <li>• Corporate Manslaughter charges if maintenance works not carried out, e.g. Legionella in air handling and cooling units</li> <li>• Large numbers of staff redundancies</li> <li>• Major media</li> </ul>	Head of Strategic Finance & Property	<ul style="list-style-type: none"> <li>• Minimum Balances held on risk assessment basis to cushion impact over short term (max 2 years)</li> <li>• Modelling of impact of grant settlement scenarios and function and funding changes</li> <li>• Three year MTFP savings programme</li> <li>• Transformation Programme in scoping stage to deliver savings and efficiencies through an emphasis on: digital self-service; process automation; agile working leading to a much reduced accommodation requirement with target of £1 million cashable savings.</li> <li>• Transforming East Herts Commercial Strategy will specify commercial skill sets and set out the council's approach to risk appetite</li> </ul>

## East Herts Council Corporate Risk Register – 2021/22 quarter two

Ng ∞	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
			<p>Members do not agree significant savings at budget setting leading to an unbalanced budget leading to a s.114 report.</p> <p>Delay and/or significant cost over runs on major projects</p>	<ul style="list-style-type: none"> <li>engagement</li> <li>Potential for MHCLG intervention</li> <li>Delay leads to cost increases beyond the ability of the council to finance the capital costs</li> <li>Delays and cost overruns lead to non-delivery of savings requiring service offer reductions to compensate</li> <li>Projected savings not achieved after project completion due to</li> </ul>		<p>and give guidance on how income generating ideas should be taken forward.</p> <ul style="list-style-type: none"> <li>New capital programme items must make a return for the investment in cost reductions or income on top of covering the interest and MRP costs</li> <li>Charges will be required to be in conformity with proposed corporate policy on charging recovering total costs and concessions will need to be justified in policy terms and funded by higher charges for others.</li> <li>Business case reviews to ensure that projects make a return</li> <li>Cost and income estimates commissioned from industry expert consultants to feed into business case</li> <li>Project delivery by Major Projects Team with quarterly reports on</li> </ul>

## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
				<p>changes in market away from service offer</p> <ul style="list-style-type: none"> <li>• Significant local media engagement</li> <li>• Reputational damage.</li> </ul>		<p>progress to Leadership Team and Executive.</p> <ul style="list-style-type: none"> <li>• Construction insurance presentation held in November and quotes to be sought for relevant covers.</li> <li>• Capital Programme is phased and financed across years and contingency built into budgets so can be re-phased if required.</li> </ul>

### Update on current position

1		<ul style="list-style-type: none"> <li>• In developing our medium and longer term plans we will need to have regard to the broader context in which we will be working. This includes:           <ul style="list-style-type: none"> <li>◦ The impact of operating in an economy recovering from the Covid driven recession. The Government will have to consider how it begins to pay off the borrowing it has undertaken during the pandemic – this could mean a mixture of higher taxation, with possible impact on economic recovery, and reductions in public service expenditure. Both would impact on the Council's income and ability to spend;</li> <li>◦ The shape of the post-Brexit and post-Covid economic and policy agenda, the impact of new post-EU funding regimes and the Government's Levelling Up programme;</li> <li>◦ Specific uncertainty over the future of local government funding, and delays to key reforms. The level of Government funding that the council will receive from 2022/23 onwards is not confirmed; Spending Review 2020 was for a single year and therefore funding for this planning period will be announced at Spending Review 2021 which is likely to be in the autumn. Additionally, the Fair Funding Review and Business Rate Retention reform have now been confirmed delayed until at least 2022/23. These are significant areas of</li> </ul> </li> </ul>
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**Update on current position**

change that currently are not fully understood and cannot be fully quantified but will have potentially significant financial impact.

- The lasting impact the pandemic will have on young people in terms of education and employment opportunities;
- The growing impact of climate change, the national and local commitments to achieve carbon neutrality and the introduction of a range of new measures through the Environment Bill;
- The impact of Government reviews and reforms of public services and changes in policy- for example changes to infrastructure, transport and planning and potential structural changes;
- The ongoing need to support post-Covid recovery and adjustment, both in our services and for society and the economy, against a backdrop of residual risk of further waves of infection and the potential need for an ongoing vaccination programme; and
- Reviewing the way that we work and accelerating our planned changes to move towards a more hybrid way of working, and evolving our working practices to ensure we have modern, flexible workspaces and workstyles as part of the Transforming East Herts Programme.

- The council's business and financial planning is underpinned by the Corporate Plan and its four priorities, which provide a clear focus for decisions about spending and savings and direct activity across the Council. The four priorities are:
  - Sustainability at the heart of everything we do;
  - Enabling our communities;
  - Encouraging economic growth; and
  - Digital by default.
- Officers will continue to explore options to further reduce net cost to meet the savings target for submission to the Executive. This will include examining non-statutory service provision levels and also reviewing and benchmarking contracts to ensure the prices remain competitive. A recent review of the office furniture contract resulted in an indicative 68% saving by switching to an alternative framework. A procurement strategy and indicative procurement timeline both featured in the improvements identified in the Annual Governance Statement endorsed by Audit & Governance Committee.

<b>Update on current position</b>	
	<ul style="list-style-type: none"><li>• Rent payments on investment properties have no significant defaults to date. Rent reductions have been agreed for 2 tenants in Charringtons but this has to set against compensation that would have been payable when we need to move tenants out for handover for the Old River Lane regeneration as we have included appropriate break clauses as part of the new rent agreement.</li><li>• Government has committed to the income compensation scheme for the first quarter of 2021/2 and it is possible that they would extend the scheme to cover periods of restrictions beyond quarter 1.</li><li>• Savings plans for 2021/22 is on target with garden waste sign up being on budget assumption with a high on-line sign up of 92.5% and direct debit payments at 82%</li><li>• Corporate policy on charging developed to ensure consistency across charges – there have been a number of below cost charges agreed with no clear policy or justification in the past that are having to be dealt with as part of aligning charges with North Herts for joint commercial waste services. Due for approval by Executive in November.</li><li>• Grange Paddocks construction completing October 2021 and Northgate End construction work is substantially complete.</li><li>• Hartham contract awarded and works commenced late March.</li><li>• Old River Lane /Arts Centre change in scope progressing and approved by Council in March alongside the business plan. Development Agreement and Development Management Agreement draft to be agreed with s.151 officer and monitoring officer input.</li><li>• Hertford Theatre delayed due to non-award of contract as tendered prices too high.</li><li>• All major capital projects are at risk of price increases as a result of the combined impact of COVID / BREXIT related inflationary pressures. In addition to the increasing cost of materials, there is a significant shortage of labour supply for the construction and M&amp;E industries, which is in turn pushing up the price of labour. This is a national issue.</li><li>• The national shortage of HGV drivers is driving up pay and this will lead to pressures on the cost of the waste contract as well as the cost and delivery of building materials.</li></ul>

## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
2	B 3	Corporate Governance and external political environment	Brexit trade deal risks  Planning Policy Changes	<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>Non-Tariff barriers leading to supply chain price increases and longer replenishment times. Some UK businesses may relocate to the EU making current domestic supplies into imports.</li> <li>Government policy changes to introduce development zones, ends s.106 and CIL for government infrastructure levy</li> <li>Government impose unitary authorities and reduce exchequer grants by savings made</li> </ul>	Chief Executive	<ul style="list-style-type: none"> <li>Address issues of labour shortage with contractors at progress meetings. Raise skills shortages at the LEP to ensure we train young people.</li> <li>Consider forward funding stockpile of materials subject to delays as part of contract mobilisation</li> <li>Consider risks to supply chain as part of procurement exercises</li> <li>Both officers and Members are engaged in networking and lobbying to seek to influence change and to gain early indications of new policies</li> <li>Both officers and Members are engaged in Herts Growth Board</li> </ul>

## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
			<p>Local government reorganisation / Devolution</p> <p>Climate Change / Zero Carbon / Build Back Greener</p> <p>Changes to local taxation</p>	<ul style="list-style-type: none"> <li>• District required to be carbon neutral from 2030 and Government targets set with fines for non-achievement</li> <li>• Business Rates and or Council Tax replaced with Land Value Tax or Local Income Tax</li> <li>• Potential protests and non-payment campaigns</li> <li>• Measure may end land banking with developers commencing on multiple sites to build out permissions and avoid LVT</li> <li>• Uncertainty as to tax yields and redistribution mechanisms cause difficulties budgeting</li> <li>• Change in leadership politically sets radically</li> </ul>		<ul style="list-style-type: none"> <li>• Work underway to progress carbon reduction and also exploring potential investments that support this aim but would also produce income for the council in the medium term.</li> <li>• Both officers and Members are engaged in networking and lobbying to seek to influence change and to gain early indications of new policies.</li> <li>• LVT is in operation in Denmark, Estonia and Latvia and there are suggested routes to implementation already published. Local Income Tax would require key data from HMRC before implications could be understood.</li> <li>• Corporate Plan process</li> <li>• Member induction and training</li> </ul>

## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
			<p>Leadership / Management change</p> <p>Recession leading to increase in unemployment, business failure; low business growth and commercial property values decreasing significantly.</p>	<p>different policy agenda and tone</p> <ul style="list-style-type: none"> <li>• Change in Leadership Team structure</li> <li>• Unemployment.</li> <li>• Empty properties / shops.</li> <li>• Lower rental income from council property portfolio.</li> <li>• Increased demand on council services.</li> <li>• Reduction in Council Tax Base due to LCTSS being a discount.</li> <li>• Reduction in Business Rates income to the safety net level</li> </ul>		<ul style="list-style-type: none"> <li>• Code of conduct</li> <li>• Monitoring Officer/ s.151 officer</li> <li>• HR policies</li> <li>• Estimates of workload v capacity</li> <li>• Corporate Plan process</li> <li>• European Regional Development Fund / MHCLG project to support businesses with advice and support on growing. Ware and Bishop's Stortford Launchpad to be grown.</li> <li>• COVID support grants and business rates reliefs for 2020/21 and 2021/22 to support businesses through the pandemic.</li> <li>• Broxbourne BC and CVS digital / employment skills support</li> </ul>

### Update on current position

2		<ul style="list-style-type: none"> <li>• Despite challenges from the pandemic, Brexit and global supply issues Grange Paddocks Leisure Centre is due to open on time and within budget in October 2021. Costs of other key capital projects (Hartham, Northgate End and</li> </ul>
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<b>Update on current position</b>	
Page 135	<p>ORL, Hertford Theatre) are being kept under constant review</p> <ul style="list-style-type: none"><li>Number of residents with an East Herts address applying for Settled Status exceeded 7,000 (well above the estimated 4000)</li><li>Officers are considering the lessons from how the Council has been able to operate during the pandemic within the Transforming East Herts Programme. It is evident that working from home is possible on a greater scale and this will have implications for our future accommodation needs and reduce travel leading to lower carbon emissions</li><li>Council is actively targeting food waste reduction. The Climate Change Committee say that for the UK's next carbon budget food waste must be reduced by 75% i.e. the vast majority of carbon emissions are from the production and transportation of food that is wasted. The UN report on food waste said that almost a billion tons of food was wasted and led to carbon emissions that if it were a country, would be third behind the USA and China</li><li>2 stage approach to mitigating recession following COVID-19: In the first lockdown the council supported over 2,200 businesses with £30m of government funded grants and £18m of reliefs. A further £6.8m has been paid out since November through different government grant schemes and a further 600 businesses have benefitted on top of the 2,200 above.</li><li>£132,000 of RHSS funding has been allocated to support safe re-opening of High Streets and has covered work such as traffic management on high streets to encourage social distancing. Due to the second national lockdown retail businesses are again facing significant challenges and our most recent response has been to introduce a shop local campaign focused on on-line buying and takeaways / click and collect services. The funding was also used to purchase hand sanitisers in town centres and planters to replace temporary traffic barriers. A second round of this funding has also been allocated to East Herts for the 2021/22 year. All 5 towns and 6 parish councils have received funding to undertake further cleaning, advertising and promotion of village/ town centres and provide additional seating</li><li>A new grant scheme was also launched in August aimed at encouraging new businesses to open up premises (or take on empty premises) in the district. As at the end of September 5 organisations have been tentatively awarded a grant.</li><li>Council also commissioned a new service with Broxbourne Borough Council and the CVS to support newly</li></ul>

**Update on current position**

unemployed residents get back into work by supporting them with digital skills such as interviewing over Zoom and MS Teams. Service launched 5th October 2020. As at 31 March 2021, just 41 individuals had made use of the scheme however in the last 6 months there have been over 150 referrals, possibly linked to the winding down of furlough

## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
3	A 3	Performance, resilience and security of IT systems	<p>Data and/or information lost causing breach of Data Protection Act</p> <p>Cyber-attack results in total loss of data and systems</p> <p>Investment in ICT does not result in savings</p>	<ul style="list-style-type: none"> <li>Substantial fine from Information Commissioner</li> <li>Major media engagement</li> <li>Reputational damage</li> <li>Disruption to services potentially long-running</li> <li>Inability to carry out enforcement as no records to check against</li> <li>Resources devoted to recovery moved off to assist police investigation delaying recovery</li> <li>Major media engagement</li> <li>Reputational damage</li> <li>Council becomes financially unsustainable</li> </ul>	Deputy Chief Executive	<ul style="list-style-type: none"> <li>Network Virtual Desktop configuration prevents download of data to local storage devices</li> <li>Network firewall and security systems tested and monitored</li> <li>Staff training</li> <li>Confidential waste shredded</li> <li>Massive reductions in printing since pandemic</li> <li>Projects to include estimated benefits and monitored through benefits realisation reports. The investment requirements are tried and tested systems that have resulted in savings elsewhere.</li> </ul>

Update on current position	
3	<ul style="list-style-type: none"><li>January's report showed that:<ul style="list-style-type: none"><li>3,298 spam emails were blocked out of 248,920 received.</li><li>19 impersonation attempts were blocked.</li><li>20 emails containing malware were blocked.</li></ul></li><li>A dedicated GDPR/Data Protection Officer has been recruited and has taken up the post.</li><li>Recent weekend shutdowns have enabled the disabling of old technology that was no longer supported or updated. New firewalls and switches have been installed and although slightly behind due to resourcing issues, all major projects are progressing well.</li><li>As the ICT upgrade projects progress there have been several incidents that have resulted in the loss of IT for staff and members. A day and a half of productivity was lost in June. The issue was identified and rectified but this has further exposed how our aging infrastructure is starting to impact on the organisation. A further 3 days was lost in September but the council successfully migrated to the new network. This new network has eliminated 99% of the single points of failure we had on the old network. We can now communicate across the network using more connections so traffic can be routed around problems, if they occur, and it is connected to the internet via 2 fibre cables and the security of the microwave link between the Stevenage data centres. This means that the likelihood and frequency of ICT outages should now be low. It also means that we have cleared a major hurdle in the way of starting to deploy the latest version of VMWare Horizon virtual desktops with Windows 10 and Microsoft 365.</li><li>SBC (IT Shared partner) are developing a scope to be agreed by both parties for a review to be undertaken at the request of the respective council leaders, to provide assurance going forward and SOCITM has been appointed. In addition additional resourcing is being investigated to see if the replacement programme can be accelerated.</li><li>The Shared Internal Audit Service is undertaking an audit of data security and cyber risk.</li><li>A new interim ICT Partnership Manager came into post during August and is making changes in project delivery arrangements and major incident protocols.</li><li>The cyber insurance market has contracted significantly and cover may prove difficult to procure when insurance contracts are tendered in spring 2022, or prohibitively expensive. Scoping exercise with IT proposed to enable council to obtain our broker's view on the prospects of securing cover.</li></ul>

## East Herts Council Corporate Risk Register – 2021/22 quarter two

### Update on current position



## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
4	B 2	Staff capacity and skills to deliver services	<p>Loss of key staff</p> <p>Staff capacity unable to deliver projects</p> <p>Unable to recruit to key posts</p>	<ul style="list-style-type: none"> <li>• Disruption to Council services</li> <li>• Poor customer service</li> <li>• Internal control or governance failure</li> <li>• Reputation damaged in the media</li> <li>• Staff cannot undertake level or volume of work to meet all priorities</li> <li>• Council does not deliver performance expectations</li> <li>• Opportunities lost to improve outcomes</li> <li>• Partners lose confidence in ability to deliver</li> <li>• Public lose confidence in ability to deliver</li> <li>• Disruption to Council services</li> <li>• Poor customer service</li> <li>• Internal control or governance failure</li> <li>• Reputation damaged in the media</li> <li>• Disruption to Council</li> </ul>	Head of Human Resources and Org Development	<ul style="list-style-type: none"> <li>• Staff development including the on-line learning pool</li> <li>• Succession planning for key staff within Services</li> <li>• Use of flexible retirement to ensure continuity of experienced staff whilst bringing on staff into roles</li> <li>• Prioritisation of work through the Corporate Plan and Executive Members</li> <li>• Major projects taken forward with corporate project management standards via the Major Projects Team</li> <li>• Market supplements where appropriate</li> <li>• Selective use of external resources and contingent labour through neutral vendor to drive down costs.</li> <li>• Internal communications emphasising welfare and mental health</li> <li>• Contingency planning</li> </ul>

## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
			Industrial action	services <ul style="list-style-type: none"> <li>• Poor customer service</li> <li>• Non-delivery of projects</li> </ul>		<ul style="list-style-type: none"> <li>• Contingency planning</li> </ul>

### Update on current position

4		<ul style="list-style-type: none"> <li>• The number of leavers in Q4 did increase and it remains challenging to recruit senior planning officers especially as agency terms are more favourable than direct salaries, the service is being restructured in 21-22 to try to improve the structure and create more opportunities for growth and retention (Golden Hellos are already used where appropriate as is 100% funding for qualifications. The service has now recruited a second service manager and created some team leader roles which have been filled and vacancies are being filled more often first time. The area remains a priority for grow your own through apprentice and career graded posts and these are used but currently there is not a valid apprentice framework to utilise.</li> <li>• In Q1 of the 21/22 annual period turnover increased: There were 12 leavers in Quarter 1 (April – June 2021) giving a turnover rate for the quarter of 3.6%. Based on the number of leavers so far in Quarter 1, it is estimated that the turnover rate for the annual period 2021/22 will be 14.5%. This is higher than the annual projections in the same quarter in the previous year (4.8% in Quarter 1 in 2020/21 which was impacted by the pandemic) and it is higher than the local government average currently available (14% for 2018/19 for Local Authority districts in the UK). With the exception of 2020/21, historically turnover in Quarter 1 every year has been high (26.3% in 2018/19, 16.4% in 2019/20) and then it gradually decreases throughout the rest of the year. It is anticipated that turnover for 2021/22 will follow the same pattern. The increase has been reported to LT and HRC who have asked that it is monitored, looking at the reasons for leaving we have seen an increase in retirements and lifestyle changes, delayed leaving impacted by the pandemic.</li> <li>• In line with savings required all recruitment must be approved by Leadership Team with enhanced justification and a requirement to explore either restructures or process changes to eliminate the need for the post.</li> <li>• The transformation programme also includes service reviews aimed at improving structure and ways of working i.e.</li> </ul>				
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	Update on current position
	<p>to increase efficiency and effectiveness.</p> <ul style="list-style-type: none"><li>• The transformation programme includes a Modern Workforce Development strand which includes organisation development to support transformation (e.g. staff briefings, resilience training, six sigma training etc.), new staff and management competencies, a revised PDR, development to improve our one team culture as well as a blended work offer.</li><li>• The Blended Work Offer has been shared with staff, the trials have worked well and from 1/11/2021 staff who wish to and their role allows will be working up to 50% at home and 50% in the office. There will be rota based system continuing in the shared Revenues and Benefits service where staff will continue with higher levels of home working in line with the shared service and potential growth.</li><li>• The temporary labour supply arrangement went live in April 2020 which has reduced fees paid to agencies and ensures a wider pool of potential candidates. This is working fairly well with issues resolved with Matrix where they arise to improve the pooling.</li><li>• The Indeed EHC branded website is working ok but has not been as successful as hoped and is being replaced with a multi-site package which will use several of the top recruitment platforms as well as indeed. This is being implemented through an Applicant Tracking System (ATS) which will include an improved online application form, online shortlisting, name blind shortlisting and improve our presence online. The new system will also aid onboarding again improving the candidate/new starter experience.</li><li>• Ongoing work has continued with the Communications team and HR to improve the online presence and promote the employer brand further. Case studies are being developed to support welcoming diversity.</li><li>• Career graded posts are continuing to be used and proving successful for hard to recruit posts with all four Lawyer roles successfully filled. All four have started in post which is already really improving the legal capacity of EHC.</li><li>• A review of apprentices is continuing to both manage costs and support succession. This has been slowed by the pandemic, but we are now recruiting into customer services as this allows progression into a range of services. We are awaiting a new planner framework and will use this to bring further planning apprentices.</li><li>• Once completed, Northgate End, Hertford Theatre and Old River Lane sites will all require IT and Facilities Management support over extended operating hours.</li></ul>

## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
5	C 4	Poor performance or failure of key partner or contractor	Poor performance or failure of key partner or contractor  Failure to mobilise major outsourced contracts properly and/or on time	<ul style="list-style-type: none"> <li>• Disruption to all Council services</li> <li>• Additional costs resulting from response</li> <li>• Demand to partner organisations to provide mutual aid to support our response</li> <li>• Cost and time involved in unplanned procurement exercises</li> <li>• Major media engagement</li> <li>• Reputational damage</li> <li>• Disruption to council services</li> <li>• Damage to relations with outsourcing partner and potential damages claim</li> <li>• Major media engagement</li> <li>• Reputational damage</li> </ul>	Head of Operations	<ul style="list-style-type: none"> <li>• Risk of contractor failure increased due to COVID. Regular discussions are continuing with contractors and key third sector partners to ensure no failures in delivery particularly during the pandemic</li> <li>• Credit risk scores are obtained for major contractors during the operation of the contract and particular attention is paid to trade news concerning contractors' financial health.</li> <li>• Offer of open book accounting to examine any potential cost increases as a result of changing circumstances.</li> <li>• Waste-related business continuity plans are also regularly reviewed. Brexit restrictions and the closure</li> </ul>

## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
						of Asian export markets will impact on the sale of materials and income may cease and costs may increase. Talks are ongoing with other Hertfordshire authorities to determine alternative recycling operators. The council is investigating a circular economy option for the plastics waste stream in particular.

### Update on current position

5		<ul style="list-style-type: none"> <li>• Risk of business failure has increased due to COVID. Business continuity plans refreshed and regular dialogue maintained with contractors who have been informed the council would look sympathetically at cost increases provided the council was told in advance and the contractor undertook to use reasonable endeavours to resolve cost pressures themselves utilising furlough and other central government support.</li> <li>• Successful bid to the National Leisure Recovery Fund in partnership with SLM to support costs whilst reopening with reduced activities and reduced class sizes to maintain social distancing.</li> <li>• Contingency plans to step in should contractors fail. Principal route will be to use a TEKAL company to provide the service pending retendering as the company vehicle preserves the private sector T&amp;Cs of employment.</li> <li>• Council has and is prepared to offer loans to help contractors with cash flow, subject to an assessment that they are a going concern</li> <li>• Requirement for higher recycled packaging content has caused some plastic materials prices to increase.</li> </ul>
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## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
6	C 3	Judicial Review and or major legal challenge	<ul style="list-style-type: none"> <li>• Council loses case</li> </ul>	<ul style="list-style-type: none"> <li>• Council policies may no longer be fit for purpose</li> <li>• Unregulated activity until soundly based policy put in place</li> <li>• Large costs award against Council</li> <li>• Reputational damage</li> <li>• Major media engagement</li> <li>• Monitoring Officer and/or s.151 officer issues Report in the Public Interest</li> <li>• Department for Levelling Up, Housing and Communities intervention</li> <li>• Potential requirement to repeat procurement exercise and compensate unsuccessful bidders in first exercise</li> </ul>	Head of Legal and Democratic Services	<ul style="list-style-type: none"> <li>• All Executive, Committee and Council reports require sign off by legal and finance to ensure compliance with budget and policy framework and current legislation.</li> <li>• List of policies maintained with review dates.</li> <li>• Information Governance function strengthened to ensure compliance with data protection.</li> <li>• Policies should be backed by evidence and Leadership Team consideration involves constructive challenge as well as formal Monitoring Officer and s.151 officer.</li> </ul>

## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
				<ul style="list-style-type: none"> <li>Additional and or abortive costs</li> </ul>		

### Update on current position

6		<ul style="list-style-type: none"> <li>All four new solicitors are now in post. The Contracts Lawyer, who started in March 2021, has been advising on the Council's major projects, allowing for much greater control.</li> <li>The Council's Information Governance and Data Protection Manager who started at the beginning of 2021, has undertaken a great deal of work with regards data mapping and updating the Council's policies, providing the Council with greater resilience against data breaches.</li> <li>Work being outsourced has more or less ceased, meaning that, where legal advice is required, East Herts Legal Team are now consulted throughout, reducing the risk of problems arising further down the line.</li> </ul>
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No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
7	A 1	District Plan	Failure to refresh District Plan to timescales and /or refreshed District Plan found to be unsound at examination	<ul style="list-style-type: none"> <li>Planning becomes developer led rather than planning policy led through 5 year land supply test</li> <li>Additional costs to redo work Additional costs of planning appeals and</li> </ul>	Head of Planning	<ul style="list-style-type: none"> <li>Evidence based planning policy decisions</li> <li>Strong focus on Member, Parish, partner and community buy-in</li> </ul>

## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
				<p>possible judicial reviews</p> <ul style="list-style-type: none"> <li>• Reputational damage</li> <li>• Loss of affordable housing and S.106 / community infrastructure levy benefits</li> <li>• Failure to meet 5 year Housing Land Supply requirements</li> <li>• Possible intervention by MHCLG</li> </ul>		

### Update on current position

7		<ul style="list-style-type: none"> <li>• The District Plan was adopted in October 2018 following a successful examination in public.</li> <li>• Planning in East Herts is therefore 'plan-led' rather than 'developer-led'.</li> <li>• The majority of strategic sites now have an agreed Masterplan.</li> <li>• Following the Housing Delivery Test results in January, the Council has maintained the minimum 5% buffer and therefore can demonstrate a five year land supply in excess of 6 years.</li> <li>• The Council has also continued its trend of annual improvements on the Housing Delivery Test, this year being able to demonstrate a 104% delivery rate meaning that the Council is meeting its housing need and addressing the undersupply of previous years as well.</li> <li>• A total of 994 dwellings were completed in 2020/21. Of these, 326 were affordable homes which represents 32.8% of all completed dwellings in the district.</li> <li>• To be effective plans need to be kept up-to-date. The National Planning Policy Framework states policies in local plans, should be reviewed to assess whether they need updating at least once every 5 years, and should then be</li> </ul>
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**Update on current position**

[updated as necessary](#). Officers are currently considering whether a review of the District Plan is required.

## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
8	A 4	Climate change	Severe Weather causing major incident (includes flood, wind, snow, cold and heat)  Drought  Weather extremes require substantial retrofit costs for asset adaptions	<ul style="list-style-type: none"> <li>• Disruption to Council services as staff diverted to response</li> <li>• Additional costs of response</li> <li>• Service changes required if long recovery phase</li> <li>• Service change required to adapt e.g. heatwave early day starts</li> <li>• Major media engagement</li> <li>• Disruption to some services through water restrictions</li> <li>• Additional costs of support to vulnerable service users</li> <li>• Public health issues</li> <li>• Non-availability of capital resources may cause working conditions on some days to be unbearable.</li> <li>• Instances of abandoning assets where hold the</li> </ul>	Head of Housing & Health	<ul style="list-style-type: none"> <li>• Business Continuity Plan Severe Weather section</li> <li>• Emergency Plan including specific response plans to flooding etc.</li> <li>• Health and Safety Policy details severe weather response</li> <li>• Council reducing carbon footprint for the district</li> <li>• Emergency Plan</li> <li>• Business continuity plan</li> <li>• Council reducing carbon footprint for the district</li> <li>• New modern workspace work stream of the Transformation Programme will address climate change issues in the design</li> </ul>

## East Herts Council Corporate Risk Register – 2021/22 quarter two

Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
8			<ul style="list-style-type: none"> <li>line defences against floods no longer viable</li> <li>Increasing attacks by non-native species causing biodiversity loss</li> <li>Increased costs arising from new operating requirements, e.g. sustained +30 degree heat requires refuse freighter insides to be degreased and jetted out regularly to prevent oils and fats combusting</li> </ul>		

### Update on current position

8	<ul style="list-style-type: none"> <li>Climate change motion agreed July 2019.</li> <li>Multi-agency environmental and climate change forum continues.</li> <li>Energy efficiency modifications to key existing buildings and new electricity contract is from renewable sources.</li> <li>Review underway of motor fleet with extended use of e-vehicles.</li> <li>Carbon footprint reducing as a consequence of pandemic and homeworking. Future agile working will support.</li> <li>Food waste minimisation campaign to reduce carbon footprint by food being wasted as well as the disposal route.</li> <li>List of achievements posted on website at <a href="https://www.eastherts.gov.uk/about-east-herts-0/environmental-sustainability/sustainability-get-involved">https://www.eastherts.gov.uk/about-east-herts-0/environmental-sustainability/sustainability-get-involved</a>.</li> <li>Training commenced for officers. Attended by 101 employees to date.</li> <li>Clean Air Day campaign held.</li> </ul>
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## East Herts Council Corporate Risk Register – 2021/22 quarter two

Update on current position		
	Red	<ul style="list-style-type: none"> <li>Engagement with insurers over design / materials for new buildings. Use of sustainable materials and modern methods of construction proving problematic. Insurers want more emphasis on property protection (in addition to life saving standards). Major developments are also situated in or adjacent to flood zones.</li> </ul>

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
9	A 1	Child / Vulnerable Adult Protection	Child / Vulnerable Adult protection failure	<ul style="list-style-type: none"> <li>Possible legal action for damages</li> <li>Possible prosecution</li> <li>Major media engagement</li> <li>Reputational damage</li> </ul>	Head of Housing & Health	<ul style="list-style-type: none"> <li>Safeguarding policy</li> <li>Annual training for staff and Members</li> </ul>

Update on current position		
9	Green	<ul style="list-style-type: none"> <li>90% of Members have received safeguarding training or briefings.</li> <li>Officer training on safeguarding annually. Targeted training took place for 10 officers in quarter one with 40 booked to future sessions. Further training being provided to Community Safety Partnership Board and Joint Advisory Group Partners.</li> <li>Quarterly safeguarding report submitted to Leadership Team.</li> <li>Hertfordshire Safeguarding Adults Board self-assessment complete.</li> <li>Domestic Abuse Policy will be considered by HR committee in November.</li> </ul>

## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
10	A 2	Equalities	Council found to discriminated against individuals or communities with protected characteristics OR council has made a decision without considering equalities and diversity implications.	<ul style="list-style-type: none"> <li>Possible legal action for damages</li> <li>Possible enquiry and report by Equalities &amp; Human Rights Commission</li> <li>Major media engagement</li> <li>Reputational damage</li> </ul>	Head of Comms, Policy & Strategy	<ul style="list-style-type: none"> <li>East Herts into a shared service for equalities and diversity support with HCC in November 2020.</li> <li>New strategy being developed to address challenges and embed equalities and diversity in decision making.</li> </ul>

### Update on current position

10		<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>New strategy was approved by Council on 28 July. Since then significant work has been undertaken on training staff on the equalities impact assessment process and forming a staff equalities group</li> </ul> </li> </ul>
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No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
11	B 2	Internal control	Failure of internal control or unethical behaviour	<ul style="list-style-type: none"> <li>Qualified accounts</li> <li>Possible Police involvement if fraud involved</li> <li>Major media engagement</li> <li>Reputational damage</li> <li>Increased costs as a</li> </ul>	Head of Strategic Finance and Property	<ul style="list-style-type: none"> <li>Key reconciliations carried out regularly.</li> <li>Internal audit work planned and undertaken on key areas.</li> <li>Assurance Mapping</li> <li>Electronic workflow where controls much harder to</li> </ul>

## East Herts Council Corporate Risk Register – 2021/22 quarter two

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
				result of loss or fine or compensation payments		<p>circumvent</p> <ul style="list-style-type: none"> <li>Separation of duties appropriate to the staffing numbers</li> </ul>

### Update on current position

11		<ul style="list-style-type: none"> <li>Audits remain mostly on track and there is sufficient audit scope for an assurance opinion to be given</li> <li>Assurance Mapping approach to be introduced which will show visually where assurance is gained and also identifies duplications and unnecessary steps which will inform officers undertaking lean process reviews and help Audit &amp; Governance Committee to see where there are risks and then internal audit resources can be directed there.</li> <li>Full suite of updated anti-fraud and corruption policies to be submitted to Leadership Team in October and Audit and Governance Committee in November 2021. Intranet and website content to be updated once agreed. The new policies will be publicised to all employees.</li> <li>The Shared Anti-Fraud Service will meet with teams to provide training and increase awareness, starting with Parking (blue badge misuse), Licensing and Housing from October 2021.</li> </ul>
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## East Herts Council Corporate Risk Register – 2021/22 quarter two

N/A ↑	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
12	A 4	Outbreak of disease in humans	Pandemic and/or Public Health Emergency Declared	<ul style="list-style-type: none"> <li>Loss of staff and/or key skills due to illness and related absenteeism</li> <li>Requirement to enable entire workforce to work from home</li> <li>Requirement for Council and Committees to meet via video conference</li> <li>Loss of income/additional costs</li> <li>Loss of essential services /utilities/ suppliers</li> <li>Demand from partner organisations to provide staff and other resources to support their response</li> <li>Major media engagement</li> <li>Disruption to all Council services</li> <li>Increased risk of fraud from support programmes</li> </ul>	Head of Housing and Health	<ul style="list-style-type: none"> <li>Business Continuity Plan</li> <li>Emergency Plan</li> <li>Dynamic risk assessments and keeping office open and COVID secure in line with government guidance.</li> <li>Agile working introduced and scaled up to ensure social distancing</li> <li>Fraud alerts on pandemic circulated by SAFS</li> </ul>

<b>Update on current position</b>	
12	<ul style="list-style-type: none"><li>• Updates on financial compensation are included under Risk 1</li><li>• Updates on recovery work on supporting the local economy are detailed under Risk 2</li><li>• Alternative working methods instigated as a result of Covid 19 including home working and IT communications solutions (Zoom, Teams, WhatsApp and the like)</li><li>• Blended working arrangements to commence autumn 2021 with staff working 50% at the office and 50% from home.</li><li>• Detailed, up-to-date risk assessments in place including frequent Covid self-testing</li><li>• Live Well, Work Well programme amended to incorporate greater emphasis on staff mental health</li><li>• Joined up working with key partners, notably HCC and the police, to ensure coherent and planned use of financial and staff resources, for example Covid marshals and joint visits/advice/enforcement actions re: businesses. (Covid marshal scheme extended during quarter one.) Shop safe, shop local campaign held.</li><li>• Restart grants for businesses and community covid recovery grant schemes opened.</li><li>• Public facing recovery plan published in April.</li><li>• In-person Member meetings resumed.</li></ul>

East Herts Council Corporate Risk Register – 2021/22 quarter two

① N o	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
13	A 1	Business Continuity Plan / Emergency Plan	Major Incident Occurs	<ul style="list-style-type: none"> <li>Loss of essential services / utilities/ suppliers</li> <li>Demand from partner organisations to provide staff and other resources to support their response</li> <li>Major media engagement</li> <li>Disruption to all Council services</li> <li>Unable to support partner organisations to provide staff and other resources to support their response</li> <li>Possible legal action or public inquiry</li> </ul>	Head of Housing & Health	<ul style="list-style-type: none"> <li>Emergency Plan Major Incident protocols</li> <li>Business Continuity Plan</li> <li>Keep plans under review every 6 month and keep evidence.</li> <li>Review of response after every incident</li> <li>Training for staff in EP roles</li> <li>Regular exercises once a quarter</li> <li>Emergency and Resilience work provided through Hertfordshire County Council</li> </ul>

## Update on current position

13

- Normal business continuity and emergency planning activities have continued during the pandemic
- Mutual aid was provided to the NHS to support staff shortages as well as supporting testing and vaccination
- Desk top exercise accessing plans and refresh of contact lists undertaken
- Communications test undertaken from County to Districts to check notification cascade.
- Review of business continuity plan to commence in quarter two.
- Review of IT Disaster Recovery Plan to take place.

## East Herts Council Corporate Risk Register – 2021/22 quarter two

Likelihood	Description	Likelihood of occurrence	Probability of occurrence	
	4 High	Monthly	The event is expected to occur or occurs regularly	
	3 Medium	Annually	The event will probably occur	
	2 Low	1 in 5 years	The event may occur	
	1 Very Low	Less frequently than 1 in 5 years	The event may occur in exceptional circumstances	
Impact	Description	Financial	Reputation	Service / operation
	A Critical	> £1m p.a.	Serious negative media	Catastrophic fall in service quality or long term disruption to services
	B Significant	£400,000 to £1m p.a.	Adverse national media	Major fall in service quality or serious disruption to services
	C Marginal	£100,000 to £400,000 p.a.	Adverse local media	Significant fall in service quality
D Minor	< £100,000	Public concerns restricted to local complaints	Little impact to service quality	

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## East Herts Council Report

### Audit and Governance Committee

**Date of meeting: 9 November 2021**

**Report by: Head of Strategic Finance and Property**

**Report title: Review of Anti-Fraud and Corruption Policies**

**Ward(s) affected: All**

**Summary** – A new suite of anti-fraud and corruption policies has been prepared

### **RECOMMENDATIONS FOR Audit and Governance Committee:**

- a) The suite of anti-fraud and corruption policies be reviewed and officers advised of any areas for improvement before adoption of the policies.**

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

1.1 This report details the controls introduced during quarter two.

#### **2.0 Background**

2.1 The council is committed to the prevention and detection of fraud. Staff and elected Members have key roles to play in maintaining an anti-fraud culture and the suite of policies presented provide a consistent framework to enable effective deterrence, prevention, detection and investigation of fraud and corruption.

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

- 3.1 The council will not tolerate fraudulent or corrupt acts and will take firm action against those who defraud the authority, who are corrupt or engage in financial malpractice.
- 3.2 Existing policies are in need of updating so the Shared Anti-Fraud Service (SAFS) kindly provided a suite of policies that the council has tailored and linked to Human Resources and other policies. (Some hyperlinks are restricted and cannot be accessed by all potential readers. E.g. links to the staff intranet.)
- 3.3 Four documents are presented to this Committee:
  - 3.3.1 Anti-Fraud and Corruption Strategy
  - 3.3.2 Anti-Money Laundering Policy
  - 3.3.3 Fraud Sanctions Policy
  - 3.3.4 Confidential Reporting Procedure (Whistleblowing) Policy
- 3.4 They detail the responsibilities of employees and Members and assist statutory officers in their duties.

### **4.0 Options**

- 4.1 The Anti-Fraud and Corruption Strategy provides the overarching framework, a fraud response plan and details responsibilities of staff and Elected Members and Partners.
- 4.2 The Anti-Money Laundering Policy aims to prevent criminal activity through money-laundering and ensure that the council complies with legislation. The regulations are explained and a reporting procedure is detailed. The Head of the Shared Anti-Fraud Service has been appointed as the Money laundering Reporting Officer, with his deputy, the Counter Fraud Manager, as deputy.
- 4.4 The Confidential Reporting Procedure (Whistleblowing) Policy provides a route for genuine concerns about fraud or malpractice to be escalated in confidence.

4.5 Several routes to escalate concerns are provided, both internal and external depending on the circumstances and the confidence that a whistle blower has in the options available. (It is possible to report concerns anonymously although this route is less than ideal.)

4.6 The Fraud Sanctions Policy is new for 2021. The policy details the options available to the council when a loss is evidenced. These range from doing nothing through to recoveries and prosecution.

4.7 It is proposed that all four policies are reviewed every three years, or sooner if there is a change in legislation or material change in circumstances. The policies will be submitted to the Committee for review and approval.

## **5.0 Risks**

5.1 Risks are detailed within other sections of the report, but to summarise, a robust suite of policies combined with staff awareness can assist identification of fraud, prosecution and recovery of funds. Ultimately a robust approach may deter fraudsters from targeting the authority in the first instance.

5.2 Not having lawful policies might even lead to a prosecution failing on a technicality.

## **6.0 Implications/Consultations**

6.1 Leadership Team reviewed on 26 October 2021. The Executive Member for Corporate Services and the Deputy Leader and Executive Member for Financial Sustainability have also been consulted.

## **Community Safety**

The Housing service can be targeted by fraudsters so those on the housing register may be disadvantaged.

## **Data Protection**

The Audit Commission requires local authorities to participate in data matching exercises to assist in the detection and prevention of fraud. The use of data by the Audit Commission is carried out with statutory authority under its powers in Part 2A of the Audit Commission Act 1998. It does not require the consent of the individuals concerned.

Fraud investigations by their very nature must remain confidential, as will the identity of any whistle-blower, where possible and provided allegations are not malicious. (The Confidential Reporting procedure (Whistleblowing) Policy provides a route to reporting fraud anonymously although such reports are less than ideal in most circumstances.)

All personal data collected must be kept in compliance with the Data Protection Act 2018 and the General Data-Protection Regulation (UK).

## **Equalities**

None. The policies are non-discriminatory.

## **Environmental Sustainability**

None.

## **Financial**

Fraud has a major impact on local authority finances. The SAFS Anti-Fraud Plan report to Audit and Governance Committee in September 2021 stated that 25 cases were under investigation with an estimated fraud loss and savings combined total in excess of £213,000. Five cases closed at the time of the report had achieved just over £20,000 in recovery.

National Crime Agency data from 2017 suggests that fraud losses across UK business, the public sector and private individuals totalled

around £190 billion although the scale is likely underreported. The public sector may be losing more than £40 billion per annum.

Although the relevant Regulations relating to money laundering do not, in many cases directly apply to local authorities, guidance from CIPFA states that local authorities should comply with the requirements of these Regulations.

## **Health and Safety**

No

## **Human Resources**

Training will be provided to all staff through the e-learning system as a minimum. Officers considered likely to be exposed to suspicious situations, will be made aware of these by senior management and provided with appropriate training. Additionally, all employees and Members will be familiarised with the legal and regulatory requirements relating to money laundering and how they affect both the council and themselves.

Following the pandemic and recent changes in staff, SAFS has commenced awareness briefings and training with key services ahead of the launch of these policies.

## **Human Rights**

No

## **Legal**

See Data Protection section.

## **Specific Wards**

No

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

7.1. SAFS report to Audit and Governance Committee 14

September 2021 – Progress with delivery of 2021/22 Anti-Fraud Plan

<http://democracy.eastherts.gov.uk/ieListDocuments.aspx?CId=576&MId=3946&Ver=4&J=3>

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# **East Herts Council**

## **Anti-Fraud and Corruption Strategy**

**Prepared October 2021**

Leadership Team  
Audit and Governance Committee

26 October 2021  
9 November 2021

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## **East Herts Council policy statement on fraud and corruption**

This policy outlines the council's attitude to fraud and corruption and the approach to be taken when faced with such matters. The council is committed to the prevention and detection of fraud and corruption, whether from within or outside the organisation.

The aims of this document are to:

- Be clear that the council will not tolerate fraudulent or corrupt acts and will take firm action against those who defraud the authority, who are corrupt or engage in financial malpractice.
- Provide a consistent framework for managers and Members, which enables effective deterrence, prevention, detection and investigation of fraud and corruption.
- Detail the responsibilities of employees, management and Members with regards to fraud and corruption.
- Assist the Head of Strategic Finance and Property in the fulfilment of the role as the council's Section 151 Officer and the Head of Legal and Democratic Services in the role as the council's Monitoring officer.
- Explain the role of council officers in relation to the prevention of fraud and actively promote a culture of openness and honesty in all dealings. (The council has Codes of Conduct for Members and officers.)

The council's employees and elected Members have a key role in maintaining an anti-fraud culture. The council has implemented effective whistleblowing arrangements and employees and Members are encouraged to raise any serious concerns about the council's work, including any reasonable belief that fraud or corruption is occurring.

The desired culture is also reinforced through our Human Resources policies and procedures and practices, where values of openness and honesty are highlighted; specifically the Code of Conduct for Employees.

The council aims to learn from any incidences of fraud or corruption and where there have been breakdowns in systems, procedures, or governance arrangements, these will be reviewed, and controls put in place to prevent a reoccurrence.

This policy statement is underpinned by an Anti-Fraud and Corruption Strategy, which sets out the key responsibilities regarding fraud prevention, what to do if fraud is suspected and the action that will be taken by management.

The strategy is based upon four key themes: **Govern, Acknowledge, Prevent and Pursue**, and adheres to the *Fighting Fraud and Corruption Locally- A Strategy for the 2020s* published in March 2020.

**Appendix 3** sets out how these themes are addressed by the council.

## **Definitions of Commonly Used Terms**

### **Fraud**

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines fraud as:

“Any intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss”

As a crime ‘Fraud’ is defined by the Fraud Act 2006 as:

- Fraud by false representation
- Fraud by failing to disclose
- Fraud by abuse of position

In addition, the Fraud Act deals with offences relating to the possession of articles for use in fraud, making or supplying articles for use in frauds, participation by a sole trader in fraudulent business, and obtaining services dishonestly, either personally or for another.

## **Bribery**

The Bribery Act 2010 came into force in the UK on 1 July 2011. It amends and reforms UK criminal law and provides a modern legal framework to combat bribery in the UK and internationally. Employees need to be aware of their obligations under this Act, which sets out offences of accepting and giving bribes. This applies to both staff and the council corporately.

The Bribery Act creates the following offences:

- Active bribery: promising or giving a financial or other advantage;
- Passive bribery: agreeing to receive or accepting a financial or other advantage;
- Bribery of foreign public officials; and
- The failure of commercial organisations to prevent bribery by an associated person (corporate offence).

The penalty under the Bribery Act is an unlimited fine and/or imprisonment up to a maximum of 10 years.

## **Corruption**

Corruption is the deliberate misuse of your position for direct or indirect personal gain. "Corruption" includes offering, giving, requesting or accepting a bribe or reward, which influences your actions or the actions of someone else. The Bribery Act 2010 makes it possible for senior officers to be convicted where they are deemed to have given their consent or tacit approval in giving or receiving a bribe.

The Act also creates the Corporate Offence of "failing to prevent bribery on behalf of a commercial organisation" (corporate liability). To protect itself against the corporate offence, the Act also requires organisations to have "adequate procedures in place to prevent bribery". This strategy, and the council's Codes of Conduct (Members and Employees) and the council's Confidential Reporting Procedure (Whistleblowing) are designed to meet that requirement.

## **Money Laundering**

Money Laundering is the process by which criminals attempt to 'recycle' the proceeds of their criminal activities in order to conceal its origin and ownership whilst retaining use of the funds.

The burden of identifying and reporting acts of money laundering rests within the council. Any service that receives money from an external person or body is potentially vulnerable to a money laundering operation. The need for vigilance

is vital and any suspicion concerning the appropriateness of a transaction should be reported and advice sought from the Money Laundering Reporting Officer who is the Head of the Shared Anti-Fraud Service (SAFS).

The council recognises its responsibilities under the Money Laundering Regulations 2017 and the Proceeds of Crime Act 2002. These responsibilities are set out within the council's Anti-Money Laundering Policy

## **Anti-Fraud and Corruption Strategy**

The council will fulfil its responsibility to reduce fraud and protect our resources with a strategic approach consistent with that outlined in the Fighting Fraud and Corruption Locally Strategy 2020 and CIPFA's Managing the Risk of Fraud and Corruption.

The council will not tolerate any form of fraud and corruption, both from within the council and from external sources. We recognise fraud can:

- Undermine the standards of public service that the council is attempting to achieve;
- Reduce the level of resources and service delivery for the residents of Hertfordshire; and
- Reduce public confidence in the Council.

This strategy applies to:

- All council employees (including volunteers and agency staff) and Councillors;
- Staff and committee members of council funded voluntary organisations;
- Council's partners;
- Council suppliers, contractors and consultants; and
- All council service users and residents.

The strategy aims to:

- Protect the council's valuable resources by ensuring they are not lost through fraud but, are used for improved services to our residents and local taxpayers.
- Create and promote an 'anti-fraud' culture which highlights the council's approach of fraud and corruption;
- Provide a counter fraud provision which:

- Ensures that the resources dedicated are sufficient and those involved are trained to deliver a professional counter fraud service to the highest standards.
- Proactively deters, prevents, and detects fraud, bribery, and corruption.
- Investigates suspected or detected fraud, bribery and corruption; and
- Enables the council to apply appropriate sanctions and recover all losses through court action or by invoicing an individual.
- Provides recommendations to inform policy, system, risk management and control improvements, thereby reducing the council's exposure to fraudulent activity;
- Create an environment that enables the reporting of any genuine suspicions of fraudulent activity. However, we will not tolerate malicious or vexatious allegations or those motivated by personal gain and, if proven, we may take disciplinary or legal action; and
- Work with our partners and other investigative bodies to strengthen and continuously improve our arrangements to prevent fraud and corruption.

**Appendix 2** to this report sets out the Fraud Response Plan for the council.

## Managing the Risk of Fraud and Corruption

As with any risk faced by the council, it is the responsibility of managers and officers to ensure that the risk of fraud is adequately considered when preparing risk assessments supporting strategic priorities, business plans, projects and programmed objectives. In making this assessment it is important to consider the risk of fraud occurring as well as any actual incidences of fraud that occurred in the past. Once the fraud risk has been evaluated, appropriate action should be taken to mitigate those risks on an ongoing basis.

Any changes in operations or the business environment must also be assessed to ensure any impacts, which might increase or otherwise change the risk of fraud, bribery, and corruption, are considered.

Good corporate governance procedures are a strong safeguard against fraud and corruption. Adequate supervision, recruitment and selection, scrutiny and healthy scepticism should not be distrust but as good management practice shaping attitudes and creating an environment opposed to fraudulent activity.

Whilst all stakeholders in scope have a part to play in reducing the risk of fraud, Elected Members, Directors and management are ideally positioned to influence the ethical tone of the organisation and play a crucial role in fostering a culture of high ethical standards and integrity.

## **Further Information**

Further information on relevant council policy and practice can be found in the following documents:

- The Constitution, including Financial Procedure Rules, Members' Code of Conduct and Contract Procedure Rules;
- Confidential Reporting Procedure (Whistleblowing);
- Fraud Prosecution and Sanction Policies;
- Employees Code of Conduct (intranet link for staff only);
- Risk Management Strategy;
- ICT User Policy (intranet link for staff only);
- Access to Information Policy (intranet link for staff only)

## **Strategy Review**

The Head of Strategic Finance and Property will ensure the continuous review and amendment of this strategy and the relevant associated policies as necessary to ensure that it remains consistent with good practice, national public sector Codes of Practice and meets the needs of the council.

Review date: Frequency as required by legislative changes or every three years.

## Reporting fraud

The council's fraud policies can be found at <https://www.eastherts.gov.uk/about-east-herts-0/fraud-and-whistleblowing-policies>

East Herts Council is working with five other Hertfordshire authorities to investigate, detect and prevent fraud across council services.

The service includes a dedicated hotline for people to report their concerns and will provide robust fraud prevention, detection and investigation across council services including: business rates avoidance, blue badge fraud, tenancy fraud, housing waiting list fraud, contract and procurement fraud and council tax discount/reduction/exemption fraud. (Further examples of fraud against the council are listed in appendix one.)

The team is based at the county council's Stevenage offices. If you have a concern you can report:

On line: <https://www.hertfordshire.gov.uk/fraud> and select the **REPORT FRAUD** link

Email: [fraud.team@hertfordshire.gov.uk](mailto:fraud.team@hertfordshire.gov.uk)

Telephone: Contact the fraud hotline on 0300 123 4033 in confidence.

Housing Benefit Fraud can be reported on line to the Department for Work and Pensions at <https://www.gov.uk/report-benefit-fraud>

## Appendix 1 – Types of Fraud

Local authorities have reported a wide range of fraud risks. The main areas of fraud that were reported in Fighting Fraud & Corruption Locally 2020 continue to feature as significant risks. However, there are also new fraud types emerging. Some examples of fraud risk relevant to the council are:

**Blue Badge** – Use of counterfeit/altered badges, use when disabled person is not in the vehicle, use of a deceased person's Blue Badge, badges issued to institutions being misused by employees.

**Grants** – Work not carried out, funds diverted, ineligibility not declared.

**Identity fraud** – False identity / fictitious persons applying for services / payments.

**Internal fraud** – Diverting council monies to a personal account; accepting bribes; stealing cash; misallocating social housing for personal gain; working elsewhere while claiming to be off sick; false overtime claims; selling council property for personal gain;

**Payroll** – False employees, overtime claims, expenses.

**Council Tax** – False claims for discounts or exemptions to reduce liability.

**Housing Benefit** – False claims regarding income, capital, rent liability or family makeup to increase entitlement to benefit.

**Business Rates** – Deliberate withholding of information or relevant facts to evade or reduce liability.

**Housing/ Tenancy Fraud** – providing false information to obtain social housing, sub-letting or parting with occupation, false succession applications and right to buy applications supported by money laundering.

**Procurement** – Tendering issues, split contracts, bribery, double invoicing or failure to deliver.

**Commissioning of services, including joint commissioning, and third sector partnerships** – conflicts of interest, collusion.

**Concessionary travel schemes** – Use of concession by ineligible person, including Freedom Passes.

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

**Disabled Facility Grants** – Fraudulent applications for adaptions to homes.

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

**Insurance Fraud** – False claims including slips and trips and claims for damages.

**Local Enterprise Partnerships** – Voluntary partnerships between local authorities and businesses. Procurement fraud, grant fraud.

**New Responsibilities** – Areas that have transferred to local authority responsibility e.g. Public Health grants, contracts.

**Money laundering** – Exposure to suspect transactions.

**Licensing** – false ID or rights to reside, impersonation to facilitate false applications.

## **Appendix 2 - Fraud Response Plan**

Immediately that fraud is discovered or suspected, the matter should be reported to a line manager, head of service or the Shared Anti-Fraud Service (SAFS), who will decide what further action is appropriate.

SAFS provides the council's anti-fraud function and have access to data and information held by the council to conduct its investigations working with relevant council officers.

Contact details for SAFS can be found below:

On line: <https://www.hertfordshire.gov.uk/fraud>

Email: [\*\*fraud.team@hertfordshire.gov.uk\*\*](mailto:fraud.team@hertfordshire.gov.uk)

Telephone: 0300 123 4033 in confidence.

The aims and objectives of the Fraud Response Plan are to:

- Prevent further losses of funds or other assets where fraud has occurred;
- Minimise the risk of inappropriate action or disclosure taking place which would compromise an investigation;
- Ensure there is a clear understanding over who will lead any investigation and to ensure managers, HR, Internal Audit are involved as appropriate;
- Establish and secure evidence necessary and ensure containment of any information for disciplinary, civil and/or criminal action;
- Maximise recovery of losses;
- Ensure appropriate and timely action is taken against those who are suspected of fraud;
- Identify the perpetrators and take appropriate action with any disciplinary, civil and/or criminal action; and
- Minimise any adverse publicity for the council

### **Notifying Suspected Fraud**

The council relies on its employees, its agents and the public to help prevent and detect fraud and corruption. Often employees are the first to realise there is something seriously wrong internally, as they are in positions to be able to spot any possible cases of fraud or corruption at an early stage.

Council employees and Members must report any concerns they may have regarding fraud, bribery and corruption, whether it relates to dishonest behaviours by council employees, Members or by others.

The action taken when a suspected case of fraud, bribery, or corruption is first found might be vital to the success of any investigation that follows, so it is important that employees' actions are in line with the information given in this document. Members, service users, suppliers, partner organisations and members of the public are encouraged to report concerns about fraud and corruption.

Whilst you can remain anonymous, it does help if your details are provided as concerns expressed anonymously are often much more difficult to investigate. For example, we may need to contact you to obtain further information or verify the information supplied.

## **Investigation Process**

Any suspicion of fraud will be treated seriously and will be reviewed in accordance with legislation, local policy and processes.

Suspected fraud will be investigated in an independent, open-minded and professional manner with the aim of protecting the interests of both the council and the suspected individual(s).

Where necessary the council will work in co-operation with other organisations such as the Police, Department for Work and Pensions, Home Office, Her Majesty's Revenue and Customs, UK Borders Agency, NHS Counter Fraud Authority and other Local Authorities.

Investigations into suspected fraud or corruption will be conducted in a professional manner in accordance with the relevant statutory provisions and local protocols to ensure any actions are carried out both fairly and lawfully.

If sufficient evidence is established, the case will be reviewed to decide on the appropriate course of action to be taken. The council's fraud sanction policies provide further guidance of what appropriate action will be taken against the persons concerned.

## **Confidentiality**

Details of any investigation are strictly confidential and will not be discussed with anyone other than the relevant management representatives.

If the media becomes aware of an investigation and attempts to contact employees or Members, no disclosure of the alleged fraud and investigation can be given. All matters relating to statements to the media will be dealt with through the council's communications team.

## **Summary**

This Fraud Response Plan, in conjunction with the Counter Fraud and Corruption Strategy, provides a framework for preventing and investigating fraud, corruption and bribery against the council. It is imperative that awareness of this plan is promoted both across the council and externally.

The plan will be reviewed at least annually and following any major fraud or changes in legislation.

## Appendix 3 - How the council evidences its Governance & Acknowledges, Prevents, and Pursues Fraud

Governs	Executive Support	Our Leadership Team will set the tone for a zero tolerance of fraud and corruption and will ensure that an anti-fraud culture is embedded across the council and the services it delivers.
	Robust Arrangements	The council will adopt and apply appropriate policies and procedures that seek to reduce the risk of fraud and corruption and encourage staff to report fraud where they see it.
Acknowledge	Committing Support	<p>The council's commitment to tackling the threat of fraud is clear.</p> <p>We have strong whistleblowing and fraud reporting procedures and support those who come forward to report suspected fraud. All reports will be treated seriously and acted upon.</p> <p>We will not, however, tolerate malicious or vexatious allegations.</p>
	Assessing Risks	<p>We will continuously assess those areas most vulnerable to the risk of fraud as part of our risk management arrangements. These risk assessments will inform our internal controls and counter fraud priorities.</p>
	Robust Response	<p>We will strengthen measures to prevent fraud.</p> <p>We will respond positively, taking appropriate action, where fraud is reported or suspected.</p> <p>We will review all incidences of fraud to ensure that any weaknesses in systems or processes that allowed the fraud to occur are removed.</p>
Prevent	Better use of information technology	<p>We will make greater use of data and analytical software to prevent and detect fraudulent activity.</p> <p>We will look for opportunities to share data and fraud intelligence to increase our capability to uncover potential and actual fraud.</p>

	<p>Anti-Fraud culture</p> <p>We will promote and develop a strong counter fraud culture, raise awareness, provide information on all aspects of our counter fraud work. This will include publicising the results of all proactive work, fraud investigations and any recovery of losses due to fraud.</p>
Pursue	<p>Fraud Recovery</p> <p>A crucial element of our response to tackling fraud is recovering any monies lost through fraud. This is an important part of our strategy and will be rigorously pursued, where possible.</p>
	<p>Punishing Fraudsters</p> <p>We will apply realistic and effective sanctions for individuals or organisations where an investigation reveals fraudulent activity. This may include legal action, criminal and/or disciplinary action, where appropriate.</p>

## Appendix 4 - Responsibilities

Stakeholder	Specific Responsibilities
Chief Executive	Accountable for the effectiveness of the council's arrangements for countering fraud and corruption.
Head of Legal and Democratic Services - <i>Monitoring Officer</i>	Statutory responsibility to ensure that the council operates within the law. Overall responsibility for the Members' Code of Conduct and the maintenance and operation of the Confidential Reporting Procedure for Employees (Whistleblowing).
Head of Strategic Finance and Property – <i>Section 151 Officer</i>	Ensure the council has adopted and implemented an appropriate Anti-Fraud and Corruption Policy/Strategy and that the council has an adequately resourced and effective "counter fraud" provision.
Audit and Governance Committee	Monitor the adequacy and effectiveness of the arrangements in place for combating fraud and corruption.
Members	Comply with the Members' Code of Conduct and related council policies and procedures, to be aware of the possibility of fraud, corruption, bribery and theft, and to report any genuine concerns accordingly.
External Audit	Statutory duty to ensure that the council has adequate arrangements in place for the prevention and detection of fraud, corruption, bribery and theft.
Internal Audit (Shared Internal Audit Service)	Provide assurance to senior management and the Audit and Governance Committee that the council adheres to its own policies to deter, prevent and respond to suspected fraud.
The Shared Anti-Fraud Service	Responsible for developing and promoting the requirements of the Anti-Fraud and Corruption Strategy and monitoring and/or undertaking the investigation of any reported issues. To ensure that all suspected or reported irregularities are dealt with promptly and in accordance with this strategy and that action is identified to improve controls and reduce the risk of recurrence. Providing guidance and support to senior management on new and emerging fraud risks and

	management recommendations where fraud has arisen due to system weaknesses.
Leadership Team and Service Managers	Promote an anti-fraud and corruption culture. Ensure that there are mechanisms in place within their service areas to assess the risk of fraud, corruption, bribery and theft and to reduce these risks by implementing strong internal controls.
Staff	Comply with council policies and procedures, to be aware of the possibility of fraud, corruption and bribery Report any genuine concerns to management or via the Whistleblowing procedure. Undertake all mandatory, relevant or recommended anti-fraud and corruption training.
Public, Service Users, Partners, Suppliers, Contractors and Consultants	To report any genuine concerns / suspicions in accordance with the council's reporting procedure



# **East Herts Council**

## **Anti-Money laundering Policy**

**Prepared October 2021**

Leadership Team  
Audit and Governance Committee

26 October 2021  
9 November 2021

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## **Introduction**

Although local authorities are not directly covered by the requirements of The Proceeds of Crime Act 2002 and the Money Laundering Regulations 2017, guidance from CIPFA indicates that they should comply with the underlying spirit of the legislation and regulations.

East Herts Council (the council) is committed to the highest possible standards of conduct and has, therefore, put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements.

This policy includes the appointment of a Money Laundering Reporting Officer (MLRO) to comply with legislation and to oversee the reporting of suspicious activity and money laundering to the National Crime Agency.

## **Scope of the Policy**

This policy aims to maintain the high standards of conduct that currently exist within the council by preventing criminal activity through money laundering and to enable the council to comply with legal obligations.

This policy applies to all employees, whether permanent or temporary, Members of the council, contractors and anyone providing a service for the council. Its aim is to enable employees and Members to respond to a concern they have in the course of their work for the council and places a duty upon them to report suspicious activity and money laundering to the MLRO.

Individuals who have a concern relating to a matter outside of work should contact the Police.

## **Definition of Money Laundering**

Money laundering describes offences involving the integration of the proceeds of crime, or terrorist funds, into the mainstream economy. Such offences are

defined under the Proceeds of Crime Act 2002 (POCA) as the following 'prohibited acts':

- a) Concealing, disguising, converting, transferring, or removing criminal property from the UK. (s327 POCA).
- b) Becoming involved in an arrangement which an individual knows or suspects, facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person. (s328 POCA).
- c) Acquiring, using, or possessing criminal property (s329 POCA).
- d) Doing something that might prejudice an investigation e.g., falsifying a document (s333 POCA).
- e) Failure to disclose one of the offences listed in a) to c) above, where there are reasonable grounds for knowledge or suspicion (s330-332 POCA); and
- f) Tipping off a person(s) who is or is suspected of being involved in money laundering in such a way as to reduce the likelihood of or prejudice an investigation. (s333 POCA).

Provided the council does not undertake activities regulated under the Financial Services and Markets Act 2000, the offences of 'failure to disclose' and 'tipping off' do not apply. However, the council and its employees and Members remain subject to the remainder of the offences and the full provisions of the Terrorism Act 2000.

The Terrorism Act 2000 made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism or resulting from acts of terrorism.

Although the term 'money laundering' is generally used to describe the activities of organised crime, for most people it will involve a suspicion that someone they know, or know of, is benefiting financially from dishonest activities.

Potentially very heavy penalties (unlimited fines and imprisonment up to fourteen years) can be handed down to those who are convicted of one of the offences detailed above.

## Requirements of the Money Laundering Legislation

The main requirements of the legislation are:

- To appoint a Money Laundering Reporting Officer (MLRO).
- Maintain client identification procedures in certain circumstances.
- Implement a procedure to enable the reporting of suspicions of money laundering; and
- Maintain record keeping procedures.

## The Money Laundering Reporting Officer (MLRO)

The council has designated the Head of Shared Anti-Fraud Service (SAFS) as the Money Laundering Reporting Officer.

**The key requirement on employees is to promptly report any suspected money laundering activity to the MLRO.** (See 7. Reporting Procedure for Suspicions of Money Laundering, below for further guidance.)

The MLRO can be contacted at.

**Address:** Hertfordshire County Council. Shared Anti-Fraud Service (SAFS) 1<sup>st</sup> Floor Robertson House, Six Hills Road, Stevenage. Hertfordshire. SG1 2FQ.

**Email:** [MLRO@Hertfordshire.gov.uk](mailto:MLRO@Hertfordshire.gov.uk)

**Telephone No:** 01438 844705

In the absence of the Head of the SAFS, the SAFS Counter Fraud Manager is authorised to deputise.

## Client Identification Procedures

Although not a legal requirement, the council has developed formal client identification procedures which must be followed when council land or property is being sold. These procedures require individuals and, if appropriate, companies to provide proof of identity and current address.

If satisfactory evidence is not obtained at the outset of a matter, then the transaction must not be progressed and a disclosure report must be submitted to the Money Laundering Reporting Officer.

All personal data collected must be kept in compliance with the Data Protection Act 2018 and the General Data-Protection Regulation (UK).

## **Reporting Procedure for Suspicions of Money Laundering**

Where you know or suspect that money laundering activity is taking place or has taken place, or become concerned that your involvement in a matter may amount to a prohibited act under the Act, you must disclose this as soon as practicable to the MLRO. The disclosure should be within "hours" of the information coming to your attention, not weeks or months later. Your disclosure should be made to the MLRO using the disclosure report at appendix 1. The report must include as much detail as possible including:

- Full details of the people involved.
- Full details of the nature of their/your involvement.
- The types of money laundering activity involved.
- The date(s) of such activities.
- Whether the transactions have happened, are ongoing or are imminent.
- Where they took place.
- How they were undertaken.
- The (likely) amount of money/assets involved; and
- Why, exactly, you are suspicious.

Along with any other available information to enable the MLRO to make a sound judgment as to whether there are reasonable grounds for knowledge or suspicion of money laundering, and to enable them to prepare their report to the National Crime Agency (NCA), where appropriate. You should also enclose copies of any relevant supporting documentation.

If you are concerned that your involvement in the transaction would amount to a prohibited act under sections 327 – 329 of the Act, then your report must include all relevant details, as you will need consent from the NCA, via the MLRO, to take any further part in the transaction - this is the case even if the client gives instructions for the matter to proceed before such consent is given. You should

therefore make it clear in the report if such consent is required and clarify whether there are any deadlines for giving such consent e.g., a completion date or legal deadline.

Once you have reported the matter to the MLRO you must follow any directions the MLRO may give you. You must NOT make any further enquiries into the matter yourself: any necessary investigation will be undertaken by the NCA. Simply report your suspicions to the MLRO who will refer the matter on to the NCA if appropriate. All members of staff will be required to co-operate with the MLRO and the authorities during any subsequent money laundering investigation.

Similarly, at no time and under no circumstances should you voice any suspicions to the person(s) whom you suspect of money laundering, even if the NCA has given consent to a particular transaction proceeding, without the specific consent of the MLRO; otherwise, you may commit a criminal offence of “tipping off”.

Do not make any reference on a client file to a report having been made to the MLRO – should the client exercise their right to see the file, then such a note may tip them off to the report having been made and may render you liable to prosecution. The MLRO will keep the appropriate records in a confidential manner.

## **Consideration of the disclosure by the Money Laundering Reporting Officer (MLRO)**

Upon receipt of a disclosure report, the MLRO must note the date of receipt on their section of the report and acknowledge receipt of it. They should also advise you of the timescale within which they expect to respond to you. The MLRO will consider the report and any other available internal information they think relevant, for example:

- reviewing other transaction patterns and volumes.
- the length of any business relationship involved.
- the number of any one-off transactions and linked one-off transactions; and any identification evidence held.

The MLRO will undertake such other reasonable inquiries they think appropriate in order to ensure that all available information is considered in deciding whether a report to the NCA is required (such enquiries being made in such a way as to avoid any appearance of tipping off those involved). The MLRO may also need to discuss the report with you.

Once the MLRO has evaluated the disclosure report and any other relevant information, they must make a timely determination as to whether:

- there is actual or suspected money laundering taking place; or
- there are reasonable grounds to know or suspect that is the case; and
- whether they need to seek consent from the NCA for a particular transaction to proceed.

Where the MLRO does so conclude, then they must disclose the matter as soon as practicable to the NCA on their standard report form and in the prescribed manner, unless they have a reasonable excuse for non-disclosure to the NCA (for example, if you are a lawyer and you wish to claim legal professional privilege for not disclosing the information).

Where the MLRO suspects money laundering but has a reasonable excuse for non-disclosure, then they must note the report accordingly; they can then immediately give their consent for any ongoing or imminent transactions to proceed.

In cases where legal professional privilege may apply, the MLRO must liaise with the council's Head of Legal and Democratic Services to decide whether there is a reasonable excuse for not reporting the matter to the NCA.

Where consent is required from the NCA for a transaction to proceed, then the transaction(s) in question must not be undertaken or completed until the NCA has specifically given consent, or there is deemed consent through the expiration of the relevant time limits without objection from the NCA.

Where the MLRO concludes that there are no reasonable grounds to suspect money laundering then they shall mark the report accordingly and give their consent for any ongoing or imminent transaction(s) to proceed.

All disclosure reports referred to the MLRO and reports made by them to the NCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of five years.

The MLRO commits a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to the NCA.

## **Training**

Officers considered likely to be exposed to suspicious situations, will be made aware of these by senior management and provided with appropriate training. Additionally, all employees and Members will be familiarised with the legal and regulatory requirements relating to money laundering and how they affect both the council and themselves.

Notwithstanding the paragraphs above, it is the duty of officers and Members to report all suspicious transactions whether they have received their training or not.

## **Financial Regulations**

Although the relevant Regulations relating to money laundering do not, in many cases directly apply to local authorities, guidance from CIPFA states that local authorities should comply with the requirements of these Regulations. All members of staff, and those acting on behalf of the council, must follow the council's Anti Money Laundering Policy, published on the intranet.

This Policy sets a limit on payments to the council in the form of cash; place a duty on members of staff who suspect money laundering activity to report this to the Money Laundering Reporting Officer; and require that officer to make appropriate reports to the National Crime Agency.

The Money Laundering Reporting Officer is the officer nominated to receive disclosures about money laundering activity within the council. In the absence of the Head of SAFS, the Counter Fraud Manager is authorised to deputise.

## **The Regulations**

- A. The council has ceased cash collection, other than at Hertford Theatre.
- B. Any employee who suspects money laundering activity must make a Disclosure Report reporting their suspicion promptly to the Money Laundering Reporting Officer (MLRO), or to the MLRO's deputy if appropriate, using the Money Laundering Reporting Procedure. (See appendix 1.)
- C. The employee must follow any subsequent directions of the MLRO or deputy and must not themselves make any further enquiries into the matter.
- D. The employee must not disclose or otherwise indicate their suspicions to the person suspected of money laundering.
- E. The MLRO or deputy must promptly evaluate any Disclosure Report, to determine whether it should be reported to the National Crime Agency (NCA).
- F. The MLRO or deputy must, if they so determine, promptly report the matter to NCA on their standard report form and in the prescribed manner.
- G. The MLRO or deputy will commit a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to the NCA.

## **Conclusion**

Given a local authority's legal position with regard to the legislative requirements governing money laundering, the council believes that this Policy represents a proportionate response to the level of risk it faces of money laundering offences.

## **Review**

This policy will be reviewed every three years by the MLRO, S.151 and Monitoring Officers or as required by legislation.

## Appendix 1. Report to MLRO - Template

**CONFIDENTIAL**

**To:** The Money Laundering Reporting Officer (MLRO)  
Hertfordshire County Council  
Head of Shared Anti-Fraud Service  
1<sup>st</sup> Floor, Robertson House, Six Hills Road, Stevenage, Herts, SG1 2FQ

### From Officer Reporting Suspected Activity:

Name:	
Position:	
Business Unit:	
Email address:	
Telephone numbers:	

**Do not discuss the content of this report with anyone, especially the person you believe to be involved in the suspected money laundering activity you have described. To do so may constitute a tipping off offence.**

### Details of suspected offence:

Name(s) and address(es) of person(s) involved: (Please also include date of birth, nationality, national insurance numbers- if possible) (If a company please include details of nature of business, type of organisation, registered office address, company registration number, VAT registration number)
Nature, value, and timing of activity involved: (Please include full details e.g., what, when, where, how.)
Nature of suspicions regarding such activity:
Has any investigation been undertaken (as far as you are aware), If yes, please include details below: Yes / No
Have you discussed your suspicions with anyone else, if yes, please specify below, explaining why such discussion was necessary: Yes / No
Have you consulted any supervisory body guidance re money laundering? (e.g., the Law Society) If yes, please specify below: Yes / No

Do you feel you have reasonable grounds for not disclosing the matter to the FCA? (e.g., are you a lawyer and wish to claim legal professional privilege?) If yes, please set out full details below: Yes / No
--

Are you involved in a transaction which might be a prohibited act under the Proceeds of Crime Act, and which requires appropriate consent from NCA, if yes, please enclose details below: Yes / No
--

Please detail below any other information you feel is relevant:
---

#### **FOR COMPLETION BY THE MONEY LAUNDERING REPORTING OFFICER**

Date report received:	
Date receipt of report acknowledged:	

#### **Consideration of Disclosure - Action plan**

Are there reasonable grounds for suspecting money-laundering activity?
If there are reasonable grounds for suspicion, will a report be made to NCA? Yes / No
If yes, please confirm date of report to NCA:
Details of liaison with NCA regarding the report:
Is consent required from the NCA for any ongoing or imminent transactions that would otherwise be prohibited acts. If yes, please confirm full details; Yes / No

Date consent received from NCA:	
Date receipt of report acknowledged:	
Date consent given by you to employee:	
Date consent given by you to employee for any prohibited act transactions to proceed:	

If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to the NCA, please set out below the reason(s) for non-disclosure:
--

Other relevant information:
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Signed:..... Dated:.....
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**RETENTION PERIOD FIVE YEARS**

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# **East Herts Council**

## **Confidential Reporting Procedure**

### **(Whistleblowing)**

**Prepared October 2021**

Leadership Team  
Audit and Governance Committee

26 October 2021  
9 November 2021

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## Introduction

All of us at one time or another have concerns about what is happening at work. Usually these are easily resolved. However' when they are about unlawful conduct, financial malpractice or dangers to the public or the environment, it can be difficult to know what to do.

You may be worried about raising such a concern and may think it best to keep it to yourself, perhaps feeling it's none of your business or that it's only a suspicion. You may feel that raising the matter would be disloyal to co-workers, managers or to the Council or that you may get in trouble at a later stage if your concerns prove to be unfounded and your co-workers or manager(s) find out it was you who raised the concern. You may decide to say something but find that you have spoken to the wrong person or raised the issue in the wrong way and are not sure what to do next.

East Herts Council is committed to running the organisation in the best way possible and to do so we need your help. The council has introduced this policy to reassure you that it is safe and acceptable to speak up and to enable you to raise any concerns you may have about unlawful conduct, financial malpractice or dangers to the public or the environment, at an early stage, in the right way and, if you request it, in confidence. Rather than wait for proof, the council would prefer you to raise the matter when it is still a concern.

If something is troubling you which you think the council should know about or look into, please use this Policy. If you have concerns about vulnerable persons then please report it following our [Safeguarding Policy](#). If, however' you wish to make a complaint about your employment or how you have been treated' please use the [Grievance Policy](#). This Whistleblowing Policy is primarily for concerns where the interests of others or of the council itself are at risk.

### **If in doubt – Report it!**

## **Our Assurance to You**

### **Your safety**

The Leadership Team is committed to this policy. If you raise a genuine concern under this policy you will not be at risk of losing your job or suffering any form of retribution as a result. Provided you are acting in good faith it does not matter if you are mistaken. Of course the council does not extend this assurance to someone who maliciously raises a matter they know is untrue.

### **Your confidence**

The council will not tolerate the harassment or victimisation of anyone raising a genuine concern. However the council recognises that you may nonetheless want to raise a concern in confidence under this Policy. If this is the case please say so at the outset. If you ask the council to protect your identity by keeping your confidence, we will not disclose it without your consent. If the situation arises where the council is not able to resolve the concern without revealing your identity (for instance because your evidence is needed in court) the council will discuss with you whether and how we can proceed.

Remember that if you do not tell us who you are, it will be much more difficult for the council to look into the matter or to protect your position or to give you feedback. Accordingly, while we will consider anonymous reports, this policy is not well suited to concerns raised anonymously.

With these assurances we hope you will raise your concern openly.

*If you are unsure about raising a concern you can get independent advice from Protect (formerly Public Concern as Work. See contact details under the Independent Advice section).*

## How to raise a concern

Please remember that you do not need to have firm evidence of malpractice before raising a concern. However, the council asks that you explain as fully as you can the information or circumstances that gave rise to your concern.

### Step One

If you have a concern about malpractice, the council hopes you will feel able to raise it first with your Line Manager or Head of Service. This may be done verbally or in writing.

### Step Two

If you feel unable to raise the matter with your manager or Head of Service for whatever reason, please raise the matter with the Head of Legal and Democratic Services:

James Ellis, Head of Legal and Democratic Services  
01279 502170  
[james.ellis@eastherts.gov.uk](mailto:james.ellis@eastherts.gov.uk)

Please say if you want to raise the matter in confidence so that appropriate arrangements can be made.

### Step Three

If you still have concerns, or if you feel that you cannot discuss with an East Herts Council employee, please contact the Shared Internal Service delivered by Hertfordshire County Council. (East Herts Council is a partner.)

Simon Martin, Audit Manager, Shared Internal Audit Service (SIAS)  
01483 845510 [simon.martin@hertfordshire.gov.uk](mailto:simon.martin@hertfordshire.gov.uk)

## How the Council will handle the Matter

Once you have reported your concern, the council will assess it and consider what action may be appropriate. This may involve an informal review, an internal inquiry or a more formal investigation. The council will tell you who will be handling the matter, how you can contact them and what further assistance it may need from you. If you ask, the council will write to you summarising your concern and setting out how we propose to handle it. You should respond if the council has misunderstood the concern or there is any information missing.

When you raise the concern it will be helpful to know how you think the matter might best be resolved. If you have any personal interest in the matter, the council asks that you say so at the outset. If the council thinks your concern falls more properly within the [Code of Conduct for Employees](#), or another relevant policy or procedure, you will be told.

While the purpose of this policy is to enable the council to investigate possible malpractice and take appropriate steps to deal with it, the council will give you as much feedback as it properly can. If requested, the council will confirm its response to you in writing. Please note however that the council may not be able to tell you the precise action it takes where this would infringe a duty of confidence owed by us to someone else.

Although the council cannot guarantee that it will respond to all matters in the way that you might wish, we will strive to handle the matter fairly and properly. By using this policy you will help to achieve this.

Some concerns may be best reported or handled by other means:

- Most concerns about health and safety on council property are best addressed through the council's Safety Committee. Concerns can be raised through managers, the council's Health and Safety officer or your Union.
- Housing Benefit fraud should be reported to the Department for Work and Pensions at <https://www.gov.uk/report-benefit-fraud>

## Independent advice

If you are unsure whether to use this policy or you want confidential advice at any stage, you may contact:

- Your Union. (Your Union representative may be able to provide assistance) ; or
- The independent charity **Protect** on 020 3117 2520. Their lawyers can talk you through your options and help you raise a concern about malpractice at work.

## External contacts

The council hopes this policy gives you the reassurance you need to raise your concern internally but the council recognises that there may be circumstances where you can properly report a concern to an outside body' such as a Key Regulator. This option should be used as last resort but provided you are acting in good faith, the council would rather you raised a matter with the appropriate regulator than not at all.

Your rights to raise such concerns are established within the Public Interest Disclosure Act 1998. The charity Protect or your union will be able to advise you on the circumstances in which you can safely contact an outside body.

Listed here are the Regulators most likely to be linked to Local Government: it is not exhaustive and a full listing can be found on the PCaW website.

- Health and Safety Executive - Health and safety matters  
Tel: 0845 345 0055 [www.hse.gov.uk/workers/whistleblowing](http://www.hse.gov.uk/workers/whistleblowing)
- Environment Agency - Environment matters  
Tel: 0800 807060 [www.environment-agency.gov.uk](http://www.environment-agency.gov.uk)
- The Commissioners for her Majesty's Revenue & Customs - Tax related matters e.g. VAT  
Tel: 0900 595 000 [customs.confidential@hmrc.gov.uk](mailto:customs.confidential@hmrc.gov.uk)
- Information Commissioner - Compliance with data protection or FOI  
Tel: 01625 545700 [www.informationcommissioner.gov.uk](http://www.informationcommissioner.gov.uk)
- External Auditors EY LLP  
400 Capability Grn, Luton LU1 3LU Tel: 01582 643000
- Serious Fraud Office  
<https://www.sfo.gov.uk/contact-us/reporting-serious-fraud-bribery-corruption/>

- NSPCC  
<https://www.nspcc.org.uk/keeping-children-safe/reporting-abuse/report/>
- Your MP  
<https://members.parliament.uk/FindYourMP>

or

- The Hertfordshire Shared Anti-Fraud Service (SAFS)  
Direct Dial: 01483 844705 e-mail: [Nick.Jenning@hertfordshire.gov.uk](mailto:Nick.Jenning@hertfordshire.gov.uk)

## **Review**

This Policy will be reviewed every three years by the Head of Legal and Democratic Services.



# **East Herts Council**

## **Fraud Sanctions Policy**

**Prepared October 2021**

Leadership Team  
Audit and Governance Committee

26 October 2021  
9 November 2021



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## **INTRODUCTION**

East Herts Council takes its responsibility to protect public funds seriously and expects its business to be conducted to the highest ethical and legal standards. The council has a zero tolerance to fraud, theft and corruption. Where there is evidence of fraud, theft or corruption against the council, those responsible, whether internal or external to the council, will be held accountable for their actions using the full range of sanctions available. The use of sanctions is governed by this policy that sets out appropriate action to take.

This Policy forms part of the council's counter fraud framework (it includes matters of fraud, bribery, corruption, misconduct) and its objectives are:

1. To ensure sanctions are applied fairly and consistently;
2. To ensure sanctions are applied in an efficient and cost-effective way;
3. To set out the range of sanctions available;
4. To ensure the sanction decision making process is robust, transparent and fair
5. To make it clear that the council will not tolerate fraud.

The council will investigate allegations of fraud, theft, corruption or irregularity in line with its Fraud Response Plan. (See Anti-Fraud and Corruption Strategy, appendix 2.) Following an investigation, a range of factors will require consideration before deciding on appropriate sanction, including the individual circumstances of each case, the impact on the individual and the wider community, and the seriousness of the offence.

## **SANCTION OPTIONS**

Where there is evidence of fraud, theft or corruption, the following options will be considered:

- 1) No further action;
- 2) Referral to professional bodies;
- 3) Disciplinary action;
- 4) Civil proceedings;
- 5) Criminal prosecution;
- 6) Sanctions as alternatives to prosecution.

The council will consider any of the above options and parallel sanctions may be pursued.

### **No further action**

The council may consider, following an investigation, closing a case without taking any further action. This may occur where there is no evidence of fraud or misconduct, or where it is not in the public interest to take action.

### **Referral to professional bodies**

Where there is adequate evidence that a person or entity has breached professional duties or responsibilities, the council will refer the matter to the relevant professional body.

### **Disciplinary Action**

In the event that an allegation is made against a council employee, the Shared Anti-Fraud Service (SAFS) will consult with the council's Human Resources service and appropriate action will be taken following the [Disciplinary Policy](#). (Intranet link for staff only.)

The investigating officer may be a member of the Shared Internal Audit Service, SAFS Fraud Team, and / or another investigating officer appointed through the HR disciplinary process. Sanctions may include warnings or dismissal and alongside this, additional sanction options will be considered including referral to professional bodies, civil proceedings and criminal prosecutions.

If during the course of an investigation or disciplinary action, the employee suspected of fraud, theft or corruption chooses to resign, the council will continue to pursue referral to professional bodies, civil proceedings or criminal prosecution where appropriate.

In the event of an allegation against a Councillor in relation to fraud, theft or corruption against the council, this will be reported to the Monitoring Officer, who will agree the action to be taken with the Chief Executive. Depending on the circumstances of the case, criminal proceedings may also be considered.

## **Civil Proceedings**

The council may take civil proceedings where appropriate. Regardless of whether or not any sanction action is taken, the council will seek, where appropriate, to recover any overpaid, misused or unfairly gained monies.

The following measures may be considered in the pursuit of financial recovery:

- Consultation with the council's Payroll and Pensions teams to redress financial loss caused by employees. The council will attempt to recover the loss from the capital value of the individual's accrued benefits in the Pension Scheme if they are a member, which are then reduced as advised by the actuary;
- Recovery of money through appropriate legal proceedings;
- Legal action such as freezing / restraint orders to preserve evidence and assets.

There will be overpayments which are not due to fraud, and the council will determine appropriate recovery in these cases.

## **Criminal Prosecution**

Where the council considers it 'expedient for the promotion or protection of the interests of the inhabitants of their area', Section 222 of the Local Government Act 1972 empowers the council to prosecute or appear in legal proceedings and, in the case of civil proceedings, institute them in their own name.

Furthermore, Section 223 of the Local Government Act 1972 allows a 'Local Authority to authorise any member if its staff to prosecute or defend designated matters in magistrates' court'.

In the most serious of cases, the council will consider the prosecution of those offenders suspected to have committed fraud or theft. Where the council considers there is sufficient evidence (based on the Code for Crown Prosecutors) to indicate a criminal act has taken place, a decision will be made whether to undertake a criminal prosecution utilising the council's Legal Services (or contracted legal representatives) the police or another law enforcement partner (such as DWP or HMRC). This decision will be made by the Head of SAFS, the Head of Legal Services, the Chief Executive, Deputy Chief Executive or relevant Head of Service.

Before a decision is taken whether or not to prosecute, the council will be guided by the Code for Crown Prosecutors and will only initiate legal action if, following legal advice, it has satisfied the following two tests:

- 1) Evidential Test – the evidence must be:
  - Clear, reliable and admissible in court; and
  - Strong enough for a realistic chance of prosecution. i.e. to prove a case ‘beyond reasonable doubt’.
- 2) Public Interest Test – the prosecution is in the public interest, taking into account:
  - Seriousness and / or monetary value of the offence;
  - Cost and proportionality of the prosecution;
  - Age and health of the suspect;
  - Culpability of the suspect;
  - Circumstances of and harm caused to the victim; and
  - Impact on the community.

Where a case has been referred to the Police to investigate, the final decision as to whether or not to pursue the case will be taken by the Police and the Crown Prosecution Service.

The council will conduct the investigations in accordance with the Criminal Procedure and Investigations Act 1996 and the Police and Criminal Evidence Act 1984. Criminal proceedings may be brought for a suspected offence under the following legislation:

- The Theft Act 1968 (as amended);
- The Fraud Act 2006;
- Local Government Finance Act 1992;
- Housing Act 1996;
- Prevention of Social Housing Fraud Act 2013;
- Forgery and Counterfeiting Act 1981;
- Computer Misuse Act 1990;
- Identity Documents Act 2010;
- The Bribery Act 2010;
- Road Traffic Regulation Act 1984;
- Any other relevant provision in law.

Any criminal proceedings can include an attempt to recover money under the Proceeds of Crime Act 2002 or Prevention of Social Housing Fraud Act 2103.

## **Sanction as Alternatives to Prosecution**

The Local Government Finance Act 1992 allows the council to consider financial penalties as alternatives to prosecution and these should always be considered. However, in serious cases of fraud or where repeat offending occurs, the option to prosecute offenders will be kept under review.

## **Civil Penalties**

Regulation 13. Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013 and Schedule 3 Local Government Finance Act 1992 permit 'billing authorities' to impose financial penalties where a person fails to report a material fact affecting their council tax liability or where a person fails, without good reason, to correct an error.

The Head of the Shared Revenue & Benefits Service will make the decision about the imposition of any Civil Penalties.

All penalties will be recovered by adding the debt to a person's Council Tax liability for the current year and recovered only once that annual liability has been settled in full.

## **Administrative Penalties**

*Regulation 11 Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013*, provide for Administrative Penalties to be offered to persons as alternatives to prosecution. The legislation allows for Administrative Penalties amounting to 50% of the gross reduction can be offered. In all such cases of fraud the council will seek to recover the excess award as well any penalty.

The Head of the Shared Revenue & Benefits Service will make the decision about the offer of any Administrative Penalties on advice from the SAFS. The Head of SAFS will arrange for the administrative penalty to be offered to the person liable for it and any cooling off period required by legislation.

## **Parallel Sanctions**

It is preferable for the appropriate sanctions to proceed simultaneously, but it is not necessary for anyone to await the result of another before concluding. However, due consideration must be given to all proceedings to ensure that one does not impact improperly upon another. The decision to run parallel sanctions will be determined on a case by case basis.

## **PARTNERSHIPS**

Where appropriate, the council will work in partnership with other organisations such as the Police, other Local Authorities, Social Housing Providers, Department for Work and Pensions, Her Majesty's Revenue and Customs, UK Borders Agency and the Home Office, to bring joint proceedings or assist the other organisation to bring its own proceedings.

## **RECORDING DECISIONS**

For an effective regime of sanctions to be successful accurate records of all convictions, penalties and cautions must be maintained. This will enable the correct decisions to be made taking full account of the defendant's background.

All sanctions will be recorded by both SAFS and the council, and copies of all documents used to consider and issue the sanction should be retained, in accordance with the relevant retention policies.

In the case of prosecution, all cases that result in successful convictions will be reported to the police for recording on the Police National Computer (PNC) central databases.

## **PUBLICITY**

It is the council's intention to positively promote this Policy, as well as the outcome of any prosecutions, to deter others from fraudulent activity and reassure the public that the council acts against those committing fraudulent and or corrupt acts.

Consideration will be given to whether the outcome of any case should be reported to the community via various media channels. Publicity, where appropriate, will ensure the profile of counter fraud activity remains at a level which will contribute to ensuring the key objective of preventing fraud is met.

## **REVIEW**

This Policy will be kept under regular review by the Section 151 and Monitoring Officers to ensure compliance with current legislation and best practice.

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## East Herts Council Audit and Governance Committee

9 November 2021  
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
- c) Approve the Revised Audit Charter for 2021/22

## 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

### 3 Public Sector Internal Audit Standards

- 3.1 External Quality Assessment Outcomes and Revised Audit Charter 2021/22

## Appendices:

- A Progress against the 2021/22 Audit Plan
- B Implementation Status of Critical and High Priority Recommendations
- C Audit Plan Items (April 2021 to March 2022) - Indicative start dates agreed with management
- D Assurance Definitions / Priority Levels
- E Revised Audit Charter 2021/22

# 1 Introduction and Background

## Purpose of Report

1.1 To provide Members with:

- The progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's 2021/22 Internal Audit Plan to 22 October 2021.
- The findings for the period 10 July 2021 to 22 October 2021.
- Details of any changes required to the approved Internal Audit Plan.
- The implementation status of previously agreed audit recommendations.
- An update on performance management information to 22 October 2021.
- The outcomes of the Public Sector Internal Audit Standards External Quality Assessment and required revisions to the Audit Charter for 2021/22.

## Background

1.2 Internal Audit's Annual Plan for 2021/22 was approved by the Audit and Governance Committee at its meeting on 16 March 2021. The Audit and Governance Committee receive periodic updates against the Internal Audit Plan. This is the second update report for 2021/22.

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 of 22 October 2021, 36% of the 2021/22 Audit Plan days have been delivered (the calculation excludes contingency days that have not yet been allocated).

2.2 The following final reports have been issued since the last Progress Report to the Audit and Governance Committee:

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Equalities 2021/22	Aug 2021	Not Assessed (advisory project)	One High, Five Medium, and One Low priority
Homes England – grant compliance audit	Sept 2021	Unqualified	Not applicable

2.3 The table below summarises the position regarding 2021/22 projects to 22 October 2021. Appendix A provides a status update on each individual project within the 2021/22 Internal Audit Plan.

Status	No. of Audits at this Stage	% of Total Audits
Final Report Issued	3	16%
Draft Report Issued	3	16%
In Fieldwork/Quality Review	3	16%
In Planning/Terms of Reference Issued	1	5%
Allocated	7	36%
Not Yet Allocated	0	0%
Cancelled/Deferred	2	11%
<b>Total</b>	<b>19</b>	<b>100</b>

#### Proposed Audit Plan Changes

2.4 There has been no amendments to the Internal Audit Plan since the last committee meeting.

#### 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. One new High Priority recommendation has been added to the schedule arising from an audit of Equalities.

#### Performance Management

2.7 The 2021/22 annual performance indicators were approved at the SIAS Board meeting in March 2021.

2.8 The actual performance for East Herts Council against the targets that can be monitored in year is set out in the table below:

Performance Indicator	Annual Target	Profiled Target	Actual to 22 Oct 2021
<b>1. Planned Days</b> – percentage of actual billable days against planned chargeable days	95%	37% (107/285 days)	36% (102.5/285 days)

completed			
<b>2. Planned Projects</b> – percentage of actual completed projects to draft report stage against planned completed projects	95%	41% (7/17 projects)	35% (6/17 projects)
<b>3. Client Satisfaction</b> – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100% (2 received) Note (1)
<b>4. Number of Critical and High Priority Audit Recommendations agreed</b>	95%	95%	100% (1 High Agreed)

Note (1) – 1 received in 2021/22 relates to a 2020/21 audit.

#### Public Sector Internal Audit Standards (PSIAS) External Quality Assessment

- 3.1 The Public Sector Internal Audit Standards (PSIAS) and the International Standards for the Professional Practice of Internal Auditing require that an external quality assessment (EQA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The EQA can be accomplished through a full external assessment or a self-assessment with independent validation.
- 3.2 SIAS appointed Orbis and South West London Audit Partnership (SWLAP) as the qualified, independent external assessment team to conduct a validation of the self-assessment by SIAS. In addition, the assessment team was also asked to consider, drawing on their previous extensive partnership experiences, what actions might be taken to further improve the overall quality and effectiveness of the service.
- 3.3 The above review was undertaken at the start of June 2021, with the draft Independent External Assessment Report being issued to SIAS on 30th June 2021.
- 3.4 Within the above report the External Assessors concluded that SIAS partially conforms with the Standards and the associated Code of Ethics. This opinion is defined in the Standards as "Deficiencies in practice are noted that are judged to deviate from the Standards and the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner".
- 3.5 In respect of the above, the assessors concluded that "Overall, we identified two main areas of non-conformance with the Standards that we believe means that SIAS currently only 'Partially Conforms'. These primarily relate to defining and clarifying the Board and Chief Audit Executive (CAE) role(s) across the partnership. Whilst reasonably significant in the context of the Standards, both issues are relatively easy and swift to resolve, and once addressed, would enable the service to be classified as 'Generally Conforms'. A small number of other areas

of partial conformance were also identified, however, these were minor observations, and none were significant enough to affect the overall opinion”.

- 3.6 It should be noted that in all material respects, SIAS delivered the functions and requirements of the CAE role as defined in the PSIAS. Similarly, the Audit & Governance Committee carried out the functions and requirements of the Board role as defined in the PSIAS. The findings were about clearly identifying the person or post fulfilling the CAE role, and the body fulfilling the role of the Board, given that these roles are integral to the PSIAS, and ensuring that accountability was clearly assigned in the Internal Audit Charter.
- 3.7 The report also highlighted that SIAS was a “well-regarded internal audit partnership, delivering professional and quality services to its partner organisations with a high-level conformance with PSIAS. Whilst some areas of partial conformance with the Standards have been identified, these can be relatively easily and swiftly resolved”.
- 3.8 In response to the report, SIAS are in the process of revising the Audit Charters for each individual partner council to address the issues that gave rise to a partially conforms opinion, with this completed for East Herts Council and the revised Charter presented in Appendix E of this report. The Committee are asked to approve the revised Charter which, upon approval, will allow SIAS to self-assess compliance with the PSIAS as “Generally Conforms” (the highest rating). Any revisions are shown by being struck through (deletions) or in red (additions).

## APPENDIX A - PROGRESS AGAINST THE 2021/22 INTERNAL AUDIT PLAN

### 2021/22 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 – 71 days</b>									
Provision for full or targeted audit of one or more key financial systems. Mapping the remaining key financial systems to confirm appropriate lines of assurance and to inform the annual assurance opinion						71	Yes	5.5	In Fieldwork
<b>Operational Audits – 127 days</b>									
Resources Benefits Realisation						12	Yes	0	Allocated
Capital Programme Delivery						12	Yes	0.5	In Planning
Corporate Capacity						1	N/A	1	Cancelled
Contract Management						10	Yes	9.5	Draft Report Issued
COVID-19 Pandemic Response						12	Yes	7	In Fieldwork
Fly-Tipping	Reasonable	0	0	5	2	11	Yes	11	Final Report Issued
Property Investment						10	Yes	9.5	Draft Report Issued
Licensed Premises						10	Yes	0	Allocated
Economic Development						12	Yes	0	Allocated
Equalities	Not Assessed	0	1	5	1	12	Yes	12	Final Report Issued
Safeguarding						10	Yes	9.5	Draft Report Issued
Temporary Accommodation/Rough Sleepers						10	Yes	0	Allocated
Homes England grant compliance audit	Unqualified	0	0	0	0	5	Yes	5	Complete
<b>Follow Up Audits – 6 days</b>									
Follow Up 1						0	N/A	0	Cancelled
Follow Up 2						6	Yes	0	Allocated

## APPENDIX A - PROGRESS AGAINST THE 2021/22 INTERNAL AUDIT PLAN

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	LA				
<b>Risk Management and Governance – 12 days</b>									
Provision for full or targeted audits or mapping the lines of assurance to inform the annual assurance opinion						12	Yes	0	Allocated
<b>IT Audits – 16 days</b>									
IT Resilience						6	Yes	0	Allocated
Cyber Security Assurance Mapping						10	Yes	4.5	In Fieldwork
<b>Shared Learning and Joint Reviews – 6 days</b>									
Joint Review(s) – Topics to be confirmed by SIAS Board						6	No	0	Not Yet Allocated
<b>Follow Up of Audit Recommendations – 4 days</b>									
Follow up of critical and high priority audit recommendations						4	Yes	2	Through Year
<b>Completion of 2020/21 Projects – 3 days</b>									
Various						3	Yes	3	Complete
<b>Contingency – 15 days</b>									
Contingency						15	N/A	0	Through Year
<b>Strategic Support – 40 days</b>									
Head of Internal Audit Assurance Opinion 2020/21						3	Yes	3	Complete
External Audit Liaison						1	Yes	0.5	Through Year
Audit Committee						8	Yes	3.5	Through Year
Client Meetings & Ad hoc Advice						7	Yes	3.5	Through Year
Plan Monitoring, Work Allocation and Scheduling						12	Yes	7	Through Year
SIAS Development/External Quality						5	Yes	5	In Progress

## APPENDIX A - PROGRESS AGAINST THE 2021/22 INTERNAL 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				
Assessment									
Audit Planning 2022/23						4	Yes	0	Through Year
<b>EHC TOTAL</b>		<b>0</b>	<b>1</b>	<b>10</b>	<b>3</b>	<b>300</b>		<b>102.5</b>	

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

The following appendix provides Audit and Governance Committee Members with a summary of the most recent update provided by management in respect of outstanding high priority recommendations.

No.	Report Title	Recommendation / Original Management Response	Responsible Officer / Original Due Date	Latest management update (or previous commentary where appropriate)	Status of Progress (Oct 2021)
1.	<b>Payment Card Data Security Standard (2020/21).</b>	<p><b><u>Recommendation:</u></b></p> <p><u>PCI-DSS Self-Assessment &amp; Compliance Structure.</u></p> <p>The Council has not completed a SAQ and does not have a formal PCI-DSS compliance strategy/program in place to meet required data security standards.</p> <p>As the option for non-compliance was taken several years ago and since that point there have been multiple personnel changes, the Council should re-assess the level of risk and decide if the non-compliant route is still the most preferred option.</p> <p>A cross-Council PCI-DSS working group should be established to focus on assessing the level of risk presented by sustained non-compliance with the PCI-DSS.</p> <p>This group's primary objective should be to determine whether to accept the level of risk and continue to pay the monthly penalty imposed by WorldPay or agree roles and responsibilities to engineer and maintain compliance with the published standards.</p> <p>Should the decision be made to focus on compliance, the Councils are recommended to consult the best practice guidance produced by the PCI DSS Council in January 2019.</p> <p><b><u>Agreed Management Action(s):</u></b></p> <p>The s.151 officer has advised that the level of risk and the monthly fines for non-compliance does not represent proper management of financial affairs. In addition, the expansion of the number of services to be put on the web, which require the ability to have payment facilities, means that the Council must be PCIDSS compliant in order to proceed. Having previous experience of ICON it is not possible to achieve PCIDSS compliance with this software and suitable replacement software has been identified. This will be implemented jointly with Stevenage BC.</p> <p>A revised Information Security Policy has been developed and will</p>	<p><b>Responsible Officer:</b> Head of Strategic Finance &amp; Property.</p> <p><b>Due Date:</b> 31 March 2022.</p>	<p><b><u>July 2021.</u></b> This is a new addition and the management response opposite is therefore the latest comment.</p> <p><b><u>October 2021.</u></b> The replacement of ICON has been included in the Transforming East Herts Programme as part of the Technology Workstream. We are currently working with Stevenage Borough Council to replace ICON at both councils, as a joint transformation project. We are on target to hit the 29/10/2021 target for a business case.</p> <p>The revised information security policy will be issued to all staff using ICON on 1 November 2021, which will be the annual date for the reissuing of the policy to all users.</p>	Partially implemented.

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

No.	Report Title	Recommendation / Original Management Response	Responsible Officer / Original Due Date	Latest management update (or previous commentary where appropriate)	Status of Progress (Oct 2021)
		be distributed to staff annually as part of the compliance process. This emphasises card security measures in the short term.			
2.	<b>Payment Card Data Security Standard (2020/21).</b>	<p><b><u>Recommendation:</u></b></p> <p><b><u>Roles and Responsibilities:</u></b></p> <p>As a subsequent output from the formation of the cross-Council PCI-DSS working group, there should be named individuals assigned to steering the Council's compliance journey.</p> <p>Traditionally, the ownership of the compliance process may be the Head of Finance, as they generally occupy the position of signing off the annual Attestation of Compliance (AoC). But it must also be noted that much of the compliance structure content relates to technical configuration, so the Council should designate roles based on this dual ownership.</p> <p>Whilst Finance owns the overall compliance objective, the IT work stream owns the infrastructure that the payment systems sit on. Both departments should have an equal vested interest in compliance.</p> <p><b><u>Agreed Management Action(s):</u></b></p> <p>The above will lead the new system implementation and compliance as he has done this at a previous authority. To achieve compliance the new system will not permit card number entry by staff. Instead, customers choosing to phone up to pay will be handed off to a secure IVR system and will need to enter card details on their phone keypad. Subsequent payments, providing it is for a service with an account number for the customer, e.g. Council Tax, then the system uses a secure token that shows the last 4 digits of the card number and the expiry date. The customer is asked to confirm the expiry date and payment can be taken from that card with no need for card input unless the card is replaced/renewed.</p> <p>About 60% of PCIDSS compliance relates to firewalls, encryption and network security and requires best practice testing and maintenance which will be usefully checked for PCIDSS compliance</p>	<p><b>Responsible Officer:</b> Head of Strategic Finance &amp; Property.</p> <p><b>Due Date:</b> 31 March 2022.</p>	<p><b><u>July 2021.</u></b> This is a new addition and the management response opposite is therefore the latest comment.</p> <p><b><u>October 2021.</u></b> See comment at 1. above.</p>	<b>Partially implemented.</b>

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

No.	Report Title	Recommendation / Original Management Response	Responsible Officer / Original Due Date	Latest management update (or previous commentary where appropriate)	Status of Progress (Oct 2021)
		as well as the standard annual cyber security checks.			
3.	Equalities (2021/22).	<p><b>Recommendation:</b></p> <p><u>Governance Structure.</u></p> <p>The Equalities Officers Group should be reinstated.</p> <p>A clear terms of reference should be devised that covers:</p> <ul style="list-style-type: none"> <li>• Key roles and responsibilities.</li> <li>• Routes for escalation of issues.</li> <li>• How the Equalities Officers Group interacts with the Overview Scrutiny Committee.</li> <li>• Monitoring and oversight requirements for the new Equalities Strategy.</li> <li>• Frequency of meetings.</li> <li>• Membership, which should include staff that are able to drive progress against the strategy.</li> </ul> <p><b>Agreed Management Actions:</b></p> <p>Work has begun on this using the template provided and learning from existing structures within Herts County Council. We hope to have the first meeting of the group in September/ October.</p>	<p><b>Responsible Officer:</b> Equalities Officer.</p> <p><b>Due Date:</b> 31 December 2021.</p>	<p><b>October 2021.</b></p> <p>This is a new addition and the management response opposite is therefore the latest comment.</p>	Not yet implemented.

**APPENDIX C – AUDIT PLAN ITEMS (APRIL 2021 TO MARCH 2022) – INDICATIVE START DATES AGREED WITH MANAGEMENT**

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Quarter 1	Quarter 2	Quarter 3	Quarter 4
Corporate Capacity Cancelled	Contract Management Draft Report Issued	Key Financial Systems In Fieldwork	Key Financial Systems In Fieldwork
Fly Tipping Final Report Issued	COVID-19 Pandemic Response In Fieldwork	Resources Benefits Realisation Allocated	Licensed Premises Allocated
Equalities Final Report Issued	Property Investment Draft Report issued	Capital Programme Delivery In Planning	Temporary Accommodation / Rough Sleepers Allocated
Audit Follow Up 1 Cancelled	Safeguarding Draft Report Issued	Economic Development Allocated	Risk Management & Corporate Governance Allocated
	Homes England – Compliance Audit Complete	Audit Follow Up 2 Allocated	IT Resilience Allocated
		Cyber Security In Fieldwork (c/f from Q2)	

## APPENDIX D – ASSURANCE / PRIORITY LEVELS

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



# **Audit Charter 2021/2022**

## **1. Introduction and Purpose**

- 1.1. Internal auditing is an independent and objective assurance and consulting activity. It is guided by a philosophy of adding value to the operations of an organisation. It assists a council in achieving its objectives and ultimately provides assurance to the public by systematically evaluating and improving the effectiveness and efficiency of risk management, control, and governance processes.
- 1.2. The purpose of the Shared Internal Audit Service (SIAS) is to provide independent, objective assurance and consulting services designed to add value and improve client operations. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. SIAS helps clients accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

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

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

## **3. Role**

- 3.1. SIAS internal audit activity is overseen by **East Herts** Council's committee charged with fulfilling audit committee responsibilities, herewith referred to as the **Audit and Governance Committee**. As part of its oversight role, the **Audit and Governance Committee** is responsible for defining the responsibilities of SIAS via this Charter.
- 3.2. SIAS may undertake additional consultancy activity requested by management. The **Head of Assurance Client Audit Manager** will determine such activity on a case-by-case basis, assessing the skills and resources available. Significant additional consultancy activity not already included in the Internal Audit Plan will only be

accepted and carried out following consultation with the Audit **and Governance** Committee.

### **4. Professionalism**

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

### **5. Authority and Confidentiality**

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

### **6. Organisation**

- 6.1. The ~~Head of Assurance~~ **Client Audit Manager** and their representatives have free and unrestricted direct access to Senior Management, the Audit **and Governance** Committee, the Chief Executive / ~~Managing Director~~, the Chair of the Audit **and Governance** Committee and the External Auditor. The ~~Head of Assurance~~ **Client**

**Audit Manager** will communicate with any and all of the above parties at both committee meetings and between meetings as appropriate.

- 6.2. The Chairman of the Audit **and Governance** Committee has free and unrestricted direct access to both the ~~Head of Assurance~~ **Client Audit Manager** and the Council's External Auditor.
- 6.3. The ~~Head of Assurance~~ **Client Audit Manager** is line managed by the ~~host authorities Director of Resources~~ **Head of SIAS** who approves all decisions regarding the performance evaluation, appointment, or removal of the ~~Head of Assurance~~ **Client Audit Manager**, in consultation with the SIAS Board. ~~Each client's Section 151 Officer is asked to contribute to the annual appraisal of the Head of Assurance.~~

## **7. Stakeholders**

The following groups are defined as stakeholders of SIAS:

- 7.1. The **Head of SIAS**, working with the ~~Head of SIAS~~ **Client Audit Manager**, both suitably experienced and qualified (CCAB and / or CMIIA), is responsible for:
  - hiring, appraising and developing SIAS staff in accordance with the host authority's HR guidance
  - maintaining up-to-date job descriptions which reflect the roles, responsibilities, skills, qualifications, and attributes required of SIAS staff
  - ensuring that SIAS staff possess or obtain the skills, knowledge, and competencies (including ethical practice) needed to effectively perform SIAS engagements
- 7.2. The Audit **and Governance** Committee is responsible for overseeing the effectiveness of SIAS and holding the ~~Head of Assurance~~ **Client Audit Manager** to account for delivery. This is achieved through the approval of the annual audit plan, approval of performance targets set by the SIAS Board and receipt of regular reports.
- 7.3. The Audit **and Governance** Committee is also responsible for the effectiveness of the governance, risk, and control environment within the Council, holding operational managers to account for its delivery.
- 7.4. Where stated in its Terms of Reference, the Audit **and Governance** Committee provides an annual report to the Council detailing the Committee's activities through the year. In addition, and as required, the Committee ensures that there is appropriate communication of, and involvement in, internal audit matters from the wider publicly elected Member body.
- 7.5. The ~~Head of SIAS~~ **Client Audit Manager** is responsible for ensuring that the outcome of all final Internal Audit reports is reported to all members of the Audit **and Governance** Committee, and Executive Members **for Financial Sustainability**, ~~(where relevant to their portfolio)~~, in a format agreed with these relevant parties.
- 7.6. Senior Management, defined as the Head of Paid Service, Chief Officers, and their direct reports, are responsible for helping shape the programme of assurance work.

This is achieved through analysis and review of key risks to achieving the Council's objectives and priorities.

7.7. The SIAS Board is the governance group charged with monitoring and reviewing the overall operation of SIAS and reporting to the Audit **and Governance** Committee its findings, including:

- resourcing and financial performance
- operational effectiveness through the monitoring performance indicators
- the overall strategic direction of the shared service.

### **8. Independence and Objectivity**

8.1. No element in the organisation should interfere with audit selection, scope, procedures, frequency, timing, or report content. This is necessary to ensure that internal audit maintains the necessary level of independence and objectivity.

8.2. As well as being impartial and unbiased, internal auditors will have no direct operational responsibility or authority over any activity audited. They will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that might impair their judgment.

8.3. When asked to undertake any additional roles/responsibilities outside internal auditing, the ~~Head of Assurance~~ **Client Audit Manager** will highlight to the Audit **and Governance** Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the PSIAS Code of Ethics as well as any relevant requirements set out in other professional bodies to which the ~~CAE~~ **Client Audit Manager** may belong. The Audit **and Governance** Committee will approve and periodically review any safeguards put in place to limit any impairments to independence and objectivity.

8.4. Where SIAS has been required to provide assurance to other partnership organisations, or arm's length bodies such as trading companies, the **Client Audit Manager** and ~~Head of Assurance~~ **SIAS** will ensure that the risks of doing so are managed effectively, having regard to the ~~Head of Assurance's~~ **SIAS's** primary responsibility to the management of the partners for which they are engaged to provide internal audit services.

8.5. The ~~Head of Assurance~~ **Client Audit Manager** will confirm to the Audit **and Governance** Committee, at least annually, the organisational independence of SIAS.

### **9. Conflicts of Interest**

9.1. Internal auditors will exhibit clear professional objectivity when gathering, evaluating, and communicating engagement information. When forming judgments, they will make a balanced assessment of all relevant circumstances and not be influenced by their own interests or the views and interests of others.

- 9.2. Each auditor will comply with the ethical requirements of his/her professional body and proactively declare any potential conflict of interest, whether actual or apparent, prior to the start of an engagement.
- 9.3. All auditors sign an annual declaration of interest to ensure that the allocation of work avoids conflict of interest. Auditors who undertake consultancy work or are new to the team will be prohibited from auditing in those areas where they have worked in the past year. Audits are rotated within the team to avoid over-familiarity and complacency.
- 9.4. SIAS procures an arrangement with an external delivery partner to provide service resilience, i.e., additional internal audit days on request. The external delivery partner will be used to deliver engagements as directed by the **Head of Assurance Client Audit Manager** in particular providing advice and assistance where SIAS staff lack the required skills or knowledge. The external delivery partner will also be used to assist with management of potential and actual conflicts of interest in internal audit engagements, providing appropriate independence and objectivity as required.
- 9.5. In the event of a real or apparent impairment of independence or objectivity, (acceptance of gifts, hospitality, inducements, or other benefits) the **Head of Assurance Client Audit Manager** will investigate and report on the matter to appropriate parties.
- 9.6. **Hertfordshire County Council's** The Head of Assurance not only leads and has overall management responsibility for SIAS, but also the similarly constituted Shared Anti-Fraud Service (SAFS).
- 9.7. Given that SIAS will potentially undertake internal audit activity in relation to SAFS, this relationship is formally disclosed, and appropriate safeguards will be put in place against any potential impairment to independence. The Head of SIAS will manage the internal audit engagement of this service and report findings directly to the **Head of Strategic Finance and Property** in their capacity as S151 Officer.

## **10. Responsibility and Scope**

- 10.1. The scope of SIAS encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes (as they relate to the organisation's priorities and objectives) and the promotion of appropriate ethics and values.
- 10.2. Internal control and risk management objectives considered by internal audit extend to the organisation's entire control and risk management environment and include:
  - consistency of operations or programs with established objectives and goals, and effective performance
  - effectiveness and efficiency of governance, operations, and employment of resources
  - compliance with significant policies, plans, procedures, laws, and regulations
  - design, reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information
  - safeguarding of assets

- 10.3. SIAS is well placed to provide advice and support on emerging risks and controls and will, if requested, deliver consulting and advisory services, or evaluate specific operations.
- 10.4. SIAS is responsible for reporting to the Audit **and Governance** Committee and senior management, significant risk exposures (including those to fraud addressed in conjunction with the Shared Anti-Fraud Service), control and governance issues and other matters that emerge from an engagement.
- 10.5. Engagements are allocated to (an) internal auditor(s) with the appropriate skills, experience, and competence. The auditor is then responsible for carrying out the work in accordance with the SIAS Operating Procedures Manual, and must consider the relevant elements of internal control, the needs and expectations of clients, the extent of work required to meet the engagement's objectives, its cost effectiveness, and the probability of significant error or non-compliance.

## **11. Role in Anti-Fraud**

- 11.1. The SIAS work programme, designed in consultation with Senior Management, the Audit **and Governance** Committee and, where applicable, the Shared Anti-Fraud Service (SAFS), seeks to provide assurance on how the council manages the fraud risks to which it is exposed.
- 11.2. SIAS must have sufficient knowledge to evaluate the risk of fraud and the way it is managed by the Council but are not expected to have the expertise of a person or team whose primary responsibility is detecting and investigating fraud.
- 11.3. SIAS will exercise due professional care by considering the probability of significant errors, fraud, or non-compliance when developing audit scopes and objectives.
- 11.4. **EHC HCC** is a partner of both SIAS and SAFS and benefits from collaboration and intelligence sharing between the teams. This informs both horizon scanning as part of the internal audit planning process and individual audit engagements.
- 11.5. The ~~Head of Assurance~~ **Client Audit Manager** should be notified of all suspected or detected fraud, corruption, or impropriety so that the impact upon control arrangements can be evaluated.

## **12. Internal Audit Plan**

- 12.1. Following discussion with appropriate senior management, the ~~Head of Assurance~~ **Client Audit Manager** will submit a risk-based plan to the Audit **and Governance** Committee for review and approval. This will occur at least annually. The plan sets out the engagements agreed by ~~Operational Directorate Boards and subsequently~~ the Section 151 Officer and ~~Chief Executive~~ **Senior Leadership Team** and demonstrates the priorities of both SIAS (the need to produce an annual internal audit opinion) and those of the organisation. Also included will be any relevant declarations of interest.

- 12.2. The plan will be accompanied by details of the risk assessment approach used and will take into account the organisation's assurance framework. Also shown will be the timing of an engagement, its budget in days, details of any contingency for new or changed risks, time for planning and reporting and a contribution to the development of SIAS.
- 12.3. The plan will be subject to regular review in year and may be modified in response to changes in the organisation's business, risks, operations, programmes, systems, and controls. All significant changes to the approved internal audit plan will be communicated in the quarterly update reports.

### **13. Reporting and Monitoring**

- 13.1. A draft written Terms of Reference will be prepared and issued to appropriate personnel at the start of an engagement. It will cover the intended objectives, scope and reporting mechanism and will be agreed with the client. Changes to the terms of reference during the engagement may occur and will be agreed following consultation with the client.
- 13.2. A report will be issued to management on completion of an engagement. It will include a reasoned opinion, details of the time period and scope within which it was prepared, management's responses to specific risk prioritised findings and recommendations made and a timescale within which corrective action will be / has been taken. If recommended action is not to be taken, an explanation for this will also be included.
- 13.3. SIAS will follow-up the implementation of agreed recommendations in line with the protocol at each client. As appropriate, the outcomes of this work will be reported to the audit committee and may be used to inform the risk-based planning of future audit work. Should follow-up activity identify any significant error or omission, this will be communicated by the ~~Head of Assurance~~ **Client Audit Manager** to all relevant parties. A revised internal audit opinion may be issued on the basis of follow-up activity.
- 13.4. In consultation with senior management, the ~~Head of Assurance~~ **Client Audit Manager** will consider, on a risk-basis, any request made by external stakeholders for sight of an internal audit report.
- 13.5. Quarterly update reports to the Audit **and Governance** Committee will detail the results of each engagement, including significant risk exposures and control issues. In addition, an annual report will be produced giving an opinion on the overall control, governance, and risk management environment (and any other issues judged relevant to the preparation of the Annual Governance Statement) with a summary of the work that supports the opinion. **Hertfordshire County Council's** The Head of Assurance will also make a statement of conformance with PSIAS, using the results of the annual self-assessment and Quality Assurance and Improvement Plan (QAIP) required by the PSIAS. The statement will detail the nature and reasons for any impairments, qualifications, or restrictions in scope for which the Committee should seek reassurances from management. Any improvement plans arising will be included in the annual report.

**14. Periodic Assessment**

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

**15. Review of the Audit Charter**

- 15.1. The ~~Head of Assurance~~ **Client Audit Manager** will review this charter annually and will present, to the first audit committee meeting of each financial year, any changes for approval.
- 15.2. The ~~Head of Assurance~~ **Client Audit Manager** reviewed this Audit Charter in September 2021. It will next be reviewed in April 2022.

**Glossary of Terms**

Audit Committee	<p>The PSIAS defines the Audit Committee as “The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.”</p> <p>The Audit <b>and Governance</b> Committee operates in accordance with its terms of reference contained in East Herts Council’s Constitution.</p> <p><i>CIPFA’s Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition</i> indicates that for a local authority, it is best practice for the audit committee to report directly to full council rather than to another committee, as the council itself most closely matches the body of ‘those charged with governance’. This is the case at EHC.</p>
Audit Plan	The programme of risk-based work carried out by the Shared Internal Audit Service (SIAS) on behalf of its clients.
Board	The PSIAS defines the ‘Board’ as “The highest-

	<p>level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organisation's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the Standards refers to a group or person charged with governance of the organisation. Furthermore, "board" in the Standards may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an Audit Committee).</p> <p>For the purposes of the SIAS Audit Charter, the Board as referred to in the PSIAS shall be East Herts Council's Audit <b>and Governance</b> Committee. All references to the Audit <b>and Governance</b> Committee in the SIAS Audit Charter should be read in this context.</p>
Chief Audit Executive (CAE)	<p>The PSIAS describes the role of CAE as "a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The CAE or others reporting to the CAE will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the CAE may vary across organisations."</p> <p>The CAE is fundamental to the success of the service and to the extent to which it complies with the Standards. Regular reference is made to this role throughout the PSIAS, including some specific requirements relating to whoever is designated the role.</p> <p>For the purposes of the SIAS Audit Charter, the CAE as referred to in the PSIAS shall be <b>EHC's HCC's Head of Assurance Client Audit Manager</b>. All references to the <b>Head of Assurance Client Audit Manager</b> in the SIAS Audit Charter should be read in this context.</p> <p><del>The Head of Assurance is supported in the role of CAE by the Head of SIAS, who is responsible for the day-to-day operational management of SIAS and performs the role of Client Audit Manager for HCC.</del></p>

## **APPENDIX E - AUDIT CHARTER 2021/22**

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Management	Operational officers of the Council responsible for creating corporate policy and organising, planning, controlling, and directing resources to achieve the objectives of that policy. Senior management is defined as the Head of Paid Service, Chief Officers and their direct reports.
Public Sector Internal Audit Standards (PSIAS)	These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide stakeholders with the key assurances they need to support them both in managing and overseeing the organisation and in producing the annual governance statement.
Shared Internal Audit Service (SIAS)	SIAS is a local authority partnership comprising Hertfordshire County Council (HCC) and seven Hertfordshire district and borough councils. SIAS also provides internal audit services to a limited number of external clients. HCC is the host authority for the partnership and provides support services such as HR, technology, and accommodation.
SIAS Board	The Board that comprises officer representatives from the partner authorities and that is responsible for the governance of the SIAS partnership.

Note:

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

## **East Herts Council Report**

### **Audit & Governance Committee**

**Date of meeting: 9 November 2021**

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

**Report title: External Audit National Procurement Opt in**

**Ward(s) affected: All**

**Summary** – The Council will need to consider the options available and put in place new arrangements in time to make the appointment of the external auditor by 31 December 2022 for the five financial years beginning April 2023. The Council can opt into the national procurement process run by Public Sector Audit Appointments Limited (PSAA) or undertake its own procurement and risk no suitable firm bidding or higher audit fees than can be gained via the national procurement process.

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

- a) To advise the Executive Member to recommend to Full Council that, under Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, East Hertfordshire District Council opts into the sector led body for audit appointments provided by Public Sector Audit Appointments Limited.**

## 1.0 Proposal(s)

- 1.1 There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act) to appoint an external auditor:
  - 1.1.1 To make a stand-alone appointment;
  - 1.1.2 Set up a Joint Auditor Panel/local joint procurement arrangements; or
  - 1.1.3 Opt-in to a sector led body.
- 1.2 **Stand-alone appointment:** In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members excludes current and former elected members (or officers) and their close families and friends. Fuller information on Audit Panels is included in a guide available on the web by clicking [here](#).
- 1.3 The new independent auditor panel established by the Council would be responsible for selecting the auditor and elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit.
- 1.4 Appointments can only be made from firms who can demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council – The Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants in Scotland. This means big accounting firms such as Grant Thornton, EY, PwC, KPMG etc. Small local firms are unlikely to qualify. There is also the risk that an audit procurement run by the Council, which will

take 6 months in compliance with the Public Procurement Regulations will get no bids or that higher fees would be charged than through the national procurement process.

- 1.5 Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances.
- 1.6 **Set up a Joint Auditor Panel/local joint procurement arrangements:** The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Again, there would need to be a full procurement exercise in line with the Public Procurement Regulations.
- 1.7 Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement. Initial indications are that neighbouring authorities are minded to join the sector-led body.
- 1.8 The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.
- 1.9 The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented

from being appointed by the terms of their professional standards.

1.10 **Opt-in to a sector led body:** Public Sector Audit

Appointments Limited (PSAA) has been specified as the sector-led appointing body under the Local Audit (Appointing Person) Regulations 2015. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that the decision to opt-in must be made by the authority meeting as a whole, i.e. Full Council. Therefore the Executive Member would need to make a recommendation to Full Council to opt in if this option is chosen.

1.11 The PSAA letter inviting the council to opt in and some frequently asked questions are included at Appendix A.

1.12 The advantages of opting in are:

- Assured appointment of a qualified, registered, independent auditor.
- Appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money.
- On-going management of independence and conflict of independence issues.
- Securing highly competitive prices from audit firms and minimising procurement and overhead costs.
- High probability of cost avoidance from one major procurement as opposed to small local procurements.
- Distribution of surpluses to participating bodies from PSAA Limited if it retains too much from fees for running costs.
- A scale of fees which reflects size, complexity and audit risk providing certainty and avoiding local negotiation.

- A strong focus on audit quality to help develop and maintain the market for the sector.
- Avoiding the necessity for the Council to establish an auditor panel and to undertake a full auditor procurement.

1.13 The disadvantages of opting in are:

- Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

1.14 Given the very clear advantages in terms of reduced costs, keeping audit fees low and the clear advantages to corporate governance from an independent appointment that a Sector Led Body gives, this report recommends that the Council should opt to have audit appointments made by a Sector Led Body and that the Committee advise the Executive Member to recommend to Full Council to opt into the Sector Led Body appointment process led by PSAA limited.

## **2.0 Reason(s)**

2.1 To benefit from joint procurement economies of scale, retain audit appointment independence and avoid the need to establish a local independent auditor panel.

## **3.0 Options**

- 3.1 Join the PSAA national procurement.
- 3.2 Set up an Auditor Panel and undertake a local procurement.

## **4.0 Risks**

4.1 There is a risk that local audit procurement may not result in many or any bids if there is a substantial package of work on offer from a sector led body.

4.2 There is a risk that fees will increase substantially if the Council is outside a sector led body.

## **5.0 Implications/Consultations**

### **Community Safety**

No

### **Data Protection**

No

### **Equalities**

No

### **Environmental Sustainability**

No

### **Financial**

Yes

Current external fees levels are likely to increase when the current contracts end.

The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above will need to be estimated and included in the Council's budget for 2022/23. This will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.

Opting-in to a national sector led body provides maximum opportunity to limit the extent of any audit fee increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

### **Health and Safety**

No

### **Human Resources**

Yes

Should the Council choose to make a local or joint appointment then there will be a requirement to recruit suitably qualified Independent Members for the Audit Panel. Officers will need to be identified to support the work of the local or joint Audit Panel and to undertake the procurement exercise. Given the independence issues, it may not be deemed to be appropriate for those officers to come from Finance.

## **Human Rights**

No

## **Legal**

Yes

Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements, i.e. Executive cannot appoint the external auditor.

Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. 45. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that the decision to opt-in must be made by the authority meeting as a whole i.e. Full Council.

## **Specific Wards**

No

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

Appendix A – PSAA Letter inviting East Herts Council to opt into the national procurement exercise.

### **Contact Member**

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### **Contact Officer**

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*(if different from contact officer)*

## East Herts Council Report

### **Audit and Governance Committee**

**Date of meeting: 9 November 2021**

**Report by: Tyron Suddes, Information Governance and Data Protection Manager**

**Report title: Data Protection Update**

**Ward(s) affected: All**

**Summary** – To provide an update on data protection compliance, including data breaches and subject access requests.

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

**a) That the Committee notes the content of the report and provides any observations to the Information Governance and Data Protection Manager**

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

1.1 As above

### **2.0 Background**

2.1 This report provides a regular six monthly update on data protection and information governance compliance, including the number of data breaches reported and responded to, and the number of Subject Access Requests (SARs) received in the six month reporting period.

- 2.2 Since the last update on the items noted in 2.1 above given on the 27<sup>th</sup> May 2021, the Information Governance and Data Protection Manager has carried out the following actions:
- 2.3 The data mapping exercise is near completion and the information gathered through the exercise has been used to update the Council's Record of Processing Activity (ROPA) and Information Asset Register (IAR).
- 2.4 Additionally, the mapping exercise information is being uploaded to OneTrust, a data protection and information governance management software. This is to allow for the automatic identification, assessment and update of the Council's data assets and processes. The software also allows for the automatic generation of the Council's latest ROPA and IAR.
- 2.5 The Council's Access to Information, Data Breach and Data Retention Policies have been approved and adopted. The associated procedural documents, including the data breach notification process, have been reviewed and revised in line with these policies. These have been communicated with all staff and are available on the Council's intranet. The Council's Data Protection and Information Governance Policies are currently being reviewed.
- 2.6 Sixteen privacy notices have been reviewed and revised, including the Council's Corporate and Staff Privacy Notices.
- 2.7 The Council's Data Protection Impact Assessment (DPIA) process is has been reviewed and replaced with OneTrust's

automated DPIA process to allow for a simpler and less time consuming process.

- 2.8 The Council's mandatory Data Protection e-learning course has been reviewed and three training sessions have been held with council staff to ensure an understanding of the requirements of the Access to Information, Data Breach and Data Retention policies. A total of 124 council staff attended these sessions.
- 2.9 As part of a regular data protection update, the committee requested an update on data breaches and SARs.
- 2.10 There have been a total of 5 reported breaches from the beginning of May 2021 to end of October 2021, one of which was deemed serious enough to be reported to the Information Commissioner's Office (ICO) as, although it was unlikely the risks of the breach would be realised, the number of data subjects affected posed a high risk. This breach was caused by a ransomware attack on Gallagher Bassett, one of the Council's data processors, whereby limited data including name, address and insurance claim information (not including any payment or banking details) was compromised. Gallagher Bassett had put actions into place to reduce the level of risk including offering notifiable individuals identity theft protection and monitoring services. The ICO took no further action and was satisfied with the actions both the Council and processor put in place. The ICO also found that the Council had sufficiently ensured that the processor acted in a manner that meets the security requirements of the UK GDPR.

2.11 The other 4 minor breaches were caused by human error whereby:

- 2.11.1 An email was sent to an unintended recipient;
- 2.11.2 Personal data was insufficiently redacted.

2.12 Where breaches were due to human error, the following action(s) were taken:

- 2.12.1 Recipients who had received personal data incorrectly via email were asked to delete the data and confirm once complete;
- 2.12.2 Where personal data had been published this was immediately removed;
- 2.12.3 Staff responsible for the breach were reminded of the serious implications of a data breach, to take more care in future and were advised to re-take the data protection e-learning course;
- 2.12.4 Staff were advised to clear the autocomplete cache in Outlook;
- 2.12.5 The data protection best practice page was updated to reflect lessons learnt and this was communicated with all staff.

2.13 Keeping in mind that the amount of personal data that the council processes every day through communications, emails, online accounts and applications is high, the amount of reported breaches that occurred over the last six month period is relatively low. Additionally, the number of reported data breaches has reduced from 20 during the previous

reporting period (November 2020 – April 2021) to 5 during the current reporting period (May 2021 – October 2021).

2.14 There have been a total of 4 SARs received from the beginning of May 2021 to the end of October 2021. All requests were provided in full and a response was given within the one month time limit.

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

3.1 The Audit & Governance Committee has within its terms of reference; to provide an effective mechanism to monitor the control environment within the council, ensuring the highest standards of probity and public accountability by challenging and following up internal audit recommendations.

### **4.0 Options**

4.1 The Committee requested an update and so there are no alternative options to consider

### **5.0 Risks**

5.1 Data breaches can pose a financial and reputational risk to the council if they are not reported and dealt with correctly, however, the council, through online training and updated policies and procedures has limited the amount of medium to high risk breaches. Additionally, through regular reporting of lower risk breaches, the council is able to identify trends and possible actions to prevent these reoccurring.

5.2 Similarly, subject access requests, if not responded to correctly and within the statutory one month time frame, can pose financial and reputational risks to the council. This report provides reassurance that the council continues to respond to these requests in line with legislation.

## **6.0 Implications/Consultations**

6.1 None

### **Community Safety**

No

### **Data Protection**

Yes – regular updates on data protection aim to provide assurance that the council remains complaint with data protection legislation. Equally, updating on data breaches and subject access requests provides assurance that the council remains compliant in these areas.

### **Equalities**

No

### **Environmental Sustainability**

No

### **Financial**

No

### **Health and Safety**

No

### **Human Resources**

No

### **Human Rights**

No

## **Legal**

None, other than as identified above.

## **Specific Wards**

No

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

7.1 None

## **Contact Member**

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## **Contact Officer**

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## **Report Author**

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## East Herts Council Report

**Audit and Governance Committee**

**Date of Meeting: 9 November 2021**

**Report by: James Ellis, Head of Legal and Democratic Services and Monitoring Officer**

**Report title: Standards Update**

**Ward(s) affected: All**

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### **Summary**

The report updates Members of the Committee on standards issues generally.

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

- (a) That the Committee receive the report and provide any observations to the Head of Legal and Democratic Services.**
- (b) That the Committee agree for an additional Independent Person, as defined under s.28 of the Localism Act 2011, be sought and, where appropriate, appointed.**

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

- 1.1 As above.

### **2.0 Background**

- 2.1 Within its terms of reference the Audit and Governance Committee has a function “promote and maintain high standards of conduct of Members and Co-opted Members of the Council”. The Committee will therefore receive update reports from the Monitoring Officer on matters that relate to, or assist to govern, Member

conduct.

## East Herts complaints/ issues update

2.2 The complaints made to the Monitoring Officer since the last report to this Committee on 27 May 2021 are as follows:

Complaint about: Parish/Town or District Councillor	Summary of complaint	Action taken
<b>Complaint 5/2021</b> Complaint against Parish Councillors	Racial discrimination	No breach of the code found.
<b>Complaint 6/2021</b> Complaint against Parish Councillors	Not treating others with respect	Potential breach of the Code, Parish Councillors told to apologise.
<b>Complaint 7/2021</b> Complaint against Parish Councillor	Bringing the Parish Council into disrepute	Ongoing
<b>Complaint 9/2021</b> Complaint against Parish Councillors	Racial discrimination and bullying	Ongoing
<b>Complaint 10/2021</b> Complaint against Parish Councillor	Lack of trust and victimisation	Ongoing

2.3 Please note that complaints that are withdrawn by the complainant before they are considered by the Monitoring Officer and Independent Person are not included in the table above.

## **LGA Model Code of Conduct**

- 2.4 As reported to the meeting of this committee in May 2021, the new LGA Model Code of Conduct was adopted at Annual Council on 29<sup>th</sup> April 2021, meaning that standards complaints against District Councillors are now being considered against this new Code.
- 2.5 Since the meeting of 27 May 2021, several Parish and Town Councils have likewise adopted the new model Code of Conduct, meaning that more Councillors at that level of local government will now be held to the same standard, giving a better level of consistency across the district.

## **Independent Person**

- 2.6 Section 28 of the Localism Act 2011 states that a relevant authority, such as East Herts, must appoint an Independent Person whose views are to be sought and taken into account by the authority before it makes its decision on an allegation/complaint.
- 2.7 East Herts currently has one such Independent Person. It is not uncommon, however, for District Councils to have anywhere up to three or four Independent Persons to assist in the application of the Standards regime.
- 2.8 The Head of Legal and Democratic Services recommends that East Herts would benefit from having at least one additional Independent Person at this time.

## **3.0 Reason(s)**

- 3.1 To ensure good governance within the Council

## **4.0 Options**

- 4.1 Not providing updates to Members on standards issues. This option is NOT RECOMMENDED, as to do so would

weaken the Committee's ability to adequately promote and maintain the Ethical Standards Framework, and to maintain an oversight of the council's arrangements for dealing with complaints.

## **5.0 Risks**

- 5.1 Appropriate policy frameworks help to ensure good governance of the Council and therefore reduce risk of poor practice or unsafe decision making.

## **6.0 Implications/Consultations**

- 6.1 None

### **Community Safety**

No

### **Data Protection**

No

### **Equalities**

No

### **Environmental Sustainability**

No

### **Financial**

No

### **Health and Safety**

No

### **Human Resources**

No

### **Human Rights**

No

**Legal**

None, other than as identified above.

**Specific Wards**

No

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

7.1 None.

**Contact Member**

None

**Contact Officer**

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**Report Author**

As above

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## **East Herts Council Report**

### **Audit & Governance Committee**

**Date of meeting: 9 November 2021**

**Report by: Head of Strategic Finance & Property**

**Report title: Audit and Governance Committee Work Programme**

**Ward(s) affected:** All

**Summary** – To present to Audit and Finance Committee the work programme for the year of finance and audit business with a brief summary of each report so that Members can see the business that will come before the Committee at each meeting.

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

- a)** Approve the work programme as set out in the report; and
- b)** Specify any training requirements.

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

- 1.1 Audit and Governance Committee's audit functions are:
  - 1.1.1 Approving the Council's statement of accounts.
  - 1.1.2 Consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
  - 1.1.3 Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.

- 1.1.4 Be satisfied that the Council's assurance statements, including reviewing the Annual Governance Statement against the good governance framework, properly reflect the risk environment and any actions required to improve it.
- 1.1.5 Approve internal audit's strategy, its plan and monitor its performance.
- 1.1.6 Approve the shared anti-fraud service strategy, its plan and monitor its performance.
- 1.1.7 Review summary internal audit reports and the main issues arising and seek assurance that action has been taken where necessary.
- 1.1.8 Receive the annual report of the head of internal audit.
- 1.1.9 Receive and consider the reports of external audit (including the annual audit letter) and inspection agencies, and monitor management action in response to the issues raised.
- 1.1.10 Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies and that the value of the audit process is actively promoted.
- 1.1.11 Review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.
- 1.1.12 Oversight of the Council's commercial projects.

- 1.2 Audit and Governance Committee's finance functions are:
  - 1.2.1 Receive budget monitoring reports and risk management reports.

- 1.2.2 Lead the cross Member scrutiny and consideration of the Council's draft annual budget and medium term financial plan.
- 1.2.3 Scrutinise the Council's Annual Investment Strategy, Annual Capital Strategy, Mid-Year Treasury Management Report and Annual Treasury Management Report and through review gain assurance that systems of governance and control for Treasury Management are effective.
- 1.2.4 Where appropriate, assisting the Council and the Executive in the development of its budget and policy framework by in-depth analysis of financial, procurement and governance related policy issues.
- 1.2.5 Where relevant to the audit or finance functions of the Committee, overseeing and scrutinising all Internal, Corporate and Corporate Governance functions of the Council.

1.3 In order to fulfil these functions a series of reports will be brought to Members to provide:

- 1.3.1 Assurance that the council's financial affairs are being properly managed and that the council is making the best use of resources;
- 1.3.2 An adequate and effective system of internal audit is operating and that its approved plan is being delivered;
- 1.3.3 The Council's governance arrangements are adequate;
- 1.3.4 That key business risks have been identified, evaluated and are being managed;

- 1.3.5 That key systems and controls are operating effectively giving assurance that the Statement of Accounts is materially correct and can be approved;
- 1.3.6 Receive and consider the external auditor's Audit Plan, port and Annual Audit Letter; and
- 1.3.7 Receive copies of Executive budget monitoring reports, for information, so that the final accounts outturn position can be compared to forecasts during the year.

## **2.0 Training**

- 2.1 Training for Members of the Committee will in future be delivered for the first 30 minutes of the Committee meeting and will be related to the business before the Committee.
- 2.2 Members are recommended to review the proposed work programme and suggested training and identify any other training needs they require.

## **3.0 Work Programme**

- 3.1 The Committee will recall that the external audit of the council's accounts was due to start in October and conclude in December. EY have delayed the start to the audit until 3 January 2022. Therefore the Accounts Approval Sub-Committee will now not need to sit in December but may need to sit in March.
- 3.2 The work programme for the Committee is proposed to be as follows:

<b>Committee</b>	<b>Date</b>	<b>Report Title</b>	<b>Report Summary</b>
Audit & Governance	25 January 2022	Budget Scrutiny - Budget 2022/23 and Medium Term Financial Plan 2022-25	To present to Audit and Governance Committee the Executive's proposed General Fund Budget and Medium Term Financial Plan for scrutiny.
		Investment Strategy 2021/22 for scrutiny	To present to Audit and Governance Committee the Executive's proposed Investment Strategy for scrutiny.
		Capital Strategy and Minimum Revenue Provision Policy 2021/22 for scrutiny	To present to Audit and Governance Committee the Executive's proposed Capital Strategy and Minimum Revenue Provision Policy for scrutiny.
		Receipt of the External Auditor's Annual Audit Letter 2020/21	To present to Audit and Governance Committee the external auditor's Annual Audit Letter covering the Council's financial audit and Value For Money assessment. The Committee receives the report on behalf of the Council and may make observations to Executive who can decide to take action to improve performance based on the external auditor's assessment.
		Shared Internal Audit Service Internal Audit Plan Progress Report	To present to Audit and Governance Committee the Shared Internal Audit Service's progress against the Internal Audit Plan.

<b>Committee</b>	<b>Date</b>	<b>Report Title</b>	<b>Report Summary</b>
		Shared Internal Audit Service Internal Audit Plan 2022/23	To present to Audit and Governance Committee the Shared Internal Audit Service Internal Audit Plan for the forthcoming year and seek its approval. Regulation 5 of the Account and Audit Regulations 2015 requires that the Council must undertake an adequate and effective internal audit of its accounting records and of its system of internal control.
		Financial Management 2021/22 – Quarter 2 Forecast to Year End	To provide Audit and Governance Committee with a copy for information of the Executive Report with the forecast position on revenue spending and the capital programme as at the end of quarter 2.
		Audit and Governance Committee Work Programme	To present to Audit and Governance Committee an update on the work programme for the year.

<b>Committee</b>	<b>Date</b>	<b>Report Title</b>	<b>Report Summary</b>
Statement of Accounts Approval Sub-Committee	February / March 2022	Receipt of the External Auditor's Annual Governance Report	In accordance with the Code of Audit Practice (the Code), this report provides a summary of the work the external auditor has carried out during their audit of accounts, the conclusions they have reached and the recommendations they have made to discharge their statutory audit responsibilities to those charged with governance (in this case the Audit and Finance Committee) at the time they are considering the financial statements. In preparing their report, the Code requires them to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance'.
		Annual Governance Statement	To present to Audit and Governance Committee for approval the Annual Governance Statement for incorporation in the Statement of Accounts. Regulation 6 of the Accounts and Audit Regulations 2015 requires the Council to conduct a review, at least once a year, of the effectiveness of its system of internal control and approve an annual governance statement to accompany the statement of accounts.

<b>Committee</b>	<b>Date</b>	<b>Report Title</b>	<b>Report Summary</b>
		Approval of the Statement of Accounts	Regulation 10 (1) of the Accounts and Audit Regulations 2015 requires the Statement of Accounts to be approved by a resolution of a committee of the Council, such approval to take place before 30 September immediately following the end of a year, or as soon as practicable after the conclusion of the audit.
Audit & Governance	29 March 2022	Training: Risk Management	Presentation on risk management and its importance for the council
		Strategic Risk Register Monitoring Q3 2021/22	To present to Audit and Governance Committee the Strategic Risk Register Monitoring at the end of quarter 3.
		Annual Review of Risk Management Strategy	To present to Audit & Governance Committee the annual review of the council's risk management strategy.
		External Audit Planning Report 2022/23	To present to Audit and Governance Committee the external auditor's Audit Planning Report. The Committee receives the report on behalf of the Council.
		Financial Management Quarter 3 Forecast to Year End	To provide Audit and Finance Committee with a copy for information of the Executive Report with the forecast position on revenue spending and the capital programme as at the end of quarter 3.

<b>Committee</b>	<b>Date</b>	<b>Report Title</b>	<b>Report Summary</b>
		Review of Internal Audit	To present to Audit and Governance Committee the review of the effectiveness of Internal Audit. Regulation 6 of The Accounts and Audit Regulations 2015 require the Council, at least once a year, to conduct a review of the effectiveness of its internal audit.
		Audit and Governance Committee Work Programme	To present to Audit and Governance Committee an update on the work programme for the year.
Audit & Governance	31 May 2022	Annual Report on Internal Audit Activity	To present to Audit and Governance Committee the Annual Report on Internal Audit Activity for the preceding financial year.
		2021/22 Provisional Outturn	To provide Audit and Governance Committee with a copy, for information, of the Executive Report with the provisional outturn position on revenue spending and the capital programme as at the end of the financial year and Quarter 4.
		Strategic Risk Register Monitoring Q4 2021/22	To present to Audit and Governance Committee the Strategic Risk Register Monitoring at the end of quarter 4.

<b>Committee</b>	<b>Date</b>	<b>Report Title</b>	<b>Report Summary</b>
Audit & Governance	29 September 2022	Training: Statement of Accounts	Presentation to Members on the key elements Statement of Accounts and the inter-relationship of the core statements.
		Receipt of the External Auditor's Annual Governance Report	In accordance with the Code of Audit Practice (the Code), this report provides a summary of the work the external auditor has carried out during their audit of accounts, the conclusions they have reached and the recommendations they have made to discharge their statutory audit responsibilities to those charged with governance (in this case the Audit and Finance Committee) at the time they are considering the financial statements. In preparing their report, the Code requires them to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance'.

<b>Committee</b>	<b>Date</b>	<b>Report Title</b>	<b>Report Summary</b>
		Annual Governance Statement	To present to Audit and Governance Committee for approval the Annual Governance Statement for incorporation in the Statement of Accounts. Regulation 6 of the Accounts and Audit Regulations 2015 requires the Council to conduct a review, at least once a year, of the effectiveness of its system of internal control and approve an annual governance statement to accompany the statement of accounts.
		Approval of the Statement of Accounts	Regulation 10 (1) of the Accounts and Audit Regulations 2015 requires the Statement of Accounts to be approved by a resolution of a committee of the Council, such approval to take place before 30 September immediately following the end of a year, or as soon as practicable after the conclusion of the audit.
		2021/22 Provisional Outturn	To provide Audit and Governance Committee with a copy, for information, of the Executive Report with the provisional outturn position on revenue spending and the capital programme as at the end of the financial year.

<b>Committee</b>	<b>Date</b>	<b>Report Title</b>	<b>Report Summary</b>
		Financial Management 2022/23 – Quarter 1 Forecast to Year End	To provide Audit and Governance Committee with a copy for information of the Executive Report with the forecast position on revenue spending and the capital programme as at the end of quarter 1
		Shared Anti-fraud Service Anti-Fraud Plan progress report	To present to Audit and Governance Committee the Shared Anti-Fraud Service's progress against the Anti-Fraud Plan.
		Strategic Risk Register Monitoring Q1 2022/23	To present to Audit and Governance Committee the Strategic Risk Register Monitoring at the end of quarter 1.
		Audit and Governance Committee Work Programme	To present to Audit and Governance Committee an update on the work programme for the year.
Audit & Governance	November 2022	Training:	
		Budget 2023/24 and Medium Term Financial Plan 2023/24 – 2027/28	To provide Audit and Governance Committee with an update on the budget and MTFP including costs pressures, savings and efficiencies against the original proposals, forward budget and planning assumptions for scrutiny.

<b>Committee</b>	<b>Date</b>	<b>Report Title</b>	<b>Report Summary</b>
		Annual Treasury Report 2021/22	To provide Audit and Governance Committee with a copy of the Annual Treasury Report so that they can scrutinise the Report.
		Treasury Management 2022/23 Mid-Year Review	To provide Audit and Governance Committee with a copy of the Treasury Management Mid-Year Review Report so that they can scrutinise the Report
		Strategic Risk Register Monitoring Q2 2022/23	To present to Audit and Governance Committee the Strategic Risk Register Monitoring at the end of quarter 2.
		Shared Internal Audit Service Internal Audit Plan Progress Report	To present to Audit and Governance Committee the Shared Internal Audit Service's progress against the Internal Audit Plan.
		Annual Infrastructure Funding Statement Report 2021/22	To present to Audit and Governance Committee an update on Section 106 contributions and the council's Annual Infrastructure Funding Statement Report 2020/21
		Audit and Governance Committee Work Programme	To present to Audit and Governance Committee an update on the work programme for the year



## **4.0 Reasons**

- 4.1 To ensure that Audit and Finance Committee is aware of the work programme and ensure that Members have the opportunity to request any training or briefing around upcoming items.

## **5.0 Risks**

- 5.1 Risk Management is reported to the Committee regularly.

## **6.0 Implications/Consultations**

### **Community Safety**

No

### **Data Protection**

Data Protection reports and policies will be brought before the Committee as appropriate.

### **Equalities**

No

### **Environmental Sustainability**

No

### **Financial**

The report details the Committee's responsibilities in relation to finance.

### **Health and Safety**

No

### **Human Resources**

No

### **Human Rights**

No

## **Legal**

Legal requirements are noted in the report summaries in the table in this report.

## **Specific Wards**

No

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

7.1      None

## **Contact Officer**

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