

# DRAFT STATEMENT OF ACCOUNTS 2019-20



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# Narrative Statement 2019/20

## INTRODUCTION TO THE STATEMENT OF ACCOUNTS

By Councillor Geoffrey Williamson,  
Executive Member for Financial Sustainability



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

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

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

Our Members and Officers directly engage in this process, proposing possible savings either through reductions in expenditure or increases in income. In addition to short-term outcomes, in order to take forward ideas that will take longer to consider and implement we put a sum aside as an "Invest to Save" fund to allow us to investigate these suggestions in more detail. At the same time it has been open for the Council to look further afield for additional sources of revenue. One of the outcomes of the Finance & Business Planning process is a clear desire from Members for the Council to pursue more commercial opportunities, and using powers granted to us under the Localism Act of 2011, we have explored ways we can invest directly into projects and undertake more commercial ventures, looking at how we can get the best financial returns, but at a considered and acceptable degree of risk.

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

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

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

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

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

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

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

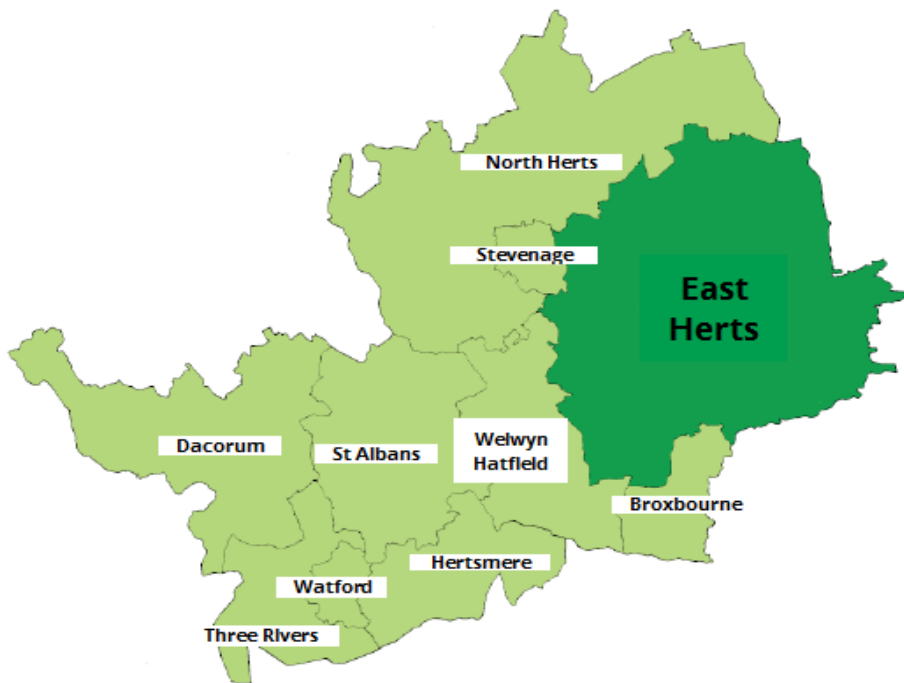
A handwritten signature in blue ink that reads "G. A. Williamson". The signature is written in a cursive style and is underlined with a single horizontal line.

Councillor Geoffrey Williamson, Executive Member for Financial Sustainability

# AN INTRODUCTION TO EAST HERTS

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

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



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

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

## EAST HERTS COUNCIL PERFORMANCE

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

### Improving and sustaining our environment

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

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

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

### Supporting and enabling our communities

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

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

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

### Supporting healthy lifestyles

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

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

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

### Creating vibrant places and supporting the local economy

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

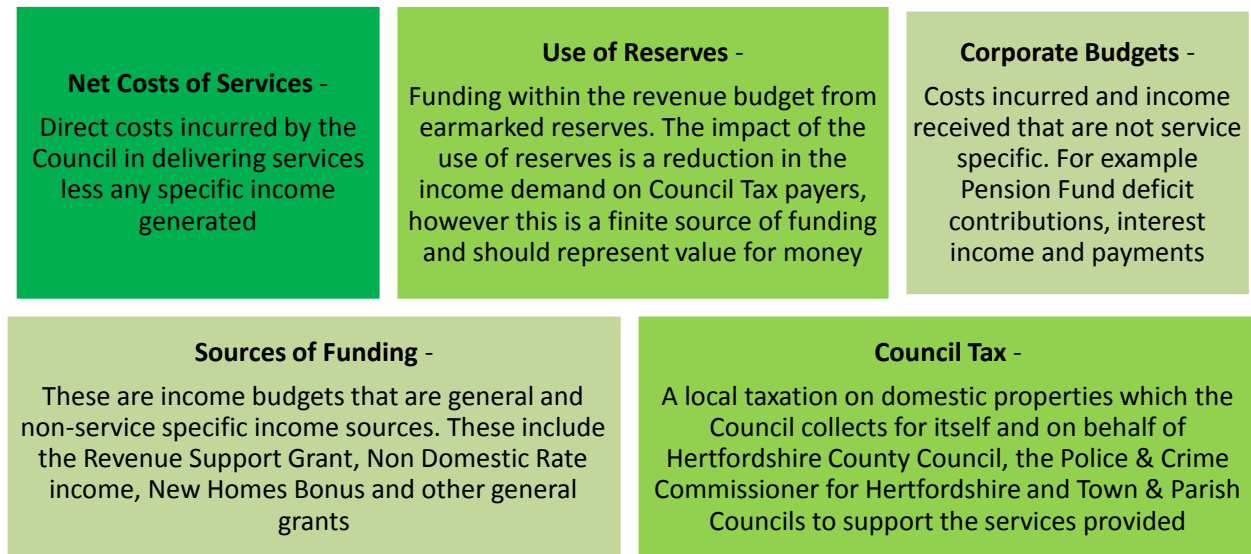
**Charter for the Gilston area:** in February 2020 the council published a draft Charter for the Gilston Area – part of Harlow and Gilston Garden Town – setting out guidance on how masterplans for the villages and the important network of green spaces that will surround them should be approached when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

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



# FINANCIAL PERFORMANCE IN 2019/20

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



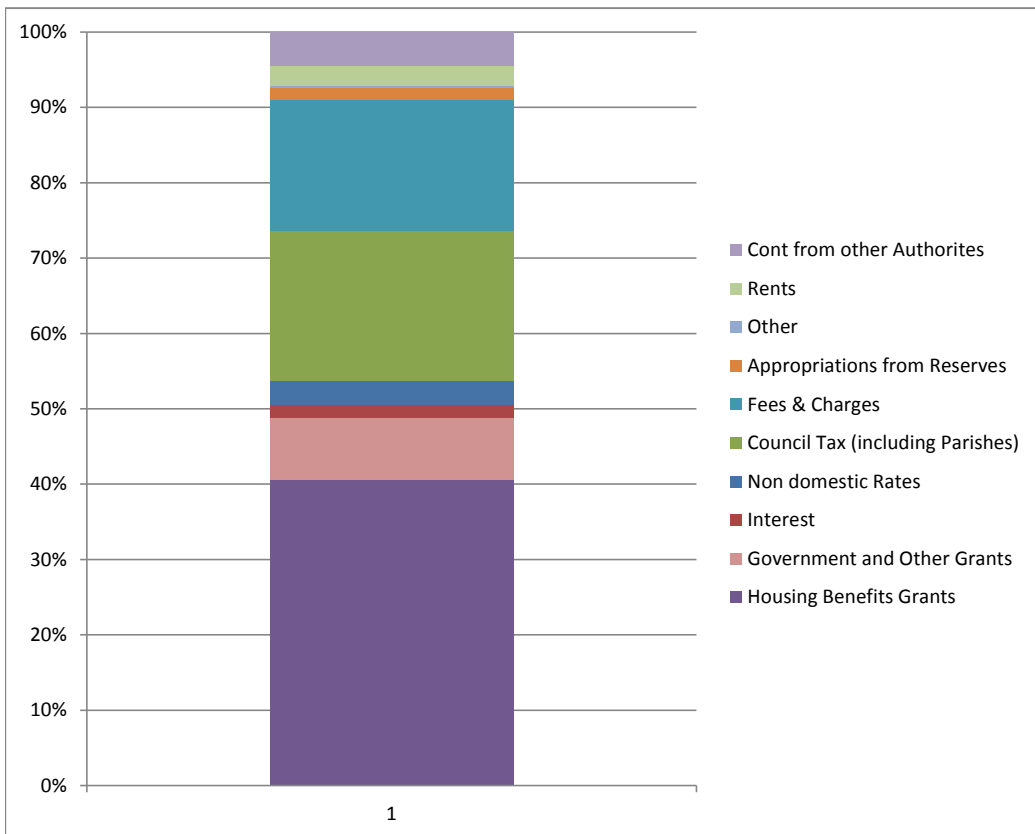
The table below details the Council's performance against the five major 'building blocks'. There was a £16k underspend in 2019/20, this has been transferred to the General Fund.

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

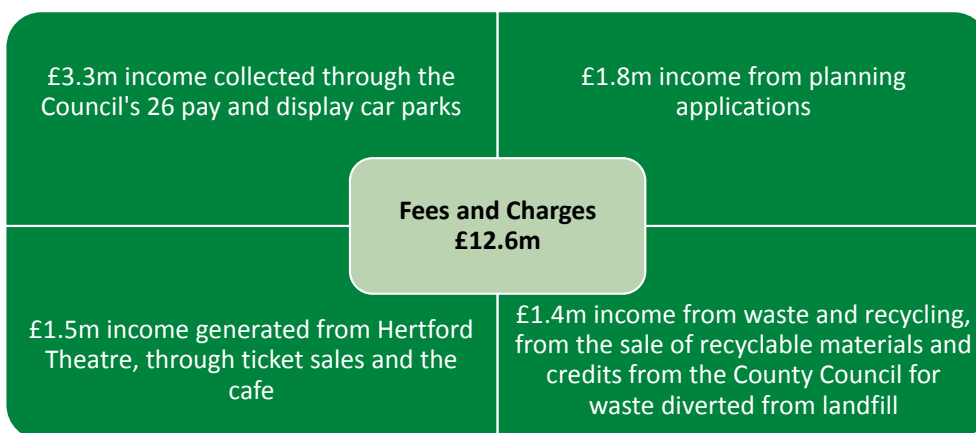
The Council's budget is monitored monthly by senior management and reported quarterly to the Executive. The outturn above includes £783k net use of reserves to fund services, this amount is included within the net cost of services figure.

## 2019/20 Income streams

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



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



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

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

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

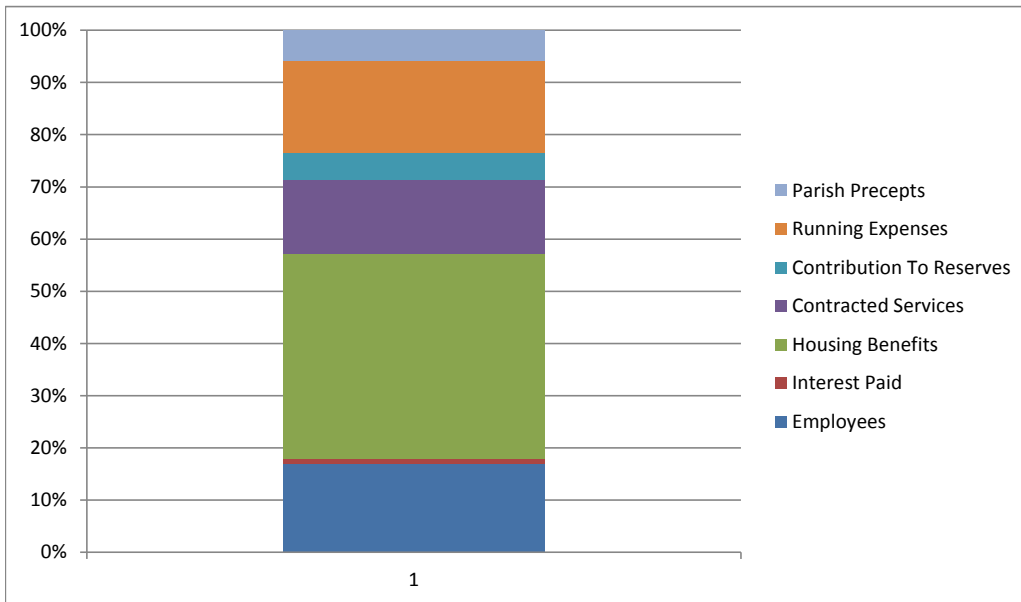
As the billing authority, East Herts Council collects Council Tax income from residents of the district; this is then distributed between Hertfordshire County Council, East Herts Council and the Police and Crime Commissioner. Of the income collected the Council's share in 2019/20 was £14.4m; £4.2m of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

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

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

## 2019/20 Expenditure

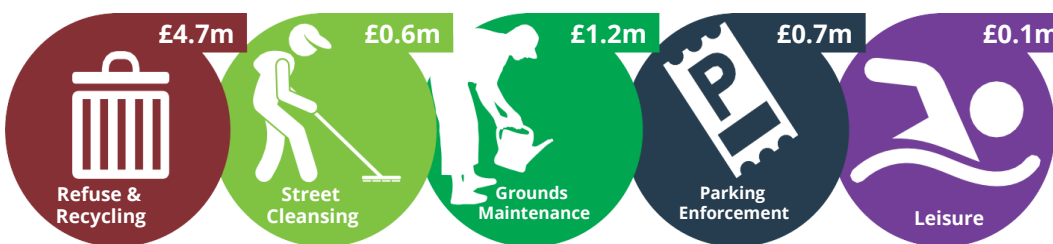
The chart below shows the £72.6m that the the Council spent in 2019/20. Housing benefits make up the largest outgoing of the Council.



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

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

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

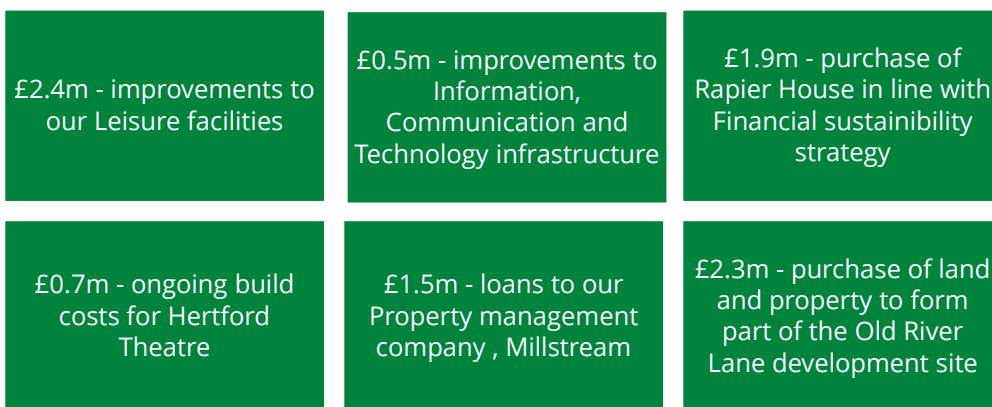


# FINANCIAL MANAGEMENT

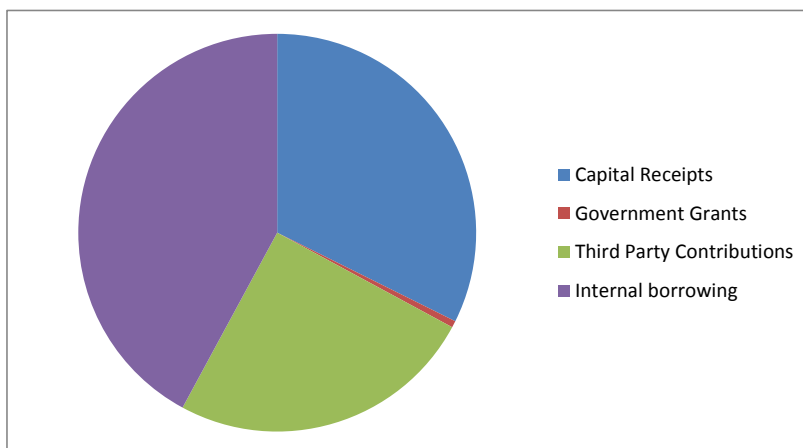
## Capital

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

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



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



## MEDIUM TERM FINANCIAL PLAN

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

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

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

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

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

2018/19	2019/20	2020/21
<b>Contribution to Reserves in year: £200k</b> <b>Balance at year end; £10.1m</b>	<b>Contribution to Reserves in year: £2.5m</b> <b>Balance at year end; £12.6m</b>	<b>Budgeted contribution to Reserves in year: £300k</b> <b>Balance at year end; £13m</b>

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

## **PENSION FUND**

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

The Council's liability at 31 March 2020 was £21.610m which is an decrease of £13m compared to the position at 31 March 2019.

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

## **Impact of COVID-19**

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

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

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

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

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

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

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

# EXPLANATION OF ACCOUNTING STATEMENTS

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



# The Core Accounting Statements

## MOVEMENT IN RESERVES STATEMENT

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

		General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	General Reserve	Total Usable Reserves	Total Unusable Reserves	Total Reserves
		£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2019</b>		<b>3,854</b>	<b>9,228</b>	<b>1,892</b>	<b>349</b>	<b>852</b>	<b>16,175</b>	<b>68,098</b>	<b>84,273</b>
<b>Movement in reserves during 2019/20</b>									
<b>Total Comprehensive Income and Expenditure</b>		<b>516</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>516</b>	<b>13,414</b>	<b>13,930</b>
Adjustments between accounting basis and funding basis under regulations	Note 5	2,035	-	(1,892)	(49)	-	94	(94)	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		<b>2,551</b>	<b>-</b>	<b>(1,892)</b>	<b>(49)</b>	<b>-</b>	<b>610</b>	<b>13,320</b>	<b>13,930</b>
Transfers to/(from) Earmarked Reserves	Note 6	(2,551)	2,631	-	-	(80)	-	-	-
Increase/Decrease in Year		0	2,631	(1,892)	(49)	(80)	610	13,320	<b>13,930</b>
<b>Balance as at 31 March 2020 carried forward</b>		<b>3,854</b>	<b>11,859</b>	<b>0</b>	<b>300</b>	<b>772</b>	<b>16,785</b>	<b>81,418</b>	<b>98,203</b>

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

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

	2019/20		2018/19	
	Gross Expenditure	Gross Income	Net Expenditure	Net Expenditure
	£000	£000	£000	£000
Chief Executive, PA's & Directors	589	-	589	537
Communications, Strategy & Policy	1,601	(140)	1,461	2,469
Human Resources & Organisation Development	645	(30)	615	589
Strategic Finance & Property	5,708	(1,301)	4,407	4,451
Democratic & Legal Services	1,983	(450)	1,533	1,318
Housing & Health	4,030	(1,236)	2,794	4,020
Planning & Building Control	3,535	(1,924)	1,611	1,084
Operations	15,670	(10,095)	5,575	6,060
Shared Revenues & Benefits Service	32,792	(31,602)	1,190	1,240
Shared Business & Technology Services	2,113	(81)	2,032	1,595
<b>NET COST OF SERVICES</b>			<b>21,807</b>	<b>23,363</b>
Payments of precepts to parishes			4,182	3,980
Gain on disposal of non current (fixed) assets			(1,371)	(1,758)
<b>OTHER OPERATING EXPENDITURE</b>			<b>2,811</b>	<b>2,222</b>
Interest payable and similar charges			662	660
Net Interest on the net defined benefit liability & remeasurements of the defined benefit liability for long term employee benefits			851	782
Interest receivable and similar income			(1,239)	(1,265)
Income from investment properties ( Note 10)			(956)	(1,035)
Direct expenditure incurred on investment properties ( Note 10)			179	514
Changes in Fair Value of Investment Properties			1,003	278
<b>FINANCING AND INVESTMENT EXPENDITURE</b>			<b>500</b>	<b>(66)</b>
Recognised capital grants and contributions			(2,700)	(2,552)
Council tax income			(14,465)	(13,816)
Non domestic rates			(2,937)	(1,555)
Non service related government grants			(5,532)	(4,369)
<b>TAXATION AND NON-SPECIFIC GRANT INCOME (Note 29)</b>			<b>(25,634)</b>	<b>(22,292)</b>
<b>(SURPLUS) / DEFICIT ON PROVISION OF SERVICES</b>			<b>(516)</b>	<b>3,227</b>
(Surplus) or Deficit on revaluation of Fixed assets			1,322	1,752
Reclassification of Grant			-	66
Remeasurements of the net defined benefit liability (Note 33)			(15,263)	2,928
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES</b>			<b>(13,941)</b>	<b>4,746</b>
(Surplus) / Deficit on revaluation of financial instruments (Note 12)			527	(403)
<b>ITEMS THAT MAY BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES</b>			<b>527</b>	<b>(403)</b>
<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(13,414)</b>	<b>4,343</b>
<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(13,930)</b>	<b>7,570</b>

All operations arise from continuing activities.

## BALANCE SHEET

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

		31 March '20		31 March '19	
		£000	£000	£000	£000
Property, Plant & Equipment	<i>Note 7</i>				
- Other land and buildings		46,774			49,476
- Vehicles, plant, furniture and equipment		2,151			2,349
- Infrastructure assets		1,995			2,241
- Community assets		2,965			2,752
- Surplus assets		2,571			2,546
- Assets under Construction		5,740			1,345
			62,196		
Investment Properties	<i>Note 10</i>	15,486			13,596
Intangible Assets	<i>Note 11</i>	785	16,271		865
			<b>78,467</b>		<b>75,170</b>
Long Term Investments	<i>Note 12</i>	21,408			22,118
Long Term Debtors	<i>Note 15</i>	2,483	23,891		1,034
<b>TOTAL LONG TERM ASSETS</b>			<b>102,358</b>		<b>98,322</b>
Assets Held For Sale	<i>Note 17</i>	255			0
Short Term Investments	<i>Note 12</i>	21,921			26,002
Short Term Debtors	<i>Note 15</i>	10,098			9,606
Cash and Cash Equivalents	<i>Note 16</i>	15,688			14,977
<b>CURRENT ASSETS</b>			<b>47,962</b>		<b>50,585</b>
Provisions	<i>Note 19</i>	(401)			(1,493)
Short Term Creditors	<i>Note 18</i>	(20,414)			(14,078)
<b>CURRENT LIABILITIES</b>			<b>(20,815)</b>		<b>(15,571)</b>
Provisions	<i>Note 19</i>	(2,115)			(2,140)
Long Term Borrowing	<i>Note 12</i>	(1,522)			(7,711)
Net Pension Liability	<i>Note 21</i>	(21,610)			(34,568)
Grant Receipts in Advance	<i>Note 29</i>	(1,997)			(1,957)
- Capital					
- Revenue		(4,058)			(2,687)
<b>LONG TERM LIABILITIES</b>			<b>(31,302)</b>		<b>(49,063)</b>
<b>NET ASSETS</b>			<b>98,203</b>		<b>84,273</b>
<b>USABLE RESERVES</b>					
- General Fund	<i>Note 20</i>	3,854			3,854
- General Reserve	<i>Note 20</i>	772			852
- Earmarked Reserves	<i>Note 6</i>	11,859			9,228
- Capital Receipts Reserve	<i>Note 20</i>	0			1,892
- Capital grants Unapplied	<i>Note 20</i>	300			349
			<b>16,785</b>		<b>16,175</b>
<b>UNUSABLE RESERVES</b>					
- Revaluation Reserve	<i>Note 21</i>	21,355			23,142
- Financial Instrument Revaluation Reserve	<i>Note 21</i>	1,403			1,929
- Pensions Reserve	<i>Note 21</i>	(21,610)			(34,568)
- Capital Adjustment Account	<i>Note 21</i>	79,327			77,069
- Deferred Capital Receipts	<i>Note 21</i>	148			150
- Collection Fund Adjustment Account	<i>Note 21</i>	997			502
- Short-term Accumulating Compensated Absences Account	<i>Note 21</i>	(202)			(126)
			<b>81,418</b>		<b>68,098</b>
<b>TOTAL RESERVES</b>			<b>98,203</b>		<b>84,273</b>

# THE CASH FLOW STATEMENT

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies

- i. The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Accounts and Audit Regulations 2015 require the Council to prepare the Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2019/20 and the Service Reporting Code of Practice (SeRCOP) 2019/20, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.
- ii. The accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue.

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

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

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

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

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

### **iii. Accruals of Income & Expenditure**

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

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

### **iv. Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three weeks or less that are readily convertible to known amounts of cash with insignificant risk of change in value, and are used to meet short term liquidity requirements.

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

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

## **vi. Charges to Revenue for Non - Current Assets (Property, Plant and Equipment and Intangible Assets)**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

Depreciation attributable to the assets used by the relevant service revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Depreciation, revaluation, impairment losses and amortisations are therefore transferred to the Capital Adjustment Account in the Movement in Reserves Statement.

## **vii. Employee Benefits**

### **Benefits Payable during Employment**

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

## **Post Employment Benefits (Pensions)**

The Council participates in one scheme, the Local Government Pension Scheme, which is a defined benefit final salary scheme administered by Hertfordshire County Council.

The liabilities of the Hertfordshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit credit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of future earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.5%. The discount rate has been determined as the long term government bond yield plus an allowance for the average difference between the yield on corporate bonds and government bonds. This difference in yields is a result of the difference in the risk of default. This approach has been adopted as government bonds have a long enough term to match the term of the liabilities whereas corporate bonds have shorter terms.

The assets of Hertfordshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price;
- unquoted securities – professional estimate;
- unit trust and managed fund investments (including property) – current bid price and disclosed in line with the requirements of IAS19.

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year
- allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost / gain – the increase / decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited / credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- expected return on assets – the annual investment return on the pension fund assets attributable to the Council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;



- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees
- debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
  
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve;
  
- contributions paid to the pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

In line with the requirements of the Code the past service contribution is no longer a current revenue item but is included as part of the payments to the pension fund (in accordance with pension scheme regulations) and is treated as a cash flow item which reduces the pensions liability. This is also in line with the requirements of the Code.

Further information can be found in Hertfordshire County Council’s Pension Fund’s Annual Report which is available upon request from LPP, Hertfordshire County Council, Post point CHO 033, County Hall, Pegs Lane, Hertford, SG13 8DQ.

### **viii. Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted where material to reflect such events
  - those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.
- Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### **ix. Government grants and contributions - revenue and capital**

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised in the accounts when there is reasonable assurance that the Council will comply with any conditions attached to the payments, and the grants or contributions will be received.

The grant or contribution is recognised immediately within the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition relating to the initial recognition that the Council has not satisfied.

Monies received as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as a liability within the Grants Receipts in Advance Account. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund expenditure.

Revenue grants specific to service provision are shown against the relevant service in the Comprehensive Income and Expenditure Statement. General grants allocated by central government directly to local authorities as additional revenue funding which are non-ring fenced are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

## **x. Minimum revenue provision**

In accordance with current legislation the minimum revenue provision (MRP) for the redemption of debt is required to be calculated on a prudent basis having regard to guidelines set out for application of the prudential code. Following the disposal of the Council's Housing stock the Council has a negative capital financing requirement and so the calculated MRP is nil.

## **xi. Overheads and support services**

As the Council does not include the recharge of overheads and support services in how they monitor and manage financial performance they are no longer included in the year end accounts.

## **xii. Provision for bad debt**

The value of receivables (debtors) shown on the Balance Sheet is adjusted for doubtful debts. The level of bad debt provision is reviewed annually. Uncollectable debts are written off against the provision. The following methods are used:

Trade Accounts Receivable	- Age and Collectability
Housing Benefits Overpayments	- Age and Collectability
National Non Domestic Rates	- 1.0% against the net debit due reviewed against sums written off and opening yearly balances and collectability
Council Tax	- 0.34% against the net debit due reviewed against sums written off and opening yearly balances

### **xiii. Revenue expenditure funded from Capital under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account is made which reverses out the amounts charged so that there is no impact on the level of council tax.

### **xiv. Capital receipts**

Capital Receipts arise from the sale of non-current assets (Property, Plant and Equipment and Investment Properties). Further to the introduction of the Prudential Capital Finance System on 1 April 2004, capital receipts are all deemed to be “usable” and are held within the Capital Receipts Reserve.

Prior to this date, in accordance with Government legislation, a proportion of certain receipts had to be “set aside” and are retained within the Capital Adjustment Account as provision for the repayment of debt.

### **xv. VAT**

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenues & Customs and in most circumstances all VAT paid is recoverable from them. VAT has been included in the income and expenditure accounts only to the extent that it is irrecoverable.

### **xvi. Tax Income (Council Tax, Non-Domestic Rates (NDR)**

#### **Non Domestic Rates (NDR)**

The Council collects, administers and distributes Non Domestic Rates (NDR) for its area based on local rateable values determined by the Valuation Office Agency (VOA). The tax liability is then calculated applying a business rate which is set and uniformly applied on a national basis. In 2013/14, the administration of NDR changed following the introduction of a Business Rates Retention Scheme which aims to give Councils greater incentive to grow businesses in their locality. This regime also increased the financial risk and opportunities for local authorities, with income becoming more volatile and difficult to predict.

The regime provides for local authorities to retain a proportion of the total collectable rates due in proportion of their relevant statutory share. In order to increase the proportion retained locally in 2019/20 the council entered into a 75% business rate retention pilot pool with other Hertfordshire authorities. The pool proportion for East Hert is 35%, the remainder being distributed to Hertfordshire County Council (40%) and Central Government (25%).

As part of the regime the Government set up a system of 'Top ups', 'Tariffs' and 'Safety Nets' that were introduced to ensure that Councils were guaranteed a minimum level of retained NDR income, thus providing some financial certainty under the new scheme. In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and the financial impact of uncollected business rate income as at 31 March 2020 Authorities are required to make a provision for these assets and liabilities in their accounts.

The accounting arrangements for the Non Domestic Rates are summarised as follows:

- the Council's element of Retained Business Rate income, Tariffs, Top Up and Safety net is included in the CI&E Statement based on the relevant regulations.
- the NDR Collection Fund is prepared on an agency arrangement basis. Relevant proportions of the accounts Surplus/Deficit/taxpayer's Arrears and Provisions are allocated to the relevant Preceptors and Government and accounted for as Debtors/ Creditors in the Billing Authority's Accounts
- the council's cashflow statement only includes the council's share of council tax, net cash collected and precepts paid.

### **Council Tax**

The Council as billing authority acts as agent with regards to the collection and distribution of Council Tax on behalf of itself, Hertfordshire County Council, Hertfordshire Police and Town and Parish Councils. In line with these agency arrangements, and in order to reflect the risks and rewards within the Council, the following transactions are included:

- the Council's Comprehensive Income & Expenditure Statement includes only the statutory precept under regulation.
- a debtor/creditor to reflect the difference between the various preceptors share of cash collected in the year and cash paid to the preceptors on account in line with the appropriate regulations will be included in the Council's balance sheet.
- the council's cashflow statement only includes the council's share of council tax, net cash collected and precepts paid

### **xvii. Interests in Other Entities**

The Council has set up a wholly owned subsidiary called Millstream Property Investments Ltd, which has the principal activity of acquiring, developing and refurbishing properties. The Company's accounts are consolidated into the Council's accounts and the consolidated accounts are included in the Council's Statement of Accounts.

Additionally, the Council also has an interest in Hertfordshire Building Control Limited, a company which is equally owned by seven Hertfordshire authorities.

## 2. Expenditure and Funding Analysis

The object of the Expenditure and Funding Analysis is to demonstrate to Council Taxpayers how the funding available to the authority (ie government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with general accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2019/20	Net Expenditure chargeable to the		
	General Fund balance £000	Adjustments between Funding & Accounting basis £000	Net Expenditure in CIES £000
Chief Executive, PA's & Directors	388	206	594
Communications, Strategy & Policy	1,024	451	1,475
Human Resources & Organisation Development	514	107	621
Strategic Finance & Property	3,474	954	4,428
Legal & Democratic Services	1,381	162	1,543
Housing & Health	2,301	523	2,824
Planning & Building Control	1,269	365	1,634
Operations	3,413	2,184	5,597
Shared revenues & Benefits Service	573	662	1,235
Shared Business & Technology Services	2,029	3	2,032
<b>Net cost of services</b>	<b>16,366</b>	<b>5,617</b>	<b>21,983</b>
Other income and Expenditure	(16,976)	(5,347)	(22,323)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(610)</b>	<b>270</b>	<b>(340)</b>
<b>Operating General Fund balance at 1 April 2019</b>	<b>16,175</b>		
Transfers to/(from) Earmarked Reserves	610		
<b>Closing General Fund Balance at 31 March 2020</b>	<b>16,785</b>		

2018/19	Net Expenditure chargeable to the		
	General Fund balance £000	Adjustments between Funding & Accounting basis £000	Net Expenditure in CIES £000
Chief Executive, PA's & Directors	378	159	537
Communications, Strategy & Policy	1,291	1,178	2,469
Human Resources & Organisation Development	489	100	589
Strategic Finance & Property	3,856	595	4,451
Legal & Democratic Services	1,159	159	1,318
Housing & Health	2,016	2,004	4,020
Planning & Building Control	720	364	1,084
Operations	3,917	2,143	6,060
Shared revenues & Benefits Service	598	642	1,240
Shared Business & Technology Services	1,591	4	1,595
<b>Net cost of services</b>	<b>16,015</b>	<b>7,348</b>	<b>23,363</b>
Other income and Expenditure	(14,989)	(5,147)	(20,136)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>1,026</b>	<b>2,201</b>	<b>3,227</b>
<b>Operating General Fund balance at 1 April 2018</b>	<b>17,267</b>		
Transfers to/(from) Earmarked Reserves	(1,026)		
Reclassification of grant	(66)		
<b>Closing General Fund Balance at 31 March 2019</b>	<b>16,175</b>		

# Note to the Expenditure and Funding Analysis - Adjustments between Funding and Accounting Basis

2019/20

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

	Adjustments for Capital Purposes (Note 1) £000	Net change for the Pensions Adjustments (Note2) £000	Other Differences (Note 3) £000	Total Adjustments £000
Chief Executive, PA's & Directors	134	69	3	206
Communications, Strategy & Policy	177	267	7	451
Human Resources & Organisation Development	22	84	1	107
Strategic Finance & Property	666	278	10	954
Legal & Democratic Services	24	133	5	162
Housing & Health	207	302	14	523
Planning & Building Control	47	306	12	365
Operations	1,881	295	8	2,184
Shared Revenues & Benefits Service	53	593	16	662
Shared Business & Technology Services	3	-	0	3
<b>Net cost of services</b>	<b>3,214</b>	<b>2,327</b>	<b>76</b>	<b>5,617</b>
Other income and expenditure from the Funding Analysis	(5,008)	156	(495)	(5,347)
<b>Difference between General Fund (surplus) or deficit and Comprehensive Income &amp; Expenditure Statement (surplus) or deficit</b>	<b>(1,794)</b>	<b>2,483</b>	<b>(419)</b>	<b>270</b>

2018/19

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

	Adjustments for Capital Purposes (Note 1) £000	Net change for the Pensions Adjustments (Note2) £000	Other Differences (Note 3) £000	Total Adjustments £000
Chief Executive, PA's & Directors	95	64	-	159
Communications, Strategy & Policy	992	186	-	1,178
Human Resources & Organisation Development	24	76	-	100
Strategic Finance & Property	344	251	-	595
Legal & Democratic Services	33	126	-	159
Housing & Health	1,656	348	-	2,004
Planning & Building Control	91	273	-	364
Operations	1,871	272	-	2,143
Shared Revenues & Benefits Service	72	570	-	642
Shared Business & Technology Services	4	-	-	4
<b>Net cost of services</b>	<b>5,182</b>	<b>2,166</b>	<b>-</b>	<b>7,348</b>
Other income and expenditure from the Funding Analysis	(5,326)	84	95	(5,147)
<b>Difference between General Fund (surplus) or deficit and Comprehensive Income &amp; Expenditure Statement (surplus) or deficit</b>	<b>(144)</b>	<b>2,250</b>	<b>95</b>	<b>2,201</b>

## **Note 1 – Adjustments for Capital Purposes**

Adjustments for capital purposes for this column add in depreciation and impairment and revaluation gains and losses in the services line and for:

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

## **Note 2 – Net change for the pensions' adjustments**

Net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income:

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

## **Note 3 – Other Differences**

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

- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund.



### 3. Accounting Standards Issued not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the Council to disclose information relating to accounting standards that have been issued but have not yet been adopted that could have a material impact on the accounts.

For this disclosure the standards introduced by the 2020/21 Code are:

- Amendments to IAS19 Employee benefits, Plan amendment, curtailment or settlement
- IFRS 16 Leases (implementation of this standard is delayed until April 2021).

The Code requires implementation from 1 April 2020 and therefore there is no impact on the 2019/20 Statement of Accounts.

### 4. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future that are otherwise uncertain. Estimates are made taking into account professional advice (e.g. actuarial advice), historical experience, current trends and other relevant information. Items included within the Council's Balance Sheet at 31 March 2020 for which there is a risk of material adjustment in the forthcoming year are as follows:

#### Pension Liability

The value of the pension liability as at 31st March 2020 is £23.546m. This liability depends on a number of factors, including discount rates, changes in retirement age, mortality rates and expected return on pension's assets. These are determined on an actuarial basis by Hymans Robertson, the actuaries for the Hertfordshire pension fund.

Change in assumptions at 31 March 2020	Approximate % increase to Employer liability	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	9%	11,622
0.5% increase in the Salary Increase Rate	1%	1,011
0.5% increase in the Pension Increase Rate	8%	10,524

The figures in the table above give an indication of the potential impact that a change in assumptions could represent to the value of the pension liability. The figures represent key factors taken in isolation and are only indicative of the estimated impact as the assumptions interact in complex ways. The approach taken is consistent with that adopted to derive the IAS19 figures as per note 33.

## Property, Plant and Equipment

The Councils assets are shown in the accounts at either Fair Value, Fair Value (Existing Use) or Market Value (dependent on the class of asset. Further information can be found in Note 7). The valuations are carried out by our internal asset management team in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation professional standards and International Financial Reporting Standards (IFRS). These valuations are arrived at using recent comparable transactions and for specialised properties using depreciated replacement cost methodology.

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

The tables below show the 31 March 2020 value of the assets in the Statement of Accounts, the impact a 5% increase or decrease in asset value would have on the Balance Sheet and the depreciation charged to the Comprehensive Income and Expenditure statement.

	31/03/2020	-5%		5%	
	Value	Movement		Value	Movement
	£000	£000	£000	£000	£000
Other Land & Buildings	77,673	74,852	(2,821)	82,732	5,059
Vehicles, Plant, Furniture & Equip.	20,381	19,362	(1,019)	21,400	1,019
Infrastructure	8,540	8,114	(426)	8,968	428
Community Assets	3,056	2,903	(153)	3,209	153
Surplus Assets	2,571	2,442	(129)	2,700	129
	<b>112,221</b>	<b>107,673</b>	<b>(4,548)</b>	<b>119,009</b>	<b>6,788</b>

## Depreciation

	31/03/2020	-5%		5%	
	Value	Movement		Value	Movement
	£000	£000	£000	£000	£000
Other Land & Buildings	774	735	(39)	813	39
Vehicles, Plant, Furniture & Equip.	564	536	(28)	592	28
Infrastructure	266	253	(13)	279	13
	<b>1,604</b>	<b>1,524</b>	<b>(80)</b>	<b>1,684</b>	<b>80</b>

## Non Domestic Rates - Provision for outstanding appeals

Since the Retained Business Rate scheme was introduced on 1st April 2013 Local Authorities have assumed the liability for refunding business rate payers who successfully appeal against the rateable value of their property.

Appeals against the rateable value of a property are lodged by the rate payer with the Valuation Office Agency, who provides information of all the appeals that have been lodged to the Council.

An estimate of the potential impact of successful appeals has been calculated using analysis provided from Inform (a member of the Institute of Rating, Revenues and Valuation) and local knowledge.

The carrying amount of the provision at 31 March 2020 is £7.1m, of which the Council's share of £2.479 is reflected in the accounts. Higher success rates of appeals could result in a need for a larger provision. An increase of 5% would change the required provision by £355k affecting the surplus/deficit distribution to the Council, Hertfordshire County Council and Central Government.

## 5. Adjustments between Accounting Basis and Funding Basis under Regulations

2019/20

### Adjustments involving the Capital Adjustment Account:

Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:

	General Fund balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Charges for depreciation of non current assets	1,558	-	-	(1,558)
Revaluation / Impairment on Property Plant and Equipment	885	-	-	(885)
Movements in the market value of Investment Properties	1,003	-	-	(1,003)
Amortisation of intangible assets	419	-	-	(419)
Capital grants and contributions applied	(2,700)	-	-	2,700
Revenue expenditure funded from capital under statute	351	-	-	(351)
Revenue grants written down to the Capital Adjustment Account	-	-	-	-
Disposal of non current assets	217	-	-	(217)
Disposal of investment Properties	-	-	-	-

Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:

Statutory adjustment relating to capital element of principal repayment for finance lease  
Capital expenditure charged against the General Fund

### Adjustments involving the Capital Grants Unapplied Account:

Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(49)	49

### Adjustments involving the Capital Receipts Reserve:

Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,588)	1,588	-	-
Use of Capital Receipts Reserve to finance new capital expenditure	-	(3,480)	-	3,480

### Adjustments involving the Deferred Capital Receipts Reserve:

Statutory adjustment relating to capital element of principal payment for finance lease	2	-	-	(2)
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### Adjustments involving the Pensions Reserve:

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 33)	4,939	-	-	(4,939)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,456)	-	-	2,456

### Adjustments involving the Collection Fund Adjustment Account:

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(495)	-	-	495
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### Adjustment involving the Accumulated Absences Account

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	76	-	-	(76)
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<b>Total Adjustments</b>	<b>2,211</b>	<b>(1,892)</b>	<b>(49)</b>	<b>(270)</b>
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## 2018/19 Comparative Figure

	Usable Reserves			
	General Fund balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments involving the Capital Adjustment Account:</b>				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation of non current assets	1,856	-	-	(1,856)
Revaluation / Impairment on Property Plant and Equipment	604	-	-	(604)
Movements in the market value of Investment Properties	279	-	-	(279)
Amortisation of intangible assets	417	-	-	(417)
Capital grants and contributions applied	(2,552)	-	-	2,552
Revenue expenditure funded from capital under statute	2,304	-	-	(2,304)
Revenue grants written down to the Capital Adjustment Account	(75)	-	-	75
Disposal of non current assets	620	-	-	(620)
Disposal of investment Properties	-	-	-	-
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory adjustment relating to capital element of principal repayment for finance lease	1	-	-	(1)
Capital expenditure charged against the General Fund	(5)	-	-	5
<b>Adjustments involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(115)	115
<b>Adjustments involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,377)	2,377	-	-
Use of Capital Receipts Reserve to finance new capital expenditure	-	(3,479)	-	3,479
<b>Adjustments involving the Deferred Capital Receipts Reserve:</b>				
Statutory adjustment relating to capital element of principal payment for finance lease	1	-	-	(1)
<b>Adjustments involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 33)	4,641	-	-	(4,641)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,391)	-	-	2,391
<b>Adjustments involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	98	-	-	(98)
<b>Adjustment involving the Accumulated Absences Account</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(3)	-	-	3
<b>Total Adjustments</b>	<b>3,418</b>	<b>(1,102)</b>	<b>(115)</b>	<b>(2,201)</b>

## 6. Transfers to/from Earmarked Reserves

Amounts appropriated to / from reserves are distinguished from service expenditure disclosed in the Statement of Accounts. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cashflow management.

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide funding for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2019/20.

	Balance 1 April 2018 £000	Transfers Out/(In) 2018/19 £000	Balance 31 March 2019 £000	Transfers Out 2019/20 £000	Transfers In 2019/20 £000	Balance 31 March 2020 £000
Interest Equalisation Reserve	(1,461)	(175)	(1,636)	-	(149)	<b>(1,785)</b>
Insurance Fund	(965)	22	(943)	8	-	<b>(935)</b>
Emergency Planning Reserve	(36)	-	(36)	-	-	<b>(36)</b>
LDF/Green Belt Reserve	(62)	-	(62)	-	-	<b>(62)</b>
Housing Condition Survey Reserve	(90)	-	(90)	-	-	<b>(90)</b>
Council Elections Reserve	(45)	(28)	(73)	100	(27)	-
Sinking fund - Leisure Utilities / Pension Reserve	(228)	-	(228)	-	-	<b>(228)</b>
Performance Reward Grant Reserve	(10)	-	(10)	-	-	<b>(10)</b>
Waste Recycling Income Volatility Reserve	(248)	145	(103)	-	-	<b>(103)</b>
Footbridge Reserve	(150)	-	(150)	-	-	<b>(150)</b>
Transformation Reserve	(278)	278	-	-	-	-
DCLG Preventing Repossessions	(18)	-	(18)	-	-	<b>(18)</b>
New Homes Bonus Priority Spend	(4,867)	175	(4,692)	753	(654)	<b>(4,593)</b>
Collection Fund Reserve	-	-	-	-	(2,554)	<b>(2,554)</b>
DEFRA Flood Support	(4)	-	(4)	-	-	<b>(4)</b>
Commercial Property Fund	(127)	127	-	-	-	-
Neighbourhood Planning	-	(14)	(14)	-	(50)	<b>(64)</b>
IER	-	(55)	(55)	-	(51)	<b>(106)</b>
MTFP Transition Funding Reserve	(230)	(500)	(730)	57	-	<b>(673)</b>
Flexible Homelessness Grant	(105)	(125)	(230)	-	(124)	<b>(354)</b>
Preventing Homelessness New Burdens Reserve	(31)	-	(31)	-	-	<b>(31)</b>
Healthy Lifestyle Promotions Reserve	-	(33)	(33)	-	-	<b>(33)</b>
Land Charges New Burdens	-	(30)	(30)	-	-	<b>(30)</b>
HB Subsidy Volatility Reserve	-	(60)	(60)	60	-	-
		-				
<b>Total</b>	<b>(8,955)</b>	<b>(273)</b>	<b>(9,228)</b>	<b>978</b>	<b>(3,609)</b>	<b>(11,859)</b>

Interest Equalisation Reserve	This reserve was established to assist the Council in managing the financial implications of adverse interest rate fluctuations. £149k has been added to this reserve in 2019/20
Insurance Fund	Its purpose is to support the Council's insurance and risk management process in anticipation of setting up a self-insurance fund in some areas to reduce future insurance premiums. £8k was utilised in 2019/20 to match expenditure.
Emergency Planning Reserve	The reserve was set up to support the work of an Emergency Planning Officer Group that has been established within the Council. There was no call on it in 2019/20.
Local Development Framework / Green Belt Reserve	This reserve was established in 2008/09 to smooth expenditure over the Council's Medium Term Financial Plan (MTFP). There has been no call on the reserve in 2019/20.
Housing Condition Survey Reserve	This reserve was established to fund House Condition Surveys. There has been no movement on the reserve in 2019/20.
Council Elections Reserve	Established to smooth expenditure over the MTFP. This reserve has been fully utilised in 2019/20 to fund the costs of elections in the year.
Sinking Fund – Leisure Utilities and Pension	Further to the Council awarding a new leisure contract to Sports and Leisure Management from January 2009, the Council provided guarantees in respect of utilities and employers pension costs. There was no call on it in 2019/20.
Performance Reward Grant Reserve	The Council received revenue grant funding in respect of the Local Area Agreement (Performance Reward Grant) in 2009/10. There was no call on the reserve in 2019/20.
Waste Recycling Income Volatility Reserve	The reserve has been established to manage income volatility in recycling income. There has been no movement on this reserve in 2019/20.
Footbridge Reserve	The Council's MTFP included setting aside £50k a year from 2010/11 to 2012/13 in order to meet any potential maintenance costs or liabilities that may arise relating to the footbridge over the River Stort. There was no call on the reserve 2019/20.

Transformation Reserve	The Cost of Change reserve was set up to fund transitional staffing costs, including those arising from implementing planned budget savings through staffing restructurings. This was amalgamated with the Service Improvement Fund and Restructure Fund to form a new Transformation Reserve. This was fully utilised in 2018/19.
DCL Preventing Repossessions	This reserve was established from unspent Government Grant monies. There were no appropriations in 2019/20.
New Homes Bonus Priority Spend	This reserve was established from unspent New Homes Bonus monies received from DCLG and the 2014/15 GF underspend. Over the years, further amounts of New Homes Bonus monies have been transferred to this reserve and £753k was appropriated in 2019/20 to fund various items.
Collection Fund Reserve	As a result of a Council decision in January 2014, a Government Funding Risk Reserve was established to smooth the effect on the Council of income volatility following the new NDR funding regime. This was subsequently renamed the Collection Fund Reserve. £2,554k was added to the reserve in 2019/20 from additional s31 grants and NDR growth to help smooth future fluctuations.
DEFA Flood Support for Local Businesses	This reserve was established from the unspent element of a DEFRA grant received to enable the Council to support local businesses to repair damage following the flooding in 2013/14. There has been no call on this in 2019/20.
Commercial Property Fund	Established in February 2015 to support the development of investment opportunities in commercial property. Appropriations were made in 2018/19 which resulted in the reserve being fully utilised.
Neighbourhood Planning Grant	Created in 2014/15 from unspent Neighbourhood Planning grant received from MHCLG to fund future spend. Unspent grant received in 2019/20 has been added to the reserve.
IER Grant	This reserve was created from unspent grant monies received from the Cabinet Office to fund the costs of additional work involved in the Individual Electoral Registration Scheme. Further unspent grant monies have been added to the reserve in 2019/20.

MTFP Transition Funding Reserve	A new reserve established in 2016/17 from the Transition Grant awarded by MHCLG as part of the 2016/17 financial settlement. £57k has been utilised in 2019/20 to fund expenditure
Flexible Homelessness Grant	Established from unspent Government Grant monies in 2017/18 specifically to prevent and deal with homelessness. Further unspent grant monies have been added in 2019/20.
Preventing Homelessness New Burdens	A new reserve set up in 2017/18 from unspent Government Grant to deal with Homelessness. There was no call on this in 2019/20.
Healthy Lifestyle Promotions	A new reserve created in 2018/19 from unspent grant monies received to promote healthy living. There has been no call on this in 2019/20.
Land Charges New Burdens	This reserve was created from unused government grant received to cover costs of transferring the local land charges register to HM Land Registry. There has been no call on this in 2019/20.
HB Subsidy Volatility Reserve	A new reserve created in 2018/19 to manage the financial implications of fluctuations in Housing Benefit subsidy. This has been fully utilised in 2019/20.



## 7. Property, Plant & Equipment

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

### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

### Measurement

Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;

The Council does not capitalise borrowing costs incurred whilst assets are under construction. Assets are then carried in the Balance Sheet using the following measurement bases:

- Operational non-specialised property – fair value based on existing use value. The multi-storey car parks and surface car parks have been valued using the Existing Use Valuation method on the basis of income & expenditure, profit information;
- Operational specialised property (inc leisure centres and Hertford theatre) – depreciated replacement cost (DRC);
- Community assets – nominal value or historical cost;
- Infrastructure and all other assets – depreciated historical cost;
- Surplus assets - fair value, estimated at highest and best use from a market participant's perspective.

In the event of a future disposal the market value at that time may realise more or less than the carrying value. Since April 2016 the Council has revalued its assets on an annual basis (formerly four year rolling basis). Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

The Valuations were carried out by the Council's Estates and Asset Manager, Anna Osborne (MRICS) and Principal Assets and Estates Surveyor Lucy Smith (MRICS) on the basis of standards of professional practice set out in the guidance below:

- Royal Institution of Chartered Surveyors (RICS) Valuation - Professional Standards ('The red Book')
- International Financial Reporting Standards (IFRS)
- Chartered Institute of Public Finance and Accounting Code of Practice on Local Authority Accounting ('The CIPFA Code')

The valuer has arrived at their opinion of Fair Value, Fair Value (Existing Use) and Market Value from referring to recent comparable transactions. For Specialised properties the Fair value (Existing Use) has been derived using Depreciated Replacement Cost methodology.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account. The current asset values used in the accounts are based upon a certificate issued by the Council's Asset & Estates Manager, Anna Osborne MRICS and Lucy Smith MRICS as at 31 March 2020. Property, plant and equipment are classified in the Balance Sheet in line with current Accounting Codes of Practice.

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## Depreciation

All Property, Plant and Equipment, other than freehold land and Community Asset's (with two exceptions being recreational facilities with a building element) are depreciated on a straight line basis over the period of the assets useful economic life. The following periods are used:

Freehold Land	No depreciation
Hostels	60 years
Other Council Buildings	20 to 60 years
Infrastructure	10 to 20 years
Equipment, Furniture and Fittings	5 to 20 years
Community Assets	No depreciation (30 years for exceptions)
Non-operational assets	40 to 60 years
Enhancement to Leased Properties	10 to 25 years
Plant	20 to 35 years

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

## Componentisation

In line with accounting requirements the Council considers the identification of individual asset components on a prospective basis following either the enhancement of an asset or its revaluation. The Council has determined that it will adopt a de-minimis value of £1m for individual assets.

## Disposals

When an asset is disposed of the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The gain or loss on disposal is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are transferred from the General Fund Balance in the Movement in Reserves Statement to the Capital Adjustment Account (the carrying amount of the asset) and the usable Capital Receipts Reserve (the disposal proceeds).

## Property, Plant & Equipment

Cost or Valuation	Other Land & Buildings	Vehicles, Plant, Furniture & Equip.	Infrastructure	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment
	£000	£000	£000	£000	£000	£000	£000
<b>2018/19</b>							
As at 01/04/2018	79,968	19,928	8,518	2,730	2,744	-	<b>113,888</b>
Additions	336	296	15	113	-	1,350	<b>2,110</b>
Disposals	-	(209)	-	-	-	-	<b>(209)</b>
Reclassifications	(71)	-	-	-	71	-	<b>0</b>
Revaluations	(2,603)	-	-	-	(269)	(5)	<b>(2,877)</b>
<b>Total as at 31/03/2019</b>	<b>77,630</b>	<b>20,015</b>	<b>8,533</b>	<b>2,843</b>	<b>2,546</b>	<b>1,345</b>	<b>112,912</b>
<b>2019/20</b>							
As at 01/04/2019	77,630	20,015	8,533	2,843	2,546	1,345	<b>112,912</b>
Additions	366	366	7	213	124	4,395	<b>5,471</b>
Disposals	(217)	-	-	-	-	-	<b>(217)</b>
Reclassifications	-	-	-	-	-	-	<b>0</b>
Revaluations	(106)	-	-	-	(99)	-	<b>(205)</b>
<b>Total as at 31/03/2020</b>	<b>77,673</b>	<b>20,381</b>	<b>8,540</b>	<b>3,056</b>	<b>2,571</b>	<b>5,740</b>	<b>117,961</b>
<b>Depreciation &amp; Impairment</b>							
<b>As at 01/04/2018</b>	27,897	16,753	6,026	91	-	-	<b>50,767</b>
Charge for Year	773	817	266	-	-	-	<b>1,856</b>
Acc depreciation w/o on revaluation	-	-	-	-	-	-	<b>0</b>
Disposals	-	-	-	-	-	-	<b>0</b>
Impairment (reversal) recognised in the service	603	96	-	-	-	-	<b>699</b>
Revaluations	-	-	-	-	-	-	<b>0</b>
<b>Total as at 31/03/2019</b>	<b>29,273</b>	<b>17,666</b>	<b>6,292</b>	<b>91</b>	<b>0</b>	<b>0</b>	<b>53,322</b>
<b>As at 01/04/2019</b>	29,273	17,666	6,292	91	0	0	<b>53,322</b>
Charge for Year	741	564	253	-	-	-	<b>1,558</b>
Acc depreciation w/o on revaluation	-	-	-	-	-	-	<b>0</b>
Disposals	-	-	-	-	-	-	<b>0</b>
Impairment (reversal) recognised in the service	885	-	-	-	-	-	<b>885</b>
Revaluations	-	-	-	-	-	-	<b>0</b>
<b>Total as at 31/03/2020</b>	<b>30,899</b>	<b>18,230</b>	<b>6,545</b>	<b>91</b>	<b>0</b>	<b>0</b>	<b>55,765</b>
<b>Net Book Value</b>							
<b>Balance Sheet as at 31/03/19</b>	<b>48,357</b>	<b>2,349</b>	<b>2,241</b>	<b>2,752</b>	<b>2,546</b>	<b>1,345</b>	<b>59,590</b>
<b>Balance Sheet as at 31/03/20</b>	<b>46,774</b>	<b>2,151</b>	<b>1,995</b>	<b>2,965</b>	<b>2,571</b>	<b>5,740</b>	<b>62,196</b>

## Reconciliation of Additions in the year to Capital Spend

	2019/20	2018/19
	£000	£000
Additions in the year (as above)	5,471	2,110
Intangible assets	339	243
Investment Properties	2,893	790
	<b>8,703</b>	<b>3,143</b>
plus REFCUS (not included in note 7)	352	2,305
Third Party Loan (Long Term Debtor)	1,451	778
<b>Total Capital Spend</b>	<b>10,506</b>	<b>6,226</b>

## 8. Analysis of Fixed Assets

	31 March '20 Number	31 March '19 Number
Council Dwellings - Hostels	2	2
- Houses	2	2
Council Offices - Freehold	2	2
- Leasehold	0	0
Service Centre - Leasehold	1	1
Cash Offices	2	2
Off-Street Car Parks ( incl. Leasehold)	35	35
Swimming Pools (including 3 joint-use pools)	5	5
Parks and Recreation Grounds/Open spaces	188 HA	188 HA
Public Halls/Community Centres (incl leasehold)	9	9
Commercial Property Rented Out	56 Units	54 Units
Land Awaiting Development	1 HA	1 HA
Public Convenience	3	3

## 9. Heritage Assets

In line with the 2012 Code and FRS 30, the Council has identified a number of assets that meet the definition of a heritage asset and are being preserved in trust for future generations because of their cultural, environmental or historical associations.

The Council's policy is to maintain Heritage assets in order to preserve them for future generations because of their cultural and historical associations. The Council does not consider that a commercial value can be placed upon these assets and its policy is, therefore, not to disclose on the balance sheet. They continue to be included within community assets with a nominal value. The assets are insured in order to protect the Council's interest in the event of damage or destruction.

The Heritage assets held within Community assets at a nominal sum are as follows; there is no value held for these assets.

- The Castle Wall (ancient flint), Hertford
- Scott's Grotto, Ware
- Monument, remains of Church of St Mary's, Old Cross
- Community land Obelisk, Bishop's Stortford
- Flowing River Sculpture, Bishop's Stortford
- Evolution sculpture at Hartham Common
- Hertford Theatre Wall Bronze Resin Sculpture
- Civic Regalia
- Oil Painting of Wallfields, Hertford
- Chainsaw sculpture Pishiobury Park, Sawbridgeworth

## 10. Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2019/20	2018/19
	£000	£000
Rental income from investment property	(956)	(1,035)
Direct operating expenses arising from investment property	179	514
<b>Net gain</b>	<b>(777)</b>	<b>(521)</b>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct, enhance or develop investment property. In some cases, the Council has repairing obligations which are met through revenue expenditure.

Authorities shall account for investment property in accordance with IAS 40 Investment Property and should be valued to 'Fair Value'.

Investment property is recognised at cost, including transaction costs but excluding operational components (PPE) where these can be measured reliably. Following recognition investment property is revalued on a fair value basis reflecting market state and circumstances on a given date.

The objective of this measurement approach is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under the current market conditions.

The following table summarises the movement through additions and re-classification of investment properties over the year:

	2019/20 £000	2018/19 £000
Balance at start of the year	13,596	13,396
Additions: Not transferred through re-classification	2,893	790
Additions: Transferred through re-classification	-	-
Disposals : Transferred through re-classification	-	(340)
Net gains / (losses) from fair value adjustments	(1,003)	(250)
<b>Balance at end of the year</b>	<b>15,486</b>	<b>13,596</b>

In addition to arriving at the fair values for the assets, IFRS 13 seeks to increase consistency and comparability within the valuation process which has been achieved through a 'fair value hierarchy'.

### **Fair Value Hierarchy**

All the Council's investment properties have been value assessed as Level 2 on the fair value hierarchy for valuation purposes.

### **Valuation Techniques Used to Determine Level 2 Values for Investment Property**

The fair value of investment property has been based on the market approach using current market conditions and recent sales prices, existing lease terms and rentals and other relevant information for similar assets in the local authority area. Market conditions for these asset types are such that the level of observable inputs are significant leading to the properties being categorised at Level 2 in the fair value hierarchy.

There has been no change in the valuation techniques used during the year for investment properties.

### **Highest and Best Use**

In estimating the fair value of the Council's investment properties, the highest and best use is their current use.

### **Valuation Process for Investment Properties**

The Council's investment property has been valued as at 31 December 2019 (with a statement of professional opinion given that there has been no material change up to 31 March 2020) by the Council's Estates and Asset Manager, Anna Osborne (MRICS) and Principal Assets and Estates Surveyor Lucy Smith (MRICS) in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

## 11. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. In addition, the Council has agreed that all software will be treated as intangible assets.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation is not permitted to have an impact on the General Fund Balance. This is therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful life assigned to the major software applications used by the Authority is 5 years. The movement on Intangible Asset balances during the year is as follows:

	Software £000	2019/20 Other Intangible £000	Total £000	Software £000	2018/19 Other Intangible £000	Total £000
<b>Balance at start of year:</b>						
Gross carrying amounts	5,328	-	5,328	5,085	-	5,085
Accumulated amortisation	(4,463)	-	(4,463)	(4,046)	-	(4,046)
<b>Net carrying amount at start of year</b>	<b>865</b>	<b>-</b>	<b>865</b>	<b>1,039</b>	<b>-</b>	<b>1,039</b>
Additions:						
Purchases	339	-	339	243	-	243
Amortisation for the period	(419)	-	(419)	(417)	-	(417)
<b>Net carrying amount at end of year</b>	<b>785</b>	<b>-</b>	<b>785</b>	<b>865</b>	<b>-</b>	<b>865</b>
Comprising:						
Gross carrying amounts	5,667	-	5,667	5,328	-	5,328
Accumulated amortisation	(4,882)	-	(4,882)	(4,463)	-	(4,463)
	<b>785</b>	<b>-</b>	<b>785</b>	<b>865</b>	<b>-</b>	<b>865</b>



## 12. Financial Instruments

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

### Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at: amortised cost, fair value through profit or loss (FVPL), and fair value through other comprehensive income (FVOCI). The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

### Soft Loans

The Code requires that a discounted interest rate be recognised as a reduction in the fair value of the asset. Potential Council loans falling within this category relate to an assisted car purchase scheme and a cycle scheme. The Council currently has no loans under its assisted car purchase scheme and the amount advanced under the cycle scheme is considered immaterial.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **Expected Credit Loss Model**

The authority recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

## **Financial Assets Measured at Fair Value through Profit or Loss**

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques: instruments with quoted market prices – the market price Other instruments with fixed and determinable payments – discounted cash flow analysis.

## **Financial Assets Measured at Fair Value through Other Comprehensive Income**

These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the Comprehensive Income and Expenditure Statement when the asset is disposed of. The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

## **Financial Guarantees**

Commencing on 1 January 2009 the Council awarded a new 10 year contract for the Management of its Leisure Facilities and Swimming Pools. Under this contract the Council has given two guarantees in respect of pension liabilities and utility costs. The guarantee relating to pension costs relates to increases in employer contributions above 23.4%. Any increase will be in line with future actuarial valuations. Each 1% increase in contribution rate would result in a liability of approximately £3k per year.

The guarantee relating to utility costs relates to above inflationary increases in the tariffs payable. Each 1% increase would represent around £2.4k per year.

The Code includes a requirement for financial guarantees to be recognised at fair value and charged to the Comprehensive Income and Expenditure Statement (amortised over the life of the guarantee). The levels of liability assessed at March 2020 are regarded as non material and therefore the accounting requirement has not been followed in respect of these guarantees. The Council has determined to set aside a reserve against potential liabilities under these guarantees as set out in Note 6 to the Notes to the Core Statements.

No other financial guarantees were identified in 2019/20.

## Financial Instruments Balances

	Non-Current		Current	
	31 March '20 £000	31 March '19 £000	31 March '20 £000	31 March '19 £000
<b>Financial Assets</b>				
<b>Investments</b>				
At amortised cost - principal amount	-	-	21,850	25,922
- accrued interest	-	-	71	80
Fair Value through other comprehensive income - designated equity instruments	21,222	21,935	-	-
- accrued interest	186	183	-	-
<b>Total Investments</b>	<b>21,408</b>	<b>22,118</b>	<b>21,921</b>	<b>26,002</b>
<b>Cash &amp; Cash Equivalents</b>				
At amortised cost - principal amount	-	-	15,683	14,949
At amortised cost - accrued interest	-	-	5	28
<b>Total Cash &amp; Cash Equivalents</b>	<b>-</b>	<b>-</b>	<b>15,688</b>	<b>14,977</b>
<b>Debtors</b>				
Financial Assets at amortised cost	2,483	1,034	10,098	9,606
Less Non Financial Instruments Assets	-	-	(2,223)	(1,351)
<b>Total Debtors</b>	<b>2,483</b>	<b>1,034</b>	<b>7,875</b>	<b>8,255</b>
<b>Total Financial Assets</b>	<b>23,891</b>	<b>23,152</b>	<b>45,484</b>	<b>49,234</b>
<b>Financial liabilities</b>				
<b>Borrowing</b>				
At amortised cost	(1,500)	(7,500)	(6,000)	-
At amortised cost - accrued interest	(22)	(211)	(191)	-
Creditors	-	-	(14,223)	(14,078)
Non Financial instruments Liabilities	-	-	6,458	7,364
<b>Total Financial liabilities</b>	<b>(1,522)</b>	<b>(7,711)</b>	<b>(13,956)</b>	<b>(6,714)</b>

See also Notes 35 and 36 to the Core Statements. (Investments and Borrowings)

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'current liabilities' or 'current assets'. This would include accrued interest on long term liabilities and investments that are payable/receivable in 2019/20.

Available for Sale Financial Assets are measured at fair value on a recurring basis. The valuation techniques used to measure them maximise the use of relevant observable inputs and minimise the use of unobservable inputs and are categorised as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

<b>Recurring fair value measurements</b>	<b>Input level in fair value hierarchy</b>	<b>Valuation technique used to measure fair value</b>	<b>2019/20 £000</b>	<b>2018/19 £000</b>
Property Funds	Level 1	Unadjusted quoted prices in active markets for identical shares	20,899	21,407
<b>Balance at end of the year</b>			<b>20,899</b>	<b>21,407</b>

#### **Transfers between Levels of the Fair Value Hierarchy**

There were no transfers between input levels 1 and 2 during the year

## The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

- For loans from the PWLB payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures. As the Debt Management Office provides a transparent approach allowing the exit cost to be calculated without undertaking a repayment or transfer it is appropriate to disclose the exit price.
- For non-PWLB loans payable, PWLB premature repayment rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;

### Financial Liabilities - fair value

	Input level in fair value hierarchy	Valuation technique used to measure fair value	2019/20 £000	2018/19 £000
Long Term Borrowing	Level 2	premature repayment rates	5,430	11,245
<b>Balance at end of the year</b>			<b>5,430</b>	<b>11,245</b>

### Financial Instrument Revaluation Reserve

For financial instruments, there is a reserve to help manage the accounting requirements, the Financial Instruments Revaluation Reserve. This records unrealised revaluation gains/losses arising from holding available-for-sale investments and any unrealised losses that have not arisen from impairment of the assets. The table below sets out the transactions for the year:

	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>	1,929	1,526
Upward revaluation of investments	(527)	403
Downward revaluation of investments not charged to the Surplus/Deficit on the provision of Services	-	-
Accumulated Gains on assets sold and maturing assets written out to CI&E as part of Other Investment Income	-	-
	<b>1,402</b>	<b>1,929</b>

See also Note 21.

### 13. Financial Instruments Gains / Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Account in relation to financial instruments are made up as follows:

2019/20	2019/20		2018/19	
	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
<b>Net (gains) / losses on</b>				
Financial Assets measured at fair value through profit or loss				
Financial assets measured at amortised cost				
Investments in equity instruments designated at fair value through other comprehensive income		527		(403)
Financial liabilities measured at fair value through profit or loss				
Financial liabilities measured at amortised cost				
<b>Total net (gains)/losses</b>	-	527	-	(403)
<b>Interest Revenue</b>				
Financial Assets measured at amortised cost	(391)		(411)	
Other financial assets measured at fair value through other comprehensive income	(770)		(854)	
<b>Total interest revenue</b>	<b>(1,161)</b>	-	<b>(1,265)</b>	-
<b>Interest Expense</b>				
Fee income:				
Financial assets or financial liabilities that are not at fair value through profit or loss	102		130	
Fee expense:				
Financial assets or financial liabilities that are not at fair value through profit or loss	660		660	
<b>Total interest expense</b>	<b>762</b>	-	<b>790</b>	-

### 14. Fair Value of Assets and Liabilities carried at Amortised Cost

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instrument, using the following assumptions:

- Link Asset Services has provided the Fair Value Calculation for the loans and investments.
- No early repayment or impairment is recognised.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount
- Where the instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.

The fair values are calculated as follows:

	31st March 2020		31st March 2019	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Financial Liabilities</b>	15,478	19,573	14,412	18,828

	31st March 2020		31st March 2019	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Loans and Receivables</b>	69,375	68,866	72,387	71,675

For financial liabilities, the fair value is more than the carrying amount because the Council's portfolio of loans comprises fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. The commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

The fair value is greater than the carrying amount due to the Council's investment in Property Funds. The Fund value per unit, less the exit fee, is higher than price paid.

## 15. Debtors

### Short Term Debtors

	31 March '20	31 March '19
	£000	£000
Central government bodies	1,967	2,748
Other local authorities	622	585
Bodies external to general government (ie all other bodies)	9,340	7,921
Bad debt provision	(1,831)	(1,648)
	<b>10,098</b>	<b>9,606</b>

### Long Term Debtors

	31 March '20	31 March '19
	£000	£000
Bodies external to general government (ie all other bodies)	2,483	1,034
	<b>2,483</b>	<b>1,034</b>

## 16. Cash and Cash Equivalents

	31 March '20	31 March '19
	£000	£000
Short-term deposits with banks	15,688	14,977
<b>Total Cash and Cash Equivalents</b>	<b>15,688</b>	<b>14,977</b>

## 17. Assets Held for Sale

The Council had one asset held for sale as at 31 March 2020, as a result of a compulsory purchase order.

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

## 18. Creditors

<b>Short Term Creditors</b>	<b>31 March '20</b>	<b>31 March '19</b>
	<b>£000</b>	<b>£000</b>
Central government bodies	9,535	6,029
Other local authorities	3,482	1,543
Bodies external to general government (ie all other bodies)	7,397	6,506
	<b>20,414</b>	<b>14,078</b>

## 19. Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

The provisions held for Non Domestic Rate appeals, Council Tax and Non Domestic Rates bad debts are charged as an expense to the relevant collection fund in the first instance. This charge either reduces the Council's surplus or increases the deficit due from the collection fund. These amounts are included in the Taxation and Non-specific Grant income section on the Comprehensive Income and Expenditure Statement.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.



Proper provision has been made for various liabilities which will be incurred but for which it is uncertain as to the amounts or the dates on which they arise. The provisions required cover a range of activities with the most significant being in respect of Non Domestic Rates Valuation Appeals.

	Short Term		Long Term	
	2019/20 £000	2018/19 £000	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>	1,493	1,915	2,140	1,652
Additions	-	478	-	488
Amounts used	(1,884)	(801)	(25)	-
Transferred	792	(99)	-	-
<b>Balance at 31 March</b>	<b>401</b>	<b>1,493</b>	<b>2,115</b>	<b>2,140</b>

## 20. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement, Note 5 Adjustments between accounting basis and funding basis under regulations and Note 6 Transfers to/from Earmarked Reserves.

## 21. Unusable Reserves

	31 March '20 £000	31 March '19 £000
Revaluation Reserve	21,355	23,142
Financial Instruments Revaluation Reserve	1,403	1,929
Capital Adjustment Account	79,327	77,069
Deferred Capital Receipts Reserve	148	150
Pensions Reserve	(21,610)	(34,568)
Collection Fund Adjustment Account	997	502
Accumulated Absences Account	(202)	(126)
<b>Total Unusable Reserves</b>	<b>81,418</b>	<b>68,098</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2019/20		2018/19
	£000	£000	£000
<b>Balance at 1 April</b>		23,142	25,257
2018/19 Adjustment	603		
Downward revaluation of assets	(1,927)		(1,150)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services			(603)
<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>		(1,324)	(1,753)
Difference between fair value depreciation and historical cost depreciation		(337)	(362)
Amount written off to the capital adjustment account		(126)	-
<b>Balance at 31 March</b>		<b>21,355</b>	<b>23,142</b>

### Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains/losses made by the Council arising from increases/decreases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

	2019/20		2018/19
	£000	£000	£000
<b>Balance at 1 April</b>		1,929	1,526
Upward revaluation of investments			403
Downward revaluation of investments not charged to the Surplus/Deficit on the provision of Services	(526)		-
		(526)	403
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income		-	-
<b>Balance at 31 March</b>		<b>1,403</b>	<b>1,929</b>

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 5 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2019/20		2018/19
	£000	£000	£000
<b>Balance at 1 April</b>		77,069	76,561
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
· Charges for depreciation of non current assets	(1,558)		(1,857)
· Charges for depreciation on revalued assets	337		362
· Movements in the market value of investment properties	(1,003)		(279)
· Revaluation/Impairment on Property, Plant and Equipment	(885)		(604)
· Amortisation of intangible assets	(419)		(417)
· Revenue expenditure funded from capital under statute	(352)		(2,304)
· Revenue grants written down to the Capital Adjustment Account	2,700		2,552
· Disposal of non-current assets	(217)		(545)
· Adjusting amounts written out of Revaluation Reserve	125		-
		(1,272)	(3,092)
Capital financing applied in the year:			
· Use of the Capital Receipts Reserve to finance new capital expenditure	3,481		3,479
· Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	49		116
· Application of grants to capital financing from the Capital Grants Unapplied Account	-		-
· Statutory adjustment for the capital element of finance lease repayments - Refuse trucks	-		-
· Capital expenditure charged against the General Fund	-		5
		3,530	3,600
<b>Balance at 31 March</b>		<b>79,327</b>	<b>77,069</b>

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>	(34,568)	(29,390)
Actuarial gains or (losses) on pensions assets and liabilities	15,263	(2,928)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(4,763)	(4,641)
Employer's pensions contributions and direct payments to pensioners payable in the year	2,458	2,391
<b>Balance at 31 March</b>	<b>(21,610)</b>	<b>(34,568)</b>

### Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>	150	151
Transfer to the General Fund for the capital element of finance lease payments	(2)	(1)
<b>Balance at 31 March</b>	<b>148</b>	<b>150</b>

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Non Domestic Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax and Non Domestic tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>	502	600
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and Non Domestic Rate income calculated for the year in accordance with statutory requirements	495	(98)
<b>Balance at 31 March</b>	<b>997</b>	<b>502</b>

## Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2019/20 £000	2018/19 £000
<b>Balance at 1 April</b>	(126)	(129)
Settlement or cancellation of accrual made at the end of the preceding year	126	129
Amounts accrued at the end of the current year	(202)	(126)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(76)	3
<b>Balance at 31 March</b>	<b>(202)</b>	<b>(126)</b>

## 22. Nature of Expenses Disclosure

	2019/20 £'000	2018/19 £'000
Employee Benefits Expenses	16,354	15,818
Other Service Expenses	20,941	20,237
Housing Benefits Transfer Payments	28,499	33,324
Depreciation, amortisation and impairment	3,228	5,196
Precepts and levies	4,182	3,980
Interest payments	662	660
Changes in fair value of Investment Properties	1,003	278
Net interest on the net defined benefit liability & remeasurement of the defined benefit liability for long term employee benefits	851	782
<b>Total Expenditure</b>	<b>75,720</b>	<b>80,275</b>
Fees charges and other service income	(17,860)	(16,773)
Government grants	(35,488)	(39,328)
Interest and investment income	(1,239)	(1,265)
Income from council tax and non-domestic rates	(17,402)	(15,371)
Gain on disposal of non current assets	(1,371)	(1,758)
Recognised capital grants and contributions	(2,700)	(2,553)
<b>Total Income</b>	<b>(76,060)</b>	<b>(77,048)</b>
<b>Deficit on Provision of Services</b>	<b>(340)</b>	<b>3,227</b>

## 23. Jointly Controlled Operations

The Council operates four services under a 'Jointly Controlled Operation' arrangement:

- Revenues and Benefits Service, with Stevenage Borough Council which commenced on 1st August 2011
- Business and Technology Services, with Stevenage Borough Council, which commenced on 1 August 2013
- Waste and Street Cleansing Service, with North Herts District Council, which commenced on 8 May 2018 and
- Hertfordshire CCTV partnership, with Stevenage Borough Council, North Hertfordshire Council, East Hertfordshire Council and Hertsmere Borough Council. Each member of the arrangement accounts for their share of the asset, liabilities and cash flows of the CCTV in their own accounts. This is considered de minimis and not included in the table below.

The Council is lead authority for the Revenues and Benefits shared service and Stevenage is lead for the Business and Technology service and North Herts is lead for the Waste and Street Cleansing service. All three arrangements are governed by separate Joint Partnership Boards comprising of Council officers. Each authority has equal representation on both Boards. These Boards report to each Authority's Executive Committee. The Revenues and Benefits Shared Service also operates a joint Committee with equal numbers of Councillors from both Authorities to scrutinise the operational management of the service.

In line with the Accounting Code of Practice this arrangement is accounted for as a jointly controlled operation. A jointly controlled operation uses the assets and resources of the two partner councils without the establishment of a separate legal entity. Under these arrangements each council accounts separately for its own transactions including use of assets, liabilities, income, expenditure and cash flows.

This note sets out details of the income & expenditure of the joint arrangements and the apportionments between the councils in accordance with the agreement entered into. For information purposes only and where relevant, other notes to the accounts show amounts relating to these arrangements.

	2019/20			2018/19		
	Waste and Street Cleansing Service £000	Business & Technical Service £000	Revenues & Benefits Service £000	Waste and Street Cleansing Service £000	Business & Technical Service £000	Revenues & Benefits Service £000
<b>Expenditure</b>						
Employees	462	1,658	3,222	382	1,368	3,149
Transport Related Expenses	35	25	18	24	12	18
Supplies and Services	15	1,432	215	19	1,323	217
Support Services	-	449	877	-	-	1,172
<b>Total Expenditure</b>	<b>512</b>	<b>3,564</b>	<b>4,332</b>	<b>425</b>	<b>2,703</b>	<b>4,556</b>
<b>Income</b>						
Stevenage Borough Council	-	1,620	1,909	-	1,316	1,691
East Herts District Council	246	1,944	2,423	211	1,387	2,865
North Herts District Council	266	-	-	214	-	-
<b>Total Income</b>	<b>512</b>	<b>3,564</b>	<b>4,332</b>	<b>425</b>	<b>2,703</b>	<b>4,556</b>
<b>Net Expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The contribution made by the Council has been incorporated into the Comprehensive Income and Expenditure Statement in the Net Costs of Service.

Additionally the Council partnered with six local authorities across Hertfordshire to create a new fully integrated building control service, which was launched in August 2016. An additional local authority joined in 2019, so eight local authorities have equal control. The Council holds 13% of the share capital (£8) and is represented on the board. The company aims to provide a more flexible and efficient response to building control issues across the county. In 2016/17 the Council made a loan to the company of £107k, which is held under Long Term Debtors on the balance sheet.

## 24. External Audit Costs

This note discloses the amounts that East Herts Council has paid to its external auditors for work carried out in performing statutory functions and in providing any additional services.

In 2019/20 East Herts Council incurred the following fees relating to external audit and inspection:

	2019/20 £000	2018/19 £000
Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor	40	40
Rebate from the PSAA in respect of audit fees*	(5)	0
Fees payable to Ernst & Young for the certification of grant claims and returns	6	6
Prior Year additional fees	8	6
	<b>49</b>	<b>52</b>

\*PSAA - Public Sector Audit Appointments

## 25. Members Allowances

The total payments made to elected Members of East Herts Council, under its Members' Allowance Scheme for the year ending 31 March, was as follows:

	2019/20 £000	2018/19
Basic Allowances	267	268
Special Responsibility Allowances	127	119
Travel and Subsistence expenses	17	15
	<b>411</b>	<b>402</b>

A full disclosure of payments is available on the Council's website.

## 26. Officer Emoluments

The number of employees, including senior officers, whose remuneration, was £50,000 or more in bands of £5,000 were:

Remuneration Band	Number of Employees	
	2019/20 Total	2018/19 Total
£50,000 to £54,999	6	3
£55,000 to £59,999	7	1
£60,000 to £64,999	-	3
£65,000 to £69,999	3	1
£70,000 to £74,999	2	2
£75,000 to £79,999	1	2
£80,000 to £84,999	-	1
£85,000 to £89,999	-	-
£90,000 to £94,999	-	-
£95,000 to £99,999	2	1
£100,000 to £104,999	-	-
£105,000 to £109,999	-	-
£110,000 to £114,999	-	1
£115,000 to £119,999	-	-

## 27. Exit Packages

The numbers of exit packages with total cost per band and total cost of the compulsory and other departures are set out in the table below.

Exit package cost band (including special payments)	Number of Redundancies		Number of other departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
£							£	£
0-20,000	2	4	-	-	2	4	9,410	37,060
20,001-40,000	-	2	-	-	-	2	-	69,745
40,001-60,000	-	2	-	-	-	2	-	97,877
60,001-80,000	-	-	-	-	-	-	-	-
80,001-100,000	-	-	-	-	-	-	-	-
100,001-150,000	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>8</b>	<b>9,410</b>	<b>204,682</b>



## 28. Senior Officer Remuneration

An additional disclosure is required for Senior Officer's Remuneration (the Chief Executive and those reporting directly to the Chief Executive) included in Note 26, whose salary is more than £50,000 per year:

	Salary (inc expense allowance)	Expenses Allowances	Compensation for Loss of Office	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration including pension contributions
	£	£	£	£	£	£
<b>Post Holder 2019/20</b>						
Chief Executive (started 03/06/2019)	98,667	274	-	98,941	18,873	117,814
Chief Executive (left 31/05/2019)	25,223	1,312	-	26,535	3,677	30,212
Deputy Chief Executive	98,098	-	-	98,098	18,473	116,571
Head of Revenues & Benefits Shared Service	77,225	-	-	77,225	14,661	91,886
Head of HR & Organisational Development	73,398	-	-	73,398	13,927	87,325
Interim Head of Strategic Finance & Property (started 01/12/2019)	52,805	-	-	52,805	-	52,805
Head of Strategic Finance & Property (left 31/12/2019)	59,822	-	-	59,822	11,388	71,210
Head of Communications, Strategy & Policy	69,317	-	-	69,317	13,170	82,487
Head of Legal & Democratic Services (started 03/02/2020)	11,813	-	-	11,813	2,245	14,058
Head of Legal & Democratic Services (left 17/11/2019)	55,286	-	-	55,286	10,255	65,541
Head of Housing & Health	68,864	-	-	68,864	13,004	81,868
Head of Operations (returned from maternity leave 02/09/2019)	39,683	-	-	39,683	-	39,683
Head of Planning & Building Control	51,747	-	-	51,747	9,769	61,516
<b>2018/19</b>						
Chief Executive	110,510	-	-	110,510	20,720	131,230
Director	95,738	-	-	95,738	17,998	113,736
Head of Revenues & Benefits Shared Service	73,216	-	-	73,216	13,906	87,122
Head of HR & Organisational Development (left 03/03/2019)	48,239	-	-	48,239	9,456	57,695
Head of Planning & Building Control (seconded 01/03/19)	63,175	-	-	63,175	11,918	75,093
Head of Strategic Finance & Property	71,558	-	-	71,558	13,452	85,010
Head of Communications, Strategy & Policy	67,630	-	-	67,630	12,813	80,443
Head of Legal & Democratic Services	77,546	-	-	77,546	14,636	92,182
Head of Housing & Health	62,526	-	-	62,526	11,812	74,338
Head of Operations	45,240	-	-	45,240	-	45,240
Head of HR & Organisational Development (started 28/01/19)	12,211	-	-	12,211	2,320	14,531
Head of Planning & Building Control (started 01/03/19)	3,992	-	-	3,992	759	4,751

## 29. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20:

	2019/20 £000	2018/19 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Council Tax	14,465	13,816
Non-Domestic Rates	2,937	1,555
Revenue Support Grant	-	-
New Homes Bonus	2,616	2,645
Other Capital Grants	2,700	2,552
Sec 31 Business Rate Support	2,899	1,675
Other Revenue Grants	17	49
	<b>25,634</b>	<b>22,292</b>
<b>Credited to Services</b>		
<u>Grants</u>		
DWP	29,068	34,045
DCLG	775	735
LAA	16	25
Cabinet Office	51	55
DEFRA	20	7
Sports England	-	80
Department of Education	26	13
	<b>29,956</b>	<b>34,960</b>
<u>Other Contributions</u>		
Contributions from Other Authorities*	3,129	2,872
Income from Other Bodies	699	694
	<b>3,828</b>	<b>3,566</b>

\* includes the contribution from Stevenage Borough Council for the Shared Revenues and Benefits Service

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the funding body if not used for the purpose provided. The balances at year end are as follows:

	2019/20 £000	2018/19 £000
<b>Grants Receipts in Advance</b>		
<b>Capital</b>		
Other Capital Grants	47	47
Developer Contributions	1,950	1,910
	<b>1,997</b>	<b>1,957</b>
<b>Revenue</b>		
Developer Contributions	3,929	2,590
Other Revenue Grants	129	97
	<b>4,058</b>	<b>2,687</b>

## 30. Related Party Transactions

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Related parties to this authority would include:

Central government; local authorities and other bodies precepting or levying demands on the Council Tax; its members; its chief officers; and its pension fund. Members of close family, or the same household of an individual identified as a related party are also assumed to be related parties.

All significant material transactions with related parties, such as government grants, parish precepts, precepts, pension fund contributions etc, have been disclosed in the Comprehensive Income and Expenditure Statement.

Three members of the Council held a position of director at Wodson Park Trust. The Council paid this company £15k.

Three senior officers of the Council held a position of director at Millstream Property Investments Ltd. The Council advanced loans to this company totalling £1.451m.

A senior officer of the Council held a position of Director at Hertfordshire CCTV Partnership Ltd. The Council paid this company £30k.

A number of District Council members are also members of Town and Parish Councils that receive funding from this Council. Precept payments are disclosed in the Comprehensive Income and Expenditure Statement. Any grants made to these bodies were made with proper consideration of declarations of interest.

Hertfordshire County Council is a related party in respect of various transactions including pension's contributions and precepts. Additionally they act as the "accountable body" for the Hertfordshire Local Area agreement.

Shown in the Balance Sheet are totals for debtors and creditors which represent amounts due to or from related parties. The principal year end balances with related parties included in these totals are shown within Notes 15 & 18.

## 31. Capital Expenditure and Capital Financing

	2019/20 £000	2018/19 £000
<b>Opening Capital Financing Requirement</b>	<b>(23,079)</b>	<b>(23,079)</b>
<b>Capital investment</b>		
Property, Plant & Equipment	733	631
Infrastructure	8	15
Community Assets	213	113
Investment Property	2,893	790
Intangible Assets	339	243
Assets Under Construction	4,394	1,351
Revenue Expenditure Funded from capital under Statute	352	2,305
Third Party Loan	1,451	778
Surplus	124	-
Assets Held For Sale	255	-
<b>Sources of finance</b>		
Capital receipts	(3,481)	(3,479)
Government grants and other contributions	(2,750)	(2,742)
Sums set aside from Revenue:		
Direct revenue contributions	0	(5)
Loan/ finance lease principal repayments		
<b>Closing Capital Financing Requirement</b>	<b>(18,548)</b>	<b>(23,079)</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrowing (unsupported by government financial assistance)	4,531	-
<b>Decrease in Surplus in Capital Resource *</b>	<b>4,531</b>	<b>-</b>

\* East Herts has a negative Capital Financing Requirement which represents a surplus in capital resources

## 32. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment (embedded leases) are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### The Council as a Lessor

#### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment applied to write down the lease liability, and

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

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period). Depreciation is applied in the year of acquisition.

The Council is not required to raise council tax to cover depreciation, impairment and gains and losses on revaluation arising on leased assets. Any such costs that have been charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

### **Operating Leases**

Rents paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

### **The Council as a Lessor**

#### **Finance Leases**

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Investment Properties) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

### **Operating Leases**

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

### **Finance leases**

As at 31 March 2020, the Council did not hold any leases that fell into the category of a finance lease.

## Council as a lessee

### Operating leases

The Council leases the Buntingford Service Centre.

The future minimum lease payments due under non-cancellable leases in future years are:

	31 March '20	31 March '19
	£000	£000
Not later than one year	210	210
Later than one year and not later than five years	840	840
Later than five years	630	840
	<b>1,680</b>	<b>1,890</b>

The expenditure charged to Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2019/20	2018/19
	£000	£000
Minimum lease payments	210	210
Lease payments receivable	-	-
	<b>210</b>	<b>210</b>

## Council as a lessor

### Finance leases

The Council leases out Pindars Lodge.

Following the introduction of IFRS 1 and this asset's transfer from an operating lease to finance lease, a lease term of 50 years from March 1997 was set.

The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	2019/20	2018/19
	£000	£000
Finance lease debtor as at 31 March	147	149
Unearned finance income	215	228
<b>Gross investment in lease as at 31 March</b>	<b>362</b>	<b>377</b>

The gross investment in the lease which are the minimum lease payments, will be received over the following periods:

	Gross investment in lease 31 March '20 £000	Gross investment in lease 31 March '19 £000
Not later than 1 year	14	14
Later than 1 year and not later than 5 years	56	56
Later than 5 years	307	321
	<b>377</b>	<b>391</b>

### Operating Leases

The council receives income from a variety of properties ranging from Industrial and Commercial ground leases, to a small number of commercial premises including shops and other miscellaneous properties. Each is subject to individual agreements and reviews. The terms are dependent upon a number of criteria; the corporate priorities of the Council, options that are available, historic and legal agreements. The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 March '20 £000	31 March '19 £000
Not later than one year	1,622	1,258
Later than 1 year and not later than 5 years	5,015	4,008
Later than 5 years	36,793	33,178

## 33. Pension Scheme

As part of the terms and conditions of employment the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until the employee retires, the Council has a commitment to disclose them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. This is a funded defined benefit scheme which means that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets in the long term. Under the Scheme members' retirement benefits are not affected by the Fund's performance.

Pension contributions are based on rates determined by the Fund's professionally qualified actuary based on triennial reviews. The most recent review was undertaken in January 2020.



## Transactions Relating to Post Employment benefits

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge the Council is required to make against council tax is based on the cash payable in the year, the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund balance via the Movement in Reserves during the year.

	2019/20 £000	2018/19 £000
<b>Comprehensive Income &amp; Expenditure Statement:</b>		
<i>Service Cost comprising:</i>		
Current service cost	4,088	3,406
Past Service Cost	-	453
<i>Financing and Investment Income and Expenditure</i>		
Net Interest Expense	851	782
<b>Total post employment benefit charged to surplus or deficit on the provision of services</b>	<b>4,763</b>	<b>4,641</b>
<i>Other post employment benefit credited to the Comprehensive Income and Expenditure Statement</i>		
<i>Remeasurement of the net defined benefit liability comprising:</i>		
Return on plan assets (excluding the amount included in net interest ex	2,744	(4,647)
Actuarial gains/(losses) arising on changes in demographic assumptions	(3,373)	-
Actuarial gains/(losses) arising on changes in financial assumptions	(11,017)	7,575
Other actuarial gains or losses	(3,617)	-
<b>Total post employment benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>(15,263)</b>	<b>2,928</b>
<b>Movement in Reserve Statement</b>		
Reversal of net charges made to the surplus or deficit on the provision of services for post employment benefits in accordance with the code	(4,939)	(4,641)
<i>Actual amount charges against the general fund balance for pensions in the year:</i>		
<b>Employers contributions payable to scheme</b>	<b>2,457</b>	<b>2,397</b>

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

## Pensions Assets and Liabilities recognised in the Balance Sheet

	2019/20 £000	2018/19 £000
<b>Opening Fair Value of scheme assets</b>	111,549	105,245
Interest income	2,665	2,721
Remeasurement gain/(loss):		
Return on plan assets, excluding the amount included in the net interest expense	(2,744)	4,647
Contributions from employer	2,457	2,397
contributions from employees into the scheme	636	578
Benefits paid	(4,600)	(4,039)
<b>31 March</b>	<b>109,963</b>	<b>111,549</b>

### Reconciliation of present value of scheme liabilities

<b>Balance at 1 April</b>	146,116	134,640
Current service cost	4,088	3,406
Past service cost	-	453
Interest cost	3,516	3,503
Contributions by scheme participants	636	578
<i>Remeasurment (gain) and losses:</i>		
Actuarial gains/(losses) arising on changes in demographic assumptions	(3,373)	-
Actuarial gains/(losses) arising on changes in financial assumptions	(11,017)	7,575
Other actuarial gains or losses	(3,617)	-
Benefits paid	(4,600)	(4,039)
<b>31 March</b>	<b>131,573</b>	<b>146,116</b>

	2019/20 £000	2018/19 £000
<b>Scheme history</b>		
Present value of the defined benefit obligation	(131,573)	(146,116)
Fair value of assets	109,963	111,554
<b>(Deficit) in the scheme</b>	<b>(21,610)</b>	<b>(34,562)</b>

### Impact on the net worth of the Council

Statutory arrangements for funding the deficit means that the financial position of the Council remains healthy as:

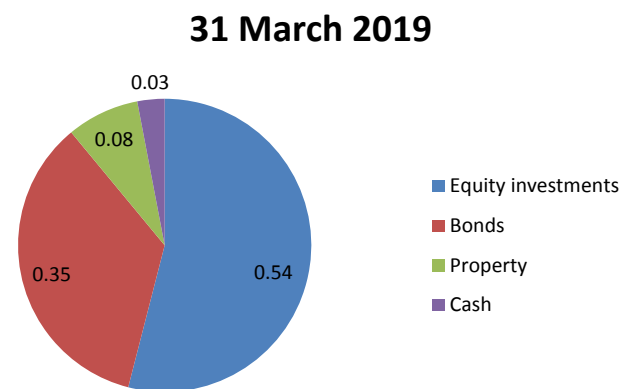
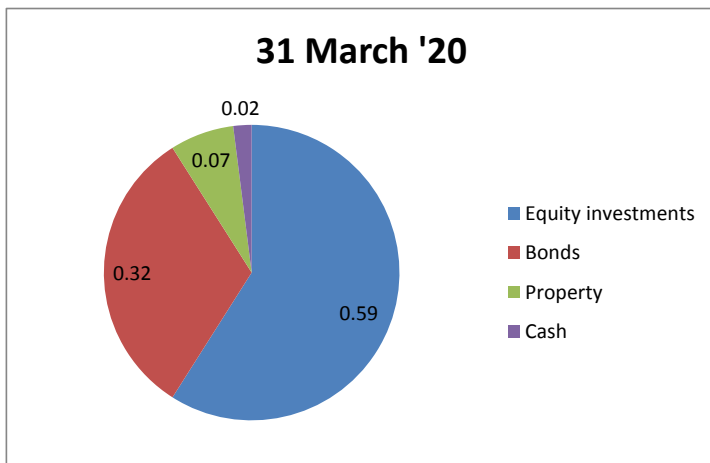
the deficit on the Local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the pension scheme by the Council in the year to 31 March 2021 is £2.476m (£2.318m to 31 March 2020).

A full breakdown of the Fund's assets including the prior financial year comparator is detailed below:

Asset Category	Period Ended 31 March 2020				Period Ended 31 March 2019			
	Quoted prices in active markets	Quoted prices not in active markets	Total	% of Total Assets	Quoted prices in active markets	Quoted prices not in active markets	Total	% of Total Assets
	£000	£000	£000	%	£000	£000	£000	%
Equity Securities								
Consumer	2,099	-	2,099	2	4,962	-	4,962	4
Manufacturing	1,676	-	1,676	2	4,326	-	4,326	4
Energy & Utilities	0	-	-	0	1,151	-	1,151	1
Financial Institutions	1,611	-	1,611	1	4,600	-	4,600	4
Health & Care	989	-	989	1	907	-	907	1
Information Technology	3,767	-	3,767	3	3,490	-	3,490	3
Other	180	-	180	-	298	-	298	-
Debt Securities								
Corporate Bonds (investment grade)	-	-	-	-	-	-	-	-
Corporate Bonds (non investment grade)	-	-	-	-	-	-	-	-
UK Government	-	-	-	-	-	-	-	-
Other	-	2,850	2,850	3	-	51	51	-
Private Equity	-	5,883	5,883	5	-	5,230	5,230	5
Real Estate								
UK Property	-	3,325	3,325	3	-	3,952	3,952	4
Overseas Property	-	6,562	6,562	6	-	4,231	4,231	4
Investment Funds & Unit Trusts:								
Equities	34,208	-	34,208	32	28,147	-	28,147	25
Bonds	36,052	-	36,052	33	38,809	-	38,809	36
Commodities	-	-	-	-	-	-	-	-
Infrastructure	-	101	101	-	-	1,081	1,081	-
Other	928	7,473	8,401	8	942	5,895	6,837	6
Derivatives								
Foreign Exchange	-	(116)	(116)	0	-	(133)	(133)	-
Cash and Cash Equivalents	2,375	-	2,375	2	3,609	-	3,609	3
<b>TOTALS</b>	<b>83,885</b>	<b>26,078</b>	<b>109,963</b>	<b>100</b>	<b>91,241</b>	<b>20,307</b>	<b>111,547</b>	<b>100</b>



### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Hertfordshire County Council Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Hertfordshire County Council Fund being based on the latest full valuation of the scheme as at January 2020.

The principal assumptions used by the actuary have been:

	31 March '20	31 March '19
Long-term expected rate of return on assets in the scheme:		
Equity investments	2.5%	2.5%
Bonds	2.5%	2.5%
Property	2.5%	2.5%
Cash	2.5%	2.5%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.9 years	22.5 years
Women	24.1 years	24.9 years
Longevity at 65 for future pensioners:		
Men	22.8 years	24.1 years
Women	25.5 years	26.7 years
Rate of inflation/ Pension increase	1.9%	2.5%
Rate of increase in salaries	2.3%	2.6%
Expected Return on Assets	3.0%	7.3%
Discount Rate	2.3%	2.4%
Take up option to convert annual pensions into retirement lump sum for pre April 2008 service	50%	50%
Take up option to convert annual pensions into retirement lump sum for post April 2008 service	75%	75%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis on the following page have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes at each change that the assumption analysed changes while all the others remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme ie. on an actuarial basis using the projected cost method. The methods and types of assumptions used in preparing the sensitivity analysis did not change from those used in the previous period

<b>Change in assumptions as at 31 March 2020:</b>	<b>Approximate % increase to Employer Liability %</b>
Longevity (increase or decrease in 1 year)	3-5%
0.5% decrease in real discount rate	9%
0.5% increase in the salary increase rate	1%
0.5% increase in the Pension increase rate	8%

### **Impact on the Council's Cashflow**

The objectives of the scheme is to keep employer contributions at as constant a rate as possible. The Council has agreed a strategy with the schemes actuary, Hymans Robertson LLP, to achieve a funding level of 100% over the next 25 years. Funding levels are monitored on an annual basis.

## 34. Nature and Extent of Risks arising from Financial Instruments

### Key Risks

The Council's activities expose it to a variety of financial risks. The key risks are:

- **Credit risk** the possibility that other parties might fail to pay amounts due to the Council;
- **Liquidity risk** the possibility that the Council might not have funds available to meet its commitments to make payments;
- **Re-financing risk** the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- **Market risk** the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements.

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect and maximise (given the identified level of risk) the financial resources available to fund services. The Council in the annual Treasury Management Strategy Statement provides written principles for overall risk management, as well as written policies (covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash).

### 1 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

This Council uses the creditworthiness service provided by Capita Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

The full Investment Strategy for 2019/20 was approved by Full Council on 5th March 2019 and is available on the Council's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Authority's maximum exposure to credit risk in relation to its investments in financial institutions cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2020 that this was likely to crystallise.

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

### Accounts Receivable

The Council does not generally allow credit facilities to customers in relationship to debts.

The past due amount can be analysed by age as follows: (see policy xii)

	31 March '20 £000	31 March '19 £000
Less than three months	2,051	1,625
Three months to one year	850	1,004
More than one year	1,768	1,379
	<b>4,669</b>	<b>4,008</b>

The Council pursues all debts in line with its established debt recovery policy.

## 2 Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (setting and approval of prudential indicators and the approval of the treasury and investment strategy reports, as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

See investment and Borrowing Note 12

## 3 Refinancing and Maturity Risk

The Council maintains a debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

## 4 Market Risk

### Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments.

Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate impact on the Income and Expenditure Account. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance. Movements in the fair value of fixed rate investments will be reflected in the Comprehensive Income & Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rates exposure. The treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.



With low interest rates generally prevailing, the Council has an interest equalisation reserve that assists in managing interest rate fluctuations in the medium term. The balance as at 31 March 2020 is £1.78m.

Based on the current Treasury Management position at 31 March 2020, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	no variable borrowings
Increase in interest receivable on variable rate investments	131
Increase in government grant receivable for financing costs	de minimus
Surplus on the Provision of Services	de minimus

### Impact on Comprehensive I & E Statement

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

## 5 Price Risk

The Council, does not generally invest in equity shares or marketable bonds.

However, it does hold units in property funds to the value of £20m. Whilst these holdings are generally illiquid, the Council is exposed to losses arising from movements in the price of the units.

To limit its exposure to price movements the council has set a property fund investment limit of £20m, at the time of investment.

These units are all classified as Available-for-Sale, meaning that all movements in price will impact on gains and losses recognised in the Financial Instruments Revaluation Reserve. A general shift of 5% in the general price of shares (positive or negative) would thus have resulted in a £1m gain or loss being recognised in the Financial Instruments Revaluation Reserve.

## 6 Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to risk arising from movements in exchange rates.

The Council also has no shareholdings or insurance investment fund, therefore has no exposure to any further risks.

## 35. Capital Commitments

At 31 March 2020, the authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2020/21, with future years budgeted to cost estimated at £105m, this figure includes the major commitments, listed below. There were no similar commitments as at 31 March 2019.

The major commitments are:

- Grange Paddocks Leisure Centre – £21.1m
- Northgate End MSCP – £19m

## 36. Contingent Liability

The Council has identified one contingent liability which may give rise to future costs.

Following the Municipal Mutual Insurance Scheme Arrangement being "triggered" the Council has paid a total levy of £34,478 as at 31 March 2020. A contingent liability of around £103,435 remains in respect of potential further exposure against existing claims. Further claims could be notified.

Given the level of General Reserves held by the Council and the uncertainty of the value of the potential liabilities identified it has not been considered appropriate to make specific financial provision within the accounts at this stage.

## 37. Post Balance Sheet Event

There are no post balance sheet events as at 20 July 2020.

# THE COLLECTION FUND

## INCOME AND EXPENDITURE ACCOUNT

		2019/20			2018/19		
		£000	£000	£000	£000	£000	£000
		Council Tax	NDR	Total	Council Tax	NDR	Total
Income collectable from Council Taxpayers	Note 2	109,322		109,322	103,007		103,007
Income collectable from Business Ratepayers	Note 3		42,670	42,670		43,908	43,908
<b>Total Income</b>		<b>109,322</b>	<b>42,670</b>	<b>151,992</b>	<b>103,007</b>	<b>43,908</b>	<b>146,915</b>
Council Tax Precepts and Demands							
Hertfordshire County Council		82,578		82,578	78,703		78,703
East Herts Council		14,449		14,449	13,760		13,760
Hertfordshire Police		11,416		11,416	9,775		9,775
Business Rates Shares:							
Payments to Government			10,653	10,653		21,388	21,388
Payments to Hertfordshire County Council			17,046	17,046		4,278	4,278
Payment to East Herts Council			14,915	14,915		17,111	17,111
Charges to Collection Fund							
Costs of Collection			199	199		198	198
Bad Debt Provision - Increase:							
Council Tax		722		722	247		247
Non Domestic Rates			302	302		563	563
Non Domestic Rates Appeals Provision	Note 4		(1,910)	(1,910)		165	165
Transitional Protection Payment			(268)	(268)		(607)	(607)
Distribution of prior years' Fund balance		593	171	764	1,979	679	2,658
<b>Total Expenditure</b>		<b>109,758</b>	<b>41,108</b>	<b>150,866</b>	<b>104,464</b>	<b>43,775</b>	<b>148,239</b>
In year Movement in Fund		436	(1,562)	(1,126)	1,457	(133)	1,324
Balance as at 1 April		(1,070)	(990)	(2,060)	(2,527)	(857)	(3,384)
<b>Balance as at 31 March</b>		<b>(634)</b>	<b>(2,552)</b>	<b>(3,186)</b>	<b>(1,070)</b>	<b>(990)</b>	<b>(2,060)</b>
Allocated to :							
East Herts Council		(63)	(934)	(997)	(106)	(396)	(502)
Hertfordshire Police		(69)		(69)	(111)		(111)
Hertfordshire County Council		(502)	(775)	(1,277)	(853)	(99)	(952)
Government			(843)	(843)		(495)	(495)
<b>Total</b>		<b>(634)</b>	<b>(2,552)</b>	<b>(3,186)</b>	<b>(1,070)</b>	<b>(990)</b>	<b>(2,060)</b>

## NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

### 1. General

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund.

The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and Government of Council Tax and Non-Domestic Rates.

There is no requirement for a separate Collection Fund Balance sheet, as the assets and liabilities of the fund belong to the various bodies and Government.

In 2013/14 the local government finance regime was revised with the introduction of the Retained Business Rates scheme. The main aim of the scheme is to give Council's a greater incentive to grow businesses in the district. It does, however, also increase the financial risk to the Council due to non collection and the volatility of the NDR tax base.

The retained income scheme allows the Council to retain a proportion of the total NDR income received. For 2019/20 the Council joined a business rates retention pilot pool arrangement with other Hertfordshire Councils with Hertfordshire County Council as the lead authority. The other councils in the pool are Broxbourne, Dacorum, Hertsmere, North Hertfordshire, St Albans, Stevenage, Three Rivers, Watford and Welwyn Hatfield. The Council's share is 35% with the remainder being split between Hertfordshire County Council (40%) and Government (25%).

### 2. Council Tax

The Council's tax base i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of Band D dwellings, is calculated as follows:-

The tax base for 2019/20 was approved at Full Council on 19 December 2018 and was calculated as follows:

Band	Estimated no. of taxable properties after effect of discounts	Ratio	Band D Equivalent dwellings
Disa A	(0.50)	5/9	(0.28)
A	555.87	6/9	370.58
B	4,083.78	7/9	3,176.27
C	12,232.75	8/9	10,873.56
D	13,974.44	9/9	13,974.44
E	10,242.41	11/9	12,518.50
F	7,089.70	13/9	10,240.68
G	5,227.57	15/9	8,712.62
H	765.45	18/9	1,530.90
	54,171.47		61,397.27
<b>Estimated collection rate</b>			<b>98.9%</b>
<b>2019/20 Estimated Council Tax base</b>			<b>60,721.9</b>
<b>Council Tax Collection</b>			<b>£000</b>
2019/20 estimated Council Tax due			108,443
60721.9 x £1,785.90 (average band D charge)			
2019/20 Council Tax income			109,322
<b>Surplus</b>			<b>(879)</b>

### 3. Income from Business Ratepayers

The Council collects non-domestic rates for its area which are based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform rate (which for 2019/20 was 50.4p (2018/19 49.3p).

The total amount less certain reliefs and allowances is distributed to East Herts Council (35%), Hertfordshire County Council (40%) and Central Government (25%).

When the Retained Business Rates scheme was introduced, the Government set a baseline for each authority identifying the funding required. In order to ensure that each authority receives their base line amount, a top up or tariff amount is applied to each local authority.

East Herts is a tariff authority, which means that it doesn't keep its entire share but is subject to pay a tariff (£13.315m in 2019/20) to Central Government which is when used to fund 'top up' authorities.

The business rates retention scheme provides the opportunity for local authorities to share in the benefits of growth in the rates tax base i.e. provides an incentive for economic development and regeneration. Any income retained from growth is subject to a levy of 50%. Conversely if any Council suffers a significant drop in NNDR due to the loss of one or more major businesses, or a large number of smaller businesses, or a greater than expected loss from revaluations, then a safety net of 92.5% of the baseline applies. At the year end the total non-domestic rateable value was £117 million (£120 million for 2018/19).

### 4. Provisions

The Collection Fund account includes provisions for bad debts on arrears based on past years experience and the current years collection rate.

	2019/20			2018/19		
	£000	£000	£000	£000	£000	£000
	Council Tax	NDR	Total	Council Tax	NDR	Total
<b>Balance at 1 April</b>	(1,832)	(1,358)	<b>(3,190)</b>	(1,810)	(1,100)	<b>(2,910)</b>
Additional provisions made in year	(722)	(302)	<b>(1,024)</b>	(247)	(564)	<b>(811)</b>
Provision applied	313	182	<b>495</b>	225	306	<b>531</b>
<b>Balance at 31 March</b>	<b>(2,241)</b>	<b>(1,478)</b>	<b>(3,719)</b>	<b>(1,832)</b>	<b>(1,358)</b>	<b>(3,190)</b>

In addition, a provision has been made for NDR appeals against the rateable valuations assessed and determined by the Valuation Office Agency (VOA) which have not been settled by 31 March 2020.

	2019/20	2018/19
	£000	£000
<b>Balance at 1 April</b>	(8,993)	(8,828)
Change in provisions made	1,413	(966)
Provision applied in year	497	801
<b>Balance at 31 March</b>	<b>(7,083)</b>	<b>(8,993)</b>

## Group Accounts

### Introduction

In order to provide a full picture of the economic and financial activities of the Council, and its exposure to risk, the accounting statements of its subsidiary are consolidated with those of the Council. The resulting Group Accounts are presented in addition to the Council's single entity accounts. They include the core accounting statements, similar in presentation and purpose to the Council's accounts, and any explanatory notes considered necessary to explain material movements from the single entity accounts. Where no notes are given, users of the accounts should refer to the notes in the single entity accounts.

Group accounts have been prepared under the requirements of the Code of Practice on Local Authority Accounting, consolidating any subsidiary over which the Council exercises control or influence.

Millstream Property Investments Ltd, is a wholly owned company formed in February 2018 by the Council. There are no minority shareholders and no restrictions on the Council's ability to access or use the assets or settle the liabilities of the group. Millstream Property Investments Ltd was created to acquire, develop and refurbish homes to provide rental properties to tenants wishing to live in the private sector, but with the assurance that the accommodation is managed by a responsible landlord.

Millstream was not consolidated in 2018/19 as it's activities for that year were not material to the Council's accounts

### Accounting Policies

Millstream Property Investments Ltd has prepared it's 2019/20 accounts using accounting policies consistent with those applied by the Council and no adjustments have been required to align accounting policies. Both entities have a financial year end of 31 March.

## GROUP MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (ie those that can be applied to fund expenditure or reduce taxation) and other reserves.

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	General Reserve	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves	Share of Reserves of Subsidiaries	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2019</b>	<b>3,854</b>	<b>9,228</b>	<b>1,892</b>	<b>349</b>	<b>852</b>	<b>16,175</b>	<b>68,098</b>	<b>84,273</b>	<b>69</b>	<b>84,342</b>
<b>Movement in reserves during 2019/20</b>										
<b>Total Comprehensive Income and Expenditure</b>	<b>569</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>569</b>	<b>13,414</b>	<b>13,983</b>	<b>(21)</b>	<b>13,962</b>
Adjustments between group accounts and authority accounts	(53)	-	-	-	-	(53)	-	(53)	53	-
<b>Net Increase/Decrease before Transfers</b>										
Adjustments between accounting basis and funding basis under regulations	2,035	-	(1,892)	(49)	-	94	(94)	-	-	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>2,551</b>	<b>-</b>	<b>(1,892)</b>	<b>(49)</b>	<b>-</b>	<b>610</b>	<b>13,320</b>	<b>13,930</b>	<b>32</b>	<b>13,962</b>
Transfers to/(from) Earmarked Reserves	(2,551)	2,631	-	-	(80)	-	-	-	-	-
Increase/Decrease in Year	-	2,631	(1,892)	(49)	(80)	610	13,320	13,930	32	13,962
<b>Balance as at 31 March 2020 carried forward</b>	<b>3,854</b>	<b>11,859</b>	<b>-</b>	<b>300</b>	<b>772</b>	<b>16,785</b>	<b>81,418</b>	<b>98,203</b>	<b>101</b>	<b>98,304</b>

As this is the first year of consolidation, comparatives have not been provided

## GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

	2019/20		Net Expenditure £000
	Gross Expenditure £000	Gross Income £000	
Chief Executive, PA's & Directors	589	-	589
Communications, Strategy & Policy	1,601	(140)	1,461
Human Resources & Organisation Development	645	(30)	615
Strategic Finance & Property	5,708	(1,290)	4,418
Democratic & Legal Services	1,983	(450)	1,533
Housing & Health	4,030	(1,236)	2,794
Planning & Building Control	3,535	(1,924)	1,611
Operations	15,670	(10,095)	5,575
Shared Revenues & Benefits Service	32,792	(31,602)	1,190
Shared Business & Technology Services	2,113	(81)	2,032
<b>NET COST OF SERVICES</b>			<b>21,818</b>
Payments of precepts to parishes			4,182
Gain on disposal of non current (fixed) assets			(1,371)
<b>OTHER OPERATING EXPENDITURE</b>			<b>2,811</b>
Interest payable and similar charges			662
Net Interest on the net defined benefit liability & remeasurements of the defined benefit liability for long term employee benefits			851
Interest receivable and similar income			(1,189)
Income from investment properties		<i>Note 1</i>	(1,025)
Direct expenditure incurred on investment properties		<i>Note 1</i>	222
Changes in Fair Value of Investment Properties			980
<b>FINANCING AND INVESTMENT EXPENDITURE</b>			<b>501</b>
Recognised capital grants and contributions			(2,700)
Council tax income			(14,465)
Non domestic rates			(2,937)
Non service related government grants			(5,532)
<b>TAXATION AND NON-SPECIFIC GRANT INCOME</b>			<b>(25,634)</b>
<b>(SURPLUS) / DEFICIT ON PROVISION OF SERVICES</b>			<b>(504)</b>
Millstream Capital contribution			(40)
Tax expenses of subsidiaries			(4)
<b>GROUP (SURPLUS)/DEFICIT</b>			<b>(548)</b>
(Surplus) or Deficit on revaluation of PPE assets			1,322
Reclassification of Grant			-
Remeasurements of the net defined benefit liability			(15,263)
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES</b>			<b>(13,941)</b>
(Surplus) / Deficit on revaluation of financial instruments			527
<b>ITEMS THAT MAY BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES</b>			<b>527</b>
<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(13,414)</b>
<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>			<b>(13,962)</b>

As this is the first year of consolidation, comparatives have not been provided

All operations arise from continuing activities.



# GROUP BALANCE SHEET

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

		31 March '20	
		£000	£000
Property, Plant & Equipment			
- Other land and buildings		46,774	
- Vehicles, plant, furniture and equipment		2,151	
- Infrastructure assets		1,995	
- Community assets		2,965	
- Surplus assets		2,571	
- Assets under Construction		5,740	
			62,196
Investment Properties		17,835	
Intangible Assets		785	18,620
			<b>80,816</b>
Long Term Investments		21,448	
Long Term Debtors	Note 2	249	21,697
<b>TOTAL LONG TERM ASSETS</b>			<b>102,513</b>
Assets Held For Sale		255	
Short Term Investments		21,921	
Short Term Debtors	Note 2	10,037	
Cash and Cash Equivalents		15,723	
<b>CURRENT ASSETS</b>			<b>47,936</b>
Provisions		(401)	
Short Term Creditors	Note 2	(20,427)	
<b>CURRENT LIABILITIES</b>			<b>(20,828)</b>
Provisions		(2,130)	
Long Term Borrowing		(1,522)	
Long Term Creditors	Note 2	-	
Net Pension Liability		(21,610)	
Grant Receipts in Advance	- Capital	(1,997)	
	- Revenue	(4,058)	
<b>LONG TERM LIABILITIES</b>			<b>(31,317)</b>
<b>NET ASSETS</b>			<b>98,304</b>
<b>USABLE RESERVES</b>			
- General Fund		3,854	
- General Reserve		772	
- Earmarked Reserves		11,859	
- Capital Receipts Reserve		-	
- Capital grants Unapplied		300	
- Profit and Loss Reserve	Note 3	101	
			<b>16,886</b>
<b>UNUSABLE RESERVES</b>			
- Revaluation Reserve		21,355	
- Financial Instrument Revaluation Reserve		1,403	
- Pensions Reserve		(21,610)	
- Capital Adjustment Account		79,327	
- Deferred Capital Receipts		148	
- Collection Fund Adjustment Account		997	
- Short-term Accumulating Compensated Absences Account		(202)	
			<b>81,418</b>
<b>TOTAL RESERVES</b>			<b>98,304</b>

As this is the first year of consolidation, comparatives have not been provided

## GROUP CASH FLOW STATEMENT

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

	2019/20	
	£000	£000
<b>OPERATING ACTIVITIES</b>		
<b>Cash Inflows</b>		
Council Tax receipts	(10,706)	
NNDR Receipts	(14,687)	
DWP grants for benefits	(28,483)	
Other Government grants	(8,365)	
Cash received for goods and services	(16,012)	
Interest received	(1,260)	
<b>Cash inflows generated from operating activities</b>	<b>(79,513)</b>	
<b>Cash Out Flows</b>		
Cash paid to and on behalf of employees	14,647	
Housing Benefit paid out	28,499	
Other operating cash payments	18,702	
Precepts paid to other authorities	4,182	
Interest paid	660	
<b>Cash outflows generated from operating activities</b>	<b>66,690</b>	
<b>Net Cash Inflow from operating activities</b>		<b>(12,823)</b>
<b>INVESTING ACTIVITIES</b>		
- Purchase of property plant and equipment, investment property and intangible assets	11,731	
- Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,588)	
- Capital grants	(2,495)	
- Proceeds from short-term and long-term investments	(4,791)	
<b>Net cash inflow from investing activities</b>		<b>2,857</b>
<b>FINANCING ACTIVITIES</b>		
- Cash Payments for the reduction of the outstanding liabilities relating to finance leases (Principal)	302	
- Other payments for financing activities	8,934	
<b>Net cash outflow from financing activities</b>		<b>9,236</b>
Net decrease in cash and cash equivalents		(730)
Cash and cash equivalents at the beginning of the reporting period		(14,993)
		<b>(15,723)</b>
Millstream opening balance		
<b>Cash and cash equivalents at the end of the reporting period</b>		<b>(15,723)</b>

As this is the first year of consolidation, comparatives have not been provided

## Note 1 - Investment Property

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	31 March '20		
	£000	£000	£000
	East Herts District Council	Millstream Property Investments Ltd	Group total
Income from investment property	956	69	1,025
Direct expenditure arising from investment property	(179)	(43)	(222)

## Note 2 - Debtors and Creditors

The effect of transactions between the Council and its subsidiary Millstream Property Investments Ltd are eliminated in Group Accounts, therefore debtors and creditors between these parties have been excluded.

## Note 3 - Financial Instruments

IFRS 9 requirement is to consider whether loans are made under market terms, especially those made between related parties.

During the year Millstream Property Investments Ltd received loans from its parent company East Herts Council deemed at below market rate as there was no interest charged.

The below market element amounting to £40,230 has been recognised in the reserves statement as a capital contribution.

	31 March '20 £000
<b>Opening balance at 31 March 2019</b>	<b>69</b>
Profit or loss for 2019/20	(8)
Capital contribution	40
<b>Closing balance at 31 March 2020</b>	<b>101</b>

## Note 4 - Summary of Financial Position of Subsidiary

Millstream Property Investments Ltd has been consolidated in the group accounts as a 100% owned subsidiary. The summary of financial position of the company is shown below:

Statement of comprehensive income and expenditure	31 March 2020
	£000
<b>Revenue</b>	<b>69</b>
Cost of sales	(23)
<b>Gross profit</b>	<b>46</b>
Administrative expenses	(29)
<b>Operating profit</b>	<b>17</b>
Interest payable	(52)
Other gains losses	23
<b>Profit/(Loss) on ordinary activities before taxation</b>	<b>(12)</b>
Tax on profit/(loss)	4
<b>Profit/(Loss) and total comprehensive income for the financial year</b>	<b>(8)</b>

Statement of financial position	31 March 2020
	£000
<b>Non current assets</b>	
Investment properties	2,349
<b>Current assets</b>	
Trade debtor	2
Cash and Cash equivalents	35
<b>Total Assets</b>	<b>2,386</b>
<b>Current liabilities</b>	
Trade creditor	75
<b>Non current liabilities</b>	
Loans	2,196
Provision for liabilities	14
<b>Total liabilities</b>	<b>2,285</b>
<b>Net Assets/Liabilities</b>	<b>101</b>
<b>Equity</b>	
Share capital	0
Retained earnings	101
<b>Total equity</b>	<b>101</b>

As this is the first year of consolidation, comparatives have not been provided

# GLOSSARY OF FINANCIAL TERMS

## **Accounting Policies**

Those principles, bases, conventions, rules and practices applied by the Council that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- Recognising;
- Measuring bases;
- Presenting.

## **Accruals**

Accruals The concept that Income & Expenditure are recognised as they are earned or incurred, not as money is received or paid.

## **Accumulated Absences**

Accumulated Absences Holiday entitlements (or any form of leave such as time off in lieu) earned by employees but not taken before the year end which can be carried forward into the following year.

## **Actuarial Gains and Losses**

Changes in the net pensions liability that arise because

- events have not coincided with assumptions made at the last actuarial valuation, or
- the actuarial assumptions have changed

## **Amortisation**

The term used to refer to the charging of the value of a transaction or asset (usually related to intangible fixed assets) to the Income and Expenditure Account over a period of time, reflecting the value to the authority; similar to the depreciation charge for tangible fixed assets.

## **Asset**

An item having value measurable in monetary terms. Assets can either be defined as fixed or current. A fixed asset has use and value for more than one year whereas a current asset ( eg stocks or short term debtors) can readily be converted into cash.

## **Capital Expenditure**

Capital Expenditure Expenditure on the acquisition of a fixed asset or works which have a long term value to the Council, either directly to the Council or indirectly in the form of grants to other bodies.

## **Capital Financing Requirement**

It measures an authority's underlying need to borrow or finance by other long term liabilities for a capital purpose.

## **Capital Receipts**

The proceeds from the disposal of land and other assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by government, but they cannot be used for revenue purposes.

## **CIPFA**

CIPFA Chartered Institute of Public Finance and Accountancy. The principal accountancy body dealing with local government finance.

## **Code of Practice on Local Authority Accounting (The Code)**

Code of Practice on Local Authority Accounting sets out the arrangements required to be followed in the Statement of Accounts. It constitutes 'proper accounting practice' and is recognised as such by statute.

### **Community Assets**

Assets that a local authority intends to hold indefinitely, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

### **Consistency**

The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

### **Contingent Asset**

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the Council's control.

### **Contingent Liability**

A contingent liability is a possible liability arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the local authority's control.

### **Creditor**

An amount owed by the Council for work done, goods received, or services provided within the accounting period and for which payments has not been made at the Balance Sheet date.

### **Current Service Cost (Pensions)**

The increase in liabilities as a result of years of service earned this year.

### **Curtailment**

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

Curtailments include:

- Termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business;
- Termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

### **Debtor**

Sums of money due to the Council but not yet received at the Balance Sheet date.

### **Deficit**

An excess of expenditure over income (or liabilities over assets).

### **Defined Benefit Scheme**

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

**Depreciation**

Charges reflecting the decline in the value (not cost) of assets as a result of their usage or ageing.

**DEFRA**

Department for Environment, Food and Rural Affairs.

**DWP**

Department for Work & Pensions.

**Expected Rate of Return on Pensions Assets**

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**Earmarked reserve**

These are funds that are set aside for a specific purpose, or a particular service, or type of service.

**Financial Instruments**

Any document with monetary value. For example, securities such as bonds and stocks which have value and may be traded in exchange for money.

**Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

**Government Grants**

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, towards either revenue or capital expenditure incurred in providing local services.

**International Financial Reporting Standards**

International Financial Reporting Standards cover specific aspects of accounting practice and set out the correct accounting treatment. Compliance with them is mandatory.

**Impairment**

This is a reduction in value of a fixed asset as shown in the balance sheet to reflect its true value

**Infrastructure Assets**

Expenditure on works of construction or improvement but which have no tangible value, such as construction or improvement to highways and footpaths.

**Intangible Asset**

Non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the authority through custom or legal rights e.g. computer software.

**Interest Cost (pensions)**

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

**Investments (non-pensions fund)**

A long term investment is one that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments, other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.

**Investment properties**

Property that is used solely to earn rentals and/or for capital appreciation.

**LAA**

Local Area Agreement.

**Liquid resources**

Current asset investments that are readily disposal by the authority without disrupting its business.

**MHCLG**

Ministry of Housing, Communities and Local Government (formerly DCLG - Department for Communities and Local Government).

**MTFP**

Medium Term Financial Plan.

**NDR**

Non Domestic Rates.

**Operating Lease**

A lease whereby the ownership of the fixed asset remains with the lessor.

**Past Service Cost**

The increase / decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years.

**Revenue Expenditure**

The day to day running costs incurred by the Council in providing its services.

**REFCUS (Revenue Expenditure Funded from Capital Under Statute)**

Capital expenditure which is allowable under statute to be funded from capital resources but which does not fall within the definition of a fixed asset. An example is a grant made to another party to finance capital investment.

**Surplus**

An excess of income over expenditure (or assets over liabilities)



# Annual Governance Statement 2019/20

## Introduction

East Hertfordshire District Council is responsible for ensuring that its business is conducted in accordance with the law and relevant standards, and that public money is safeguarded and properly accounted for, used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having a regard of value for money.

The Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitation the effective exercise of its functions, including arrangements for the management of risk.

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

The Annual Governance Statement has been prepared and published in accordance with the Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) ('the Framework'). This fulfils the statutory requirement that Local authorities review their governance arrangements at least once a year. The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations;
- public money is safeguarded and property accounted for;
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The Framework also expects that local authorities should implement appropriate arrangements for the governance of their affairs in a way that facilitates the effective exercise of functions and ensure that the responsibilities set out above are met.

The diagram on the next page shows how the Council's plans and strategies link together.



**Meeting the CIPFA/SoLACE Framework Requirements**

The Council has approved and adopted:

- a Code of Corporate Governance;
- the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016;
- a number of specific strategies and processes for strengthening corporate governance

The following sets out how the Council has complied with the seven principles set out in the CIPFA/SoLACE Framework during 2019/20.

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

The Council has a Code of Conduct for elected Members and a Code of Corporate Governance which provides guidance for officers and Members on expected standards of behaviours to ensure integrity. The Council had three priorities for 2019/20 which were:

Priority	Outcomes we want to see
Improve the health and wellbeing of our communities	<ul style="list-style-type: none"> <li>• Residents living active and healthy lives</li> <li>• Support for our vulnerable families and individuals</li> <li>• Communities engaged in local issues</li> </ul>
Enhance the quality of people's lives	<ul style="list-style-type: none"> <li>• Attractive places</li> <li>• Future development best meets the need of the district and its residents</li> </ul>
Enable a flourishing local economy	<ul style="list-style-type: none"> <li>• Support our businesses and the local economy</li> <li>• Vibrant town centres</li> <li>• Working with others, to have achieved the right infrastructure for our businesses and communities</li> </ul>

To support these priorities Members and officers receive training in Code of Conduct and behaviour issues. The Monitoring Officer keeps Codes of Conduct up to date and any suspected breaches are investigated by the Standards Sub-Committee.

All officers and Members sign up to the Council's Anti-Fraud, Bribery and Corruption Policy. In addition, the Performance, Audit and Governance Oversight Committee receive an annual report setting out the arrangements in place and how these have been applied in practice during the year. The Whistleblowing policy places emphasis on the agreed ethical values of Members and employees, providing protection for individuals to raise concerns in confidence about questionable behaviour and ensuring that any concerns raised are properly investigated. The Council will not tolerate fraud or corrupt behaviour in any form and will take whatever steps are necessary to prevent it.

All Council decisions have to consider legal implications which are recorded on the Council's website. Senior officers and other key post holders receive support from Legal Services in this regard and if specialist legal advice is required then the Council will engage external advisors. The Section 151 and Monitoring Officers have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal requirements, and for reporting any such instances to members.

## **Principal B Ensuring openness and comprehensive stakeholder engagement**

All meetings are open to the public and all agenda papers, reports and decisions made by the Council are published on the Council's website together with details of forthcoming consultation exercises, surveys and, public meetings, except those determined as exempt from publication.

The Council's constitution sets out how it engages with stakeholders and partners through a combination of joint working arrangements, partnership boards and representation on the governing bodies of external organisations including local NHS bodies, neighbourhood forums, local business and other local authorities.

In addition to local associations, The Council also works closely with town and parish councils to ensure comprehensive involvement in all its decisions.

The Council periodically publishes a newsletter – Network eNewsletter. This is a free publication and is also available online and the Council utilises various online communication channels including Twitter, Instagram, Facebook, LinkedIn and YouTube. More specific e-bulletins are created for various communities of interest, such as Businesses and Families.

## **Principal C Defining outcomes in terms of sustainable economic, social and environmental benefits**

## **& Principal D Determining the interventions necessary to optimize the achievement of the intended outcomes**

The Council's strategic vision for East Herts is set out in Our Corporate Strategy Plan. In pursuit of this vision, the Council develops various strategies to define specific outcomes for key service areas. Each Service also plans out how it will deliver the outcomes relevant to its area of work through business plans in accordance with the agreed annual budget. To remain focused on delivering sustainable social and environmental benefits, the Council has a Sustainable Community Strategy as well as a series of more specific strategies. These include the Health and Wellbeing Strategy, The Homeless and Homeless Prevention Strategy, Customer Services Strategy and Disclosure (Whistleblowing).

Key service decisions are subject to scrutiny by the Overview and Scrutiny Committee which includes lead Members. Reviews of options and risk by officers and Members and key performance indicators are in place for all services. These are reported quarterly and include reports to the Performance, Audit and Governance Oversight Committee for discussion and consideration of intervention where target performance is not being achieved.

Budget proposals are developed by services, challenged and subject to scrutiny by the Leadership Team. The Council regularly engages with other authorities to learn and understand best practice as achieved in other places.

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

A key element of the Council's service planning is to maximise the investment in staff through staff training, including the management development programme to empower and facilitate our senior managers and through them our workforce. All employees are enrolled on the Performance Development Review Scheme (PDRS) which assists employees in creating learning and development plans.

The Council works across a broad set of partnerships and collaborative arrangements, and uses commissioning and procurement processes to maximise capacity by delivering services in the most effective and efficient way.

**Principal F      Managing risks and performance through robust internal control and strong public financial management**

The Risk Management Strategy sets out the Council's approach to identifying and controlling risk. Risk registers are maintained at a corporate and individual service level with significant risks reported to the Leadership Team and to the Performance, Audit and Governance Committee.

Service outputs, outcomes, and achievements are monitored and reported quarterly.

The Council has an Anti-Fraud and Anti-Corruption strategy as well as Financial Regulations which set out expected processes and internal controls. The Shared Internal Audit Service (SIAS) team provide regular reports on the effective operation of these controls together with an annual assessment of the overall control environment.

East Herts Council has a good record of strong financial management. Internal quality assurance processes have been enhanced by implementing the new finance system for financial planning and reporting.

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

All Council decisions are published online together with supporting information to outline why such decisions were taken above comparable options. The Council follows the Government Communication Service guidance on providing clear and accurate information, and has developed its website to improve transparency and accessibility.

The Council reports its financial performance for scrutiny at the Performance, Audit and Governance Scrutiny Committee. This reporting incorporates services provided by all models of delivery including services shared with other authorities, partnerships and contracted out services, and reports performance and finance within the same document for ease of comparison.

**Review of Effectiveness**

Through reviews by external auditors, external agencies, the Shared Internal Audit Service (SIAS) and internal review teams, the Council constantly seeks ways of securing continuous improvement in the way in which its functions are exercised.

Internal Audit activity provided by SIAS is overseen by the SIAS Board and its responsibilities are defined through the Internal Audit Charter. The Charter is applicable to all clients of Hertfordshire's SIAS and provides them with an independent and objective opinion on the organisation's governance arrangements, encompassing internal control and risk management, by completing an annual risk-based audit plan.

From the internal audit work undertaken in 2019/20, the SIAS can provide the following assurance on the adequacy and effectiveness of the Council's control environment, broken down between financial and non-financial systems as follows:



The Council's Head of Strategic Finance and Property has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs, hence the S151 officer relies amongst other sources, upon the work of the internal audit in reviewing the operation of systems of internal control and financial management.

Overall, the assurance provided by internal audit has improved on 2018/19. During 2018/19 there were six audits that only had a rating of limited assurance and twenty one high priority recommendations were issued. The last update, to 28 February 2020, from SIAS showed that for 2019/20 there had been no audits rated as providing only limited assurance and no high priority recommendations had been issued.

The Council's external auditor, Ernst & Young, provides assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing value for money. The most recent Audit Letter, issued in November 2019 identified no material errors in the accounts and gave an unqualified opinion. They also concluded that East Herts has put in place proper arrangements to secure value for money in the use of resources.

The Council's Finance Team have undertaken a review to confirm that the principles described above have been in place throughout the year. A Management Assurance Statement, signed by the Heads of Service have also been obtained to provide confirmation that Codes of Conduct, Financial Regulations, and other corporate governance processes, have been operating as intended throughout the year so far as they are aware.

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

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

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

### **Follow up of issues identified in 2018/19**

During 2018/19, the following required enhancements to internal controls were identified as a result of reviews of arrangements and by the work of external and internal audit.

Issue	Actions delivered to achieve milestone
<p>IT Shared Service Improvement Plan</p> <p>Management should complete the review of the IT policies and tailor them to the needs of both Councils.</p> <p>These expectations should form the basis for a defined IT Strategy for the Shared IT Service, which should include as a minimum:</p> <ul style="list-style-type: none"> <li>o The expectations for the levels of service to be provided</li> <li>o The metrics for monitoring the performance of the Shared IT Service.</li> <li>o The performance of the Service should be reviewed on a routine basis by the ICT Partnership Board and measured against the defined metrics and key performance</li> </ul>	<p>The IT Strategy was approved by the Executive at Stevenage Borough Council in October 2019 and by Council at East Herts in December. This is an extensive document which far exceeds the minimum requirements contained in the recommendations. Performance of the Service is reviewed on a routine basis by the ICT Partnership Board and measured against the IT Strategy.</p>
<p>Cyber Security</p> <p>Management should establish a network access control to block unknown or unauthorised devices from connecting to the Council's IT network.</p> <p>There should be a record of the configuration of the Council's firewalls, which includes but is not limited to:</p> <ul style="list-style-type: none"> <li>o The purpose of all of the rules</li> <li>o The expected configuration and activity for each rule</li> <li>o The member of staff that requested and approved the rule</li> <li>o The configuration of the firewall should be reviewed on a routine basis.</li> <li>o The Service should develop a Firewall rule policy to provide the list of controls that are required to secure firewall implementations to an approved level of security</li> </ul>	<p>The Council has created a Security &amp; Network Team which has been tasked to look at security/network tools. There is also a planned upgrade to office 365.</p> <p>Financial and resource restrictions have delayed the procurement of network tools to financial year 2020/21.</p> <p>Replacement of all firewalls scheduled for April 2020. Configurations and creation of new network environment is being worked on as part of that plan.</p>



<p>Incident Management</p> <p>Management should update the Council's IT disaster recovery plan to include the procedure for establishing all IT services at a single data centre</p>	<p>We have started a project to install a secondary microwave link between our data centres. This will give us a resilient link where either can be down and connectivity remains.</p> <p>Also, with our upgrade to Horizon VDI, we are installing hardware which will allow either site to run 100% of capacity.</p> <p>Implementation was scheduled for January 2020 but is now expected to complete in April. Grant funding has been secured for an external review of disaster recovery post implementation.</p>
<p>S106 Spend Arrangements</p> <p>Record keeping of S106 contributions, the spend arrangements and associated timeframes be reviewed to confirm fitness for purpose. An effective master record is adopted for monitoring and reporting purposes.</p>	<p>To take forward the recommendations and provide oversight of S106 contributions a role was created of Infrastructure Contributions &amp; Spend Manager.</p> <p>A review of all received financial contributions from 1996 to date was undertaken to create a Master Received Contributions Spreadsheet.</p>

## Issues identified in 2019/20

During 2019/20, the following required enhancements to internal controls were identified as a result of reviews of arrangements and by the work of external and internal audit.

<b>Issue</b>	<b>Actions delivered to achieve milestone</b>
<p>Full implementation of high priority recommendations related to IT</p> <p>The implementation of some recommendations has had to be re-scheduled. Management is actively monitoring these issues and full implementation should be achieved during 2020/21</p>	<p>Revised action plans have been established which take account of resource constraints and changes to working practices during the pandemic.</p>
<p>Regulation of Investigatory Powers Act</p> <p>Compliance with the Act is monitored by the Investigatory Powers Commissioners Office. During November 2019 an inspection of the Council's arrangements resulted in a critical assessment. The Council was not meeting legal requirements in several areas and was given a list of eight required actions.</p>	<p>The Monitoring Officer has conducted a thorough overhaul of the Council's policy and procedures to address the required actions. New policies were reviewed by the Overview and Scrutiny Committee on 16 June 2020 and were adopted by the Executive at its meeting on 7 July 2020.</p>
<p>Information Governance</p> <p>A review by Internal Audit has highlighted a need to improve some areas of information governance:</p> <ul style="list-style-type: none"><li>o Lack of an adequate Information Asset Register</li><li>o Information Management policies and procedures are out of date</li><li>o Lack of a defined and enforced retention schedule</li><li>o Lack of defined disposal and destruction procedures.</li></ul>	<p>Options to expand the staff resources working in this area are being explored and an action plan will be constructed to address the shortcomings identified.</p> <p>The Council's Information Asset Register and Retention Schedule have since been located. Whilst they will need to be reviewed, this can be undertaken as soon as the expanded staff resource is in place.</p>

Conclusion

The Council is satisfied that appropriate governance arrangements are in place however, it remains committed to maintaining and where possible improving these arrangements, in particular by:

- promptly addressing the issues identified by Internal Audit as requiring improvement
- constructing a governance calendar to assist with the monitoring and updating of key governance documents

We propose over the coming year to continue to improve matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for any improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review

Signed .....

Date .....

**Richard Cassidy**

Chief Executive  
East Hertfordshire District Council

Signed .....

Date .....

**Councillor L Haysey**

Leader

# Statement of Responsibilities for the Statement of Account

## The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- To approve the Statement of Accounts.

## The Chief Financial Officers' Responsibilities

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

In preparing this Statement of Accounts, the Chief Financial Officer has:

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

**The Chief Financial Officer has also:**

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

## EAST HERTFORDSHIRE DISTRICT COUNCIL

### Certificate of Responsible Finance Officer

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Authority at the reporting date and its income and expenditure for the year ended 31 March 2020.

Signed .....

Date .....

**Bob Palmer**

Head of Strategic Finance and Property (Chief Financial Officer)  
East Hertfordshire District Council

Signed .....

Date .....

**Councillor M Pope**

Chairman of Audit and Governance Committee